

The Accessibility of Microfinance for Small Businesses in Mogadishu, Somalia

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Abstract

This paper investigated the accessibility of microfinance for small businesses in Mogadishu. Since, the accessibility of microfinance for small businesses considered difficult due to heavy collateral requirements. The main objective of the study was to examine the challenges facing by small businesses in accessing microfinance services in Mogadishu. Purposive sampling technique was employed in selecting the 100 Small businesses that constituted the sample size of the research. To achieve the objectives of this study, data was collected through questionnaire instrument. Data analysis, the researchers employed descriptive analysis also used Statistical Package for the Social Science (SPSS). the main findings of this study identifies that Small businesses in Mogadishu are facing challenges to access loan from MFIs and this results many small business to demise soon or may not be started due to lack of ability to overcome the challenges. Moreover, the findings of this study will be helpful for the academicians, businesses, practitioners, researchers, planners, and policy makers who are involved in the concerned area. The researchers recommended microfinance institution are required to set more flexible, affordable and attractive requirements in financing Small businesses, their role need to be felt by the Small enterprises in terms of growth and development.

Key Words: Microfinance institutions, Microfinance, small businesses, Mogadishu.

1. Introduction

The microfinance revolution began when Bangladeshi Grameen Bank economist professor Muhammad Yunus first handed over a few dollars to an impoverished basket weaver in 1974. He Has won the Nobel Peace Prize. The idea of microfinance has now spread in Latin America, Asia, Eastern Europe, and Africa but the best known micro finance programs come from the Asian, Dr. Yunus began a micro-finance program among women in Bangladesh in 1976, following the wide-spread famine in 1974 (Abdulrahman, 2007). In Africa where the micro-credit movement spread in the 1980s, and where it became stronger in the 1990s is the poorest region in the world, according to the new multidimensional poverty index developed by Oxford University (Hiedhues, 1995). Microfinance means “programme that extend small loans to very poor people for self employment projects that generate income in allowing them to take care of themselves and their families”. The World Bank has recognized microfinance programme as an approach to address income inequalities and poverty. The microfinance scheme has been proven to be successful in many countries in addressing the problems of poverty. The World Bank has also declared 2005 as the year of microfinance with the aim to expand their poverty eradication campaign. Microfinance refers to as the provision of financial services including savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial institutions (Kopla, 2009).

The purpose of providing micro-loans are to garnering new income project or businesses expansion, the terms and conditions of the micro-loan are normally easy to understand and flexible, also it is provided for short term financing and repayments can be made on a weekly or longer basis, the procedures and processes of loan disbursements are normally fast and easy (Abdurrahman, 2007). Accessing microfinance services has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries (Christopher, 2010).

Unfortunately, in Mogadishu, the accessibility of microfinance services could be considered difficulty to Small businesses due to the heavy collateral requirement that MFIs may impose. Therefore, this research was conducted the investigation of the accessibility of microfinance to small businesses in Mogadishu. The specific objectives are to: (I) to describe the requirements for Small businesses to access loan from microfinance institutions in Mogadishu. (II) to examine the challenges facing by small businesses in accessing credit from Microfinance institutions in Mogadishu. In other to achieve the above stated objectives, the following research questions are advanced: (I) what are the requirements for Small businesses to access loan from microfinance institutions in Mogadishu? (II) What are challenges facing by small businesses in accessing credit from Microfinance institutions in Mogadishu?

2. Literature Review

2.1. Concepts of Micro Finance

Micro-finance is considered providing financial services to low income groups and poor people, the original focus of micro finance was on the provision micro-credit small loans usually for short periods to finance working capital for small enterprises usually operate by low-income people, however the field of micro-finance has broaden greatly beyond credit only, to include micro-savings, micro insurance, remittances and other payments all of which have a great impact on the lives of the poor (James, 2005). Grameen Bank of Bangladesh, which was founded by 2006 Nobel Peace Laureate Dr. Muhammad Yunus, is the world's largest and most successful Microfinance institutions; it serves more than seven million clients (Hassan, 2010). According to Ngehneu & Nimbo (2010), Microfinance is defined as a development tool that grants or provides financial services such as very small credits, savings, micro-leasing, micro-insurance and money transfer to assist the exceptionally poor in expanding or establishing their businesses.

Micro finance is considered as the provision of financial services to the low-income groups including the self-employed which has evolved as economic development approach intended to benefit the marginally poor people especially the women (Lan, 2004). The idea of microfinance is based on the concept that poor people's lack of access to financial services represents a serious obstacle for their economic development, management of daily life and getting resources to realize starting new businesses ideas or expand existing businesses and thereby struggle to improve their economic situation on their own (Zeller & Meyer, 2002). Microfinance is the provision of small scale financial services to low income clients parts, who have no access to financial services provided by the formal sector (Ledgerwo,1999).

2.2. Microfinance and Small Businesses

Accessing credit is considered to be an important factor in increasing the development of small businesses, it is thought that credit augment income levels, increases employment and thereby alleviate poverty it is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments (Hiedhues, 1995). According to the encyclopedia free online dictionary (2011), access can be defined as, the right to obtain or make use of or take advantage of something (as services or membership). Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities; in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies; this is obvious in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes therefore, small-scale enterprises reliable access to short-term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises (Yehuala,2008). According to Hossain (1988), the Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit the poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established.

According to Diagne & Zeller (2001), argue that lack of access to credit by the poor just below or just above the poverty line may have negative consequences for Small businesses and overall welfare, access to micro-credit further increases small businesses and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor people. Across developing countries, small enterprises are turning to Microfinance Institutions (MFIs) for an array of financial services; this is because Microfinance is acknowledged as one of the prime strategies to achieve the Millennium Development Goals (MDGs) which are: poverty and hunger reduction, universal primary education, reduction of child mortality, combating diseases, malaria and environmental sustainability, because of access to sustainable financial services enables owners of small businesses to finance income, build assets, and reduce their vulnerability to external shocks (Mahjabeen, 2008). According to Wydick & Kevan (2001), the provision of credit to the poor serves two purposes. First, as borrowed capital is invested in small enterprises, it often results in significant short-term increase in household expenditure and welfare. Secondly, micro enterprises credit encourages economic growth in the informal sector through promoting increase capitalization of business, employment creation, and long-term income growth.

Generally the accessibility of a good financial service is considered as one of the engines of economic development, the establishment and expansion of financial service is also one of the instruments to break the vicious circle of poverty (Yehuala, 2008). The several literatures showed that the microfinance provides financial services to support small businesses, poor people and low income group; and also microfinance becomes a tool for fighting poverty, the main findings show that few numbers of small businesses and poor people access microfinance service. Therefore, the accessibility of microfinance for small businesses has not got adequate research attention in Mogadishu, Somalia. That means there is a gap in literature which needed to be covered by research. Therefore, this study attempts to fill this gap by investigating the situations exist in Mogadishu.

3. Methodology

This section was focused on the research techniques adopted and used for this study with the aim of achieving the research objectives. Survey research design is used in this study. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them and this study also was employed quantitative approach to analyze data. Because of this method quantify frequencies in order to describe current conditions, since this study investigates the accessibility of microfinance for small businesses using information gained from the questionnaire. Purposive sampling technique was employed in selecting the 100 Small businesses (respondents) that constituted the sample size of the research. To achieve the objectives of this study, Primary data for the study were gathered by using structured questionnaires because of it are the main method of data collection.

4. Findings and Discussions

This section was highlighted on data analysis, presentation, and interpretation. The data analysis and interpretation were based on the research questions as well as research objectives; the presentation is divided in to three parts. The first part was presented the respondents profile or demographic data, the second part deals with presentation, interpretation, and analysis of the research questions and objectives while, third part presents findings and discussions.

4.1. Demographic Data

This part presents the background information of the respondents who participated in the study. The purpose of this background information was to find out the characteristics of the respondents and show the distribution of the population in the study. Their distribution is established as it following table 1.

Table 1

Variables	Percentage %
Gender	
Male	58.4
Female	41.6
Age	
20-30	20.3
31-40	14.9
41-50	57.4
51 above	7.4
Marital status	
Married	72.3
Unmarried	27.7
Qualification	
None	25.7
Elementary	52.5
High school	15.9
University level	5.9
Business Experience	
1 year	14.9
2 year	36.6
3 year	38.2
4 year & above	9.9
Type of Business	
Electronic shops	14
Small clothes shops	46
Charcoal businesses	19
Others	21

Gender: Findings from above table 1 indicate that different categories were involved in the study 58% of the respondents are male and 42% are Female, this is in difference with research undertaken by Ojo (2009) which states women are the most clients to the microfinance institutions. Because, the difference may cause environmental culture.

Age: 20% of the respondents are at the age of 20-30; 15% of the respondents are at the age of 31-40, 58% of the respondents are at the age of 41-50, which is the age of the majority of the respondents and the 7 % above 51 age. Marital status: Respondents' material status was married and unmarried or single. 72.0% of the respondents were married and represent that the majority of the respondents are married. 28% of the respondents are no married or single.

Qualification: The respondents, 26% have no education at all, 53 % hold Elementary education, 15% of the respondents has higher school education and the remaining 6% have University degree.

Business Experience: Also the table1 pointed that 18% of respondents have 1year experience as to the owners of small businesses, 37% have 2 years experience, the respondents have 3 years experienced with 38% and 10% have above 4 years experience. Therefore, the majority respondents have businesses experiences among between 2-3 years.

Type of Business: 14% of the respondents are engaged in Electronic shops, 46% are engaging Small clothes shops, 19% are engaged in Charcoal business and the remaining 21% are doing other businesses such as Small beverage shops. This shows that majority of respondents are in Small clothes shops.

4.2. Data Presentation and Analysis

Research Objective One

The first objective of this study was to describe the requirements for Small businesses to access loan from microfinance institutions in Mogadishu. To achieve this objective Respondents were subjected to a number of questions to provide answers to research question one mentioned above. The questions administered to the respondents were aimed at investigating the respondent's response towards the stated research objective. The questions include: Group lending, Security deposit or guarantor, Accessing microfinance service by small businesses is considered to be highly difficulty, Repayment capacity, Land as security, small businesses able to access loans from microfinance institutions, Accessing microcredit is considered to be an important factor that increases output of small businesses, Accessing microfinance program has been identified as a key element for small businesses to succeed. The results are presented in the following table.

Table 2

No	Scale rating	N. valid	Mean	Std. Deviation	Interpretation
1.	requirements for Small businesses to access loan are				
a	Individual collateral	100	1.68	.737	Agree
b	Group lending	100	3.52	.904	Disagree
c	Land as security	100	3.56	1.217	Disagree
d	Repayment capacity	100	1.88	.671	Agree
2	Security deposit or guarantor	100	1.70	.772	Agree
3	Small businesses able to access loans from microfinance institutions.	100	3.53	1.087	Disagree
4	Accessing microcredit is considered to be an important factor that increases output of small businesses.	100	1.66	.831	Agree
5	Accessing microfinance program has been identified as a key element for small businesses to succeed.	100	1.53	.745	Agree
	Average		2.38	0.870	Agree

The table 2 shows the respondents asked the requirements for small business to access loan are "Individual collateral" with mean 1.68 and standard deviation was 0.737 in according range scale denotes "agree", Also asked respondents "Repayment capacity" the mean of this was 1.88 and its standard deviation was 0.671, and as well respondents solicited "Security deposit or guarantor" by means of 1.70 while standard deviation was 0.77. There is small variance in respondents although, a few respondents disagreed but majority respondents were agreed that individual collateral, Repayment capacity, and Security deposit or guarantor are required in order to access loan.

Moreover, the respondents were asked "Accessing microcredit is considered to be an important factor that increases output of small businesses" with mean 1.66 and standard deviation was 0.831 in according range scale this fall under "agree". The respondent also pointed that "accessing microfinance program is one of the key element for small businesses to succeed" with mean 1.53 and standard deviation was 0.745 this denote respondents agree in regarding range scale. Therefore, the variances among respondents are too little. And majority respondents agreed that accessing microfinance is important to their businesses also they agree that microfinance services is one of the key element that businesses to success them. On the other hand the respondents disagreed that "small businesses able to access loans from microfinance institutions" by mean of 3.53 and its standard deviation was 1.08 in regarding to range scale this fall under "disagree" that mean majority small businesses not able to access loan because of lack of collateral and security deposit. Respondents were disagreed the possibility of "Group lending" with mean 3.52 and standard deviation 1.52.

The respondents also disagreed that requirement of Land as security is to the Small businesses by mean of 3.56 standard deviation was 1.217 this mean majority of the respondents disagree in based of range scale. Group lending and land as security are not required. Therefore, Table 2 indicates that majority of the respondents agreed that small businesses have to meet some requirement in order to access loan from MFIs. In majority, respondents disagreed that small businesses are able to access microfinance service.

Research Objective Two

The second objective of this study was to examine the challenges facing by small businesses in accessing credit from Microfinance institutions in Mogadishu. To achieve these objective Respondents were subjected to a number of questions to provide answers to research question two. The questions administered to the respondents were aimed at investigating the respondent's response towards the stated research objective. The questions include: Individual Collateral, Repayment period/time, interest rate asked from borrowers, Group lending, Lack of access to credit by the poor just below or just above the poverty line may have negative consequences for Small businesses; Banks are frequently reluctant to support poor people those want to expand their businesses with a loan, Accessing microfinance service by small businesses is considered difficulty, and Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities, and Micro finance programs include lack of small amounts of capital paid back within a short time frame. The results are presented in the following table.

The table 3. shows that majority of the respondents agreed that the challenges small businesses facing to access loan are "individual collateral" with mean 1.81 and standard deviation was 0.720, and "Group lending" with mean 3.51 and its standard deviation was 1.004, in accordance to range scale this under fall "agree". On the other hand, respondents disagreed only the "interest" by mean of 3.57 and standard deviation was 1.057 under range scale however, majority respondents were disagreed interest as challenge because respondents said they are not asked to pay interest for the loans they receive. Also respondents asked that "Repayment period/time" as challenge facing them with mean of 2.37 and its standard deviation was 1.002 "agree" in according to scale.

Table 3

No	Scale rated	N. Valid	Mean	Std. Deviation	Interpretation
1	Challenges facing by small businesses to access credit from Microfinance institutions are:				
A	Individual Collateral	100	1.81	.720	Agree
B	Group lending	100	3.51	1.004	disagree
C	interest rate asked from borrowers	100	3.57	1.057	disagree
D	Repayment period/time	100	2.37	1.002	Agree
2	Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities	100	2.21	.902	agree
3	Lack of access to credit by the poor just below or just above the poverty line may have negative consequences for Small businesses.	100	2.18	.925	agree
4	Banks are frequently reluctant to support poor people those want to expand their businesses with a loan.	100	1.95	.592	agree
5	Accessing microfinance service by small businesses is considered to be difficulty	100	2.02	.778	agree
9	Micro finance programs include lack of small amounts of capital paid back within a short time frame.	100	1.98	.752	agree
	average		2.4	0.8591	Agree

Also respondents were asked "Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities" by mean of 2.21 and its standard deviation was 0.902 this falls under "agree" in according to scale of the study.

“Lack of access to credit by the poor just below or just above the poverty line may have negative consequences for Small businesses” with mean 2.28 in according to range scale means “agree” and while standard deviation was 0.925 there is little variance, “Banks are frequently reluctant to support poor people those want to expand their businesses with a loan” with mean 2.28 regarding to range scale means agree and while standard deviation was 0.925 there is slight variance among respondents to their perceptions, Respondents were also asked that “Micro finance programs include lack of small amounts of capital paid back within a short time frame” by mean of 1.98 and its standard deviation was 0.752 this denotes that respondents were agree in regarding to range scale of the study, “Accessing microfinance service by small businesses is considered to be difficulty” they “agreed” that with mean 2.02 and its standard deviation was 0.778. However, majority respondents agreed that accessing microfinance services are difficult. Thus, Table 3. that majority of the respondents agreed that small businesses are facing challenges to access loan from MFIs. Also respondents agreed that most small businesses are difficult to access loan from microfinance institutions.

4.3. Findings

The main findings of this study after data analysis and interpretation, researchers identified that most small business have to meet some requirements so as to be access loan capital from MFIs. Also the researchers describe majority small businesses are not able to access microfinance service. Also the researchers revealed that Small businesses in Mogadishu are facing challenges to borrow money from MFIs and this results many small businesses to demise soon or may not be started due to lack of ability to overcome the challenges. Due to the above mentioned challenges, small businesses are difficult to access loan from microfinance institutions.

4.4. Discussion

The first objective of this study was to describe the requirements for Small businesses to access loan from microfinance institutions in Mogadishu. Data analysis and interpretation revealed following findings under this objective. Based on analysis of chapter four, majority of the respondents reported that the requirements for small business to access loan MFIs are Individual collateral, Repayment capacity, Security deposit or guarantor also reported that respondents. Respondents also described that accessing microcredit is considered one of the important factor that increases output of small businesses. Finally, respondent also pointed that accessing microfinance program is one of the key element for small businesses to succeed and they agree them. This mean requirement that MFIs imposed to the small businesses cannot meet, and this reduces the beneficiaries of the program like poor people and small businesses. In order to access financial services provided by MIFs need to moderate requirement in order to access their services to small businesses.

According to the information from World Bank sub-branch office, property collateral and rigid lending requirements were not used directly in the disbursement of institutional loans to small businesses. Since the poor people shall not be required to avail any collateral. This report issued the World Bank pointed that low income groups not required any collateral, because poor people not able these requirements. According to Hossain (1988), the Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit the poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established.

The findings is line with Provident & Zacharia (2008), state that majority of the poor people and small businesses do not access microfinance services loans because they lack guarantors, assets, businesses, salaried employment, savings account in banks, ability to make pre-loan weekly deposit on special savings account which are required as collaterals. Therefore, the findings is in line with Ojo (2009) that states Microcredit is a component of microfinance and is the extension of small loans to small businesses, who are too poor to qualify for traditional bank loans. As well Ojo stated that MFIs provide the lending with some requirements that small business must meet. Thus due this requirements, small business in Mogadishu cannot meet the requirements to access loans such as Security deposit or guarantor and individual collateral. The second objective of this study was to examine the challenges facing by small businesses in accessing credit from Microfinance institutions in Mogadishu. Data analysis and interpretation revealed following findings under this objective.

Based on analysis of chapter four, majority of respondents reported that that the challenges small business face to access loan MFIs are Lack of access to credit by the poor just below or just above the poverty line may have negative consequences for Small businesses, Banks are frequently reluctant to support poor people those want to expand their businesses with a loan, Micro finance programs include lack of small amounts of capital paid back within a short time frame, Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities, Repayment period/time, Group lending. On the other hand, respondents were disagreed only the “interest” as challenges because respondents said they were not asked to pay interest for the loans they receives. Respondents agreed the individual collateral as a challenge that small businesses face.

As of the interpretation of these findings, researchers identified that the challenges facing small business to access loan from MFIs is existing and have effect on the entrepreneurs’ willingness to borrow money from MFIs. Therefore the findings of this study are in line with Ojo (2009) that states small business are very zealous to have money borrowed from MFIs if there is no rigid challenges and requirements. Also respondents reported that accessing microfinance service by small businesses is considered of the constraints that small businesses faced. That is why the accessing of these services consider as difficult.

5. Conclusion

This study investigated the accessibility of microfinance for small businesses in Mogadishu. It was intended to describe the requirements for Small businesses to access loan from microfinance institutions and to examine the challenges facing by small businesses in accessing microfinance services small and medium sized enterprises in Mogadishu. This was in relation to the difficulty of access and challenges have to loan from financial institutions, such as MFIs, constitute a great setback to small businesses in Mogadishu. The results obtained in this study showed that the requirements for small business to access loan MFIs are Individual collateral, Repayment capacity, Security deposit or guarantor. The finding showed how small businesses in Mogadishu face some requirements to have an access to borrow money from Microfinance institutions. Also the findings revealed that the requirements hinder the possibility of borrowing money from microfinance institutions so as to start, run or expand small businesses. It is because of the fact that small business owners cannot meet the requirements set by the Microfinance institutions.

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