

**MICROFINANCE SERVICES AND SMALL BUSINESSES
GROWTH IN MOGADISHU, SOMALIA**

BY:

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DECLARATION A

I am Abdimajid Omar A, this dissertation is from my own work and effort and that it has not been submitted anywhere for any award. All other sources of information used have been acknowledged.

Name of candidate: Abdimajid Omar Abuhadi

Signature :  _____

Date : 11-11-2014

DECLARATION B

"I confirmed that the work reported in this dissertation was carried out by the candidate under our supervision".

Name of the supervisor: Dr. Ssendegi Mohamed

Signature

:

A large, stylized handwritten signature in black ink, written over a horizontal line. The signature is highly cursive and loops around to the right.

Date

: 11-11-2014

DEDICATION

In a special way, I wish to dedicate my work to all my family specially to the memory of my mother and my father; Mrs. Faduma Abdi Aden and Omar Abuhadi, who made me the person I am today. They were wonderful parent and I will always appreciate the effort they invested into nurturing me and my siblings to greater heights. Also I also dedicate my thesis Maryam Omar Abuhadi, finally, I dedicated this thesis to all my colleagues and entire my relative.

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Abstract

This study investigated the relationship between microfinance services and small businesses growth in Mogadishu. The study was guided by three research objectives. First, to determine the extent of microfinance services in Mogadishu. Second, to find out level of small businesses growth in Mogadishu. Third, to establish the relationship between microfinance services and small businesses growth. To achieve the objectives of this study, data was collected through questionnaire. Data analysis, the researcher employed descriptive survey and correlation analysis also used Statistical Package for the Social Science (SPSS). Finding of this study identifies that that level of Microfinance services in Mogadishu, Somalia is high. And also it revealed that level of small business growth is high to most respondent.

Finally, this study showed that there is a significant relationship between microfinance services and small businesses growth in Mogadishu, Somalia. Also, Regression analysis shown the microfinance services effected the small businesses growth. 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 researcher 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.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter provided insight into the background, problem statement, the purpose, objectives of the study, research questions, hypotheses, scope and significance of the study.

1.1 Background of the Study

1.1.1 Historical perspective

According to Zeller & Meyer (2002), stated The term micro-credit was first time in the 1970s to indicate the provision of loans to the poor to establish income-generating projects, while the term microfinance has come to be used since the late 1990s to indicate the so-called second revolution in credit theory and policy that are customer-centred rather than product-centred. 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). In Somalia 1993, Sa'id foundation began its micro-credit program; in 1996, Sa'id received its first substantial capital injection from Oxfam America (Sa'id Foundation report, 2005). In 2010, Salam Somali bank launched microfinance program to help the poor and small businesses (Salam Somali bank, 2011).

1.1.2 Theoretical perspective

This study was adopted microfinance theory developed by (El-Solh 1999). According to El-Solh (1999), postulated theoretical proposition on the macro-level for supporting microfinance services. This theory emphasize that microfinance services is labor-intensive, facilitating access to microfinance is likely to result in the acquisition of new skills and the upgrading of existing ones and thus improve on the capacity of the poor people to generate income and enabling the establishment of new micro-enterprises, so microfinance program supports the efficient use of labor and capital as factors of production and therefore contributing to economic growth, to improve their livelihood and ultimately gain sustainable development to their businesses.

In addition to the discussed theories underlying microfinance, another development theory is that of empowerment: the poor become empowered when they participate in microfinance activities by self-selecting themselves into groups and self-managing their groups, and gaining control over the means of making a living, poor people become empowered and independent. Empowerment has been particularly relevant for women who are perceived as being marginalized in most developing countries (Kuhn, et al 2002).

The theories underlie the concept of microfinance it is the economic dimension that stands out as most significant, poor people are provided with capital which they invest in income-generating activities and make profit, and this should result in a virtuous cycle: credit leads to increased production and incomes, and allow for greater consumption and savings, and result in further investment.

1.1.3 Conceptual perspective

Micro-finance is defined as provision of 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 (Ali et all 2013).

According to Thomas (2002), Micro finance has become a major tool of development, and is fast developing as an international industry, with its own trade associations; micro finance is an attractive development strategy for a wide spectrum of actors, combing values of market-driven service provision, entrepreneurship, self-help, small business and aid to the poor. The concept is relatively simple a long tradition in many developing countries, the basic idea of micro-finance is to provide credit to working poor people who otherwise would not have access to credit services (Zeller & Meyer, 2002).

This study adopted the definition from 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. This definition is considered as appropriate because its gives more meaningful about microfinance. Microfinance involves the provision of financial services such as 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 sector.

1.1.4 Contextual perspective

According to Ali et all (2013), that small business are very zealous to have money borrowed from MFIs if there is no rigid challenges and requirements. It also 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.

Many Studies of small business growth conducted generally identified long list of problems faced by owners and operators of small enterprises in Mogadishu, On the financial side, studies emphasize that the primary need is for better access to credit, and financial service such as saving, training skill and business information are problem for certain types of businesses development. Studies of small business generally identify a long list of problems faced by owners and operators of small enterprises. also there are other challenged that face small business development which include marketing assistance, training, and technology, even though most studies of constraints facing small business development indicate that access to financial service is only one problem they encounter (Ali et all, 2013).

However, In Somalia Micro-finance institutions have actually been able to reach the economically active poor with their financial services in both urban and rural areas, Therefore, it necessary to establish the relationship between Microfinance services and small businesses growth in Mogadishu, Somalia.

1.2 Statement of the Problem

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). Small businesses are increasingly taking the role of the primary vehicles for the creation of employment and income generation through self-employment, and therefore, have been tools for poverty alleviation.

However, small businesses in Mogadishu suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development,

market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors. Small businesses are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. This results many small businesses to demise soon or may not be started due to lack of ability to overcome the challenges.

Therefore, this research was conducted to investigate the relationship between Microfinance services and small businesses growth in Mogadishu, Somalia.

1.3 Research Objectives

General: This is study determined the relationship between Microfinance services and small businesses growth in Mogadishu.

The Specific Objectives

1. To find out the extent of microfinance services in Mogadishu.
2. To find out level of small businesses growth in Mogadishu.
3. To establish the relationship between microfinance services and small businesses growth.

1.4 Research Questions

1. What is the extent of microfinance services in Mogadishu?
2. What is a level of small businesses growth in Mogadishu?
3. Is there a significant relationship between microfinance services and small businesses growth?

1.5 Null Hypothesis

1. H_0 : There is no significant relationship between microfinance services and small businesses growth.

1.6 Scope of the study

Geographical Scope

This study was conducted six district of the capital city in Mogadishu, Somalia namely; Hamar-weyne district, Hodan district, Howlwadaag district, Waberi district, Wardhigley district, Yaqshid district. This area selected because the micro-finance services in Somalia are located in these districts, and most of small enterprises in this area use microfinance programs.

Content Scope

The variables to be examined in this study include microfinance services which will be broken in to Microcredit, businesses information, training on skills development and savings. The other variable (DV) is small businesses growth; the study will focus on only how microfinance services contributed small businesses growth through financial services. This was broken in sales growth, market share and employment.

1.7 Significance of the Study

This study is so important and vital to mention that researcher has found area of this study is very important for the following aspect:

1. The development of the socio-economic activities in developing countries and their contributions to the small businesses in Somalia.
2. Micro finance institutions, NGOs, government, small enterprises may benefit from the findings of this study and also may help to design, effective policies that may address the entrepreneurship development and improve small businesses.
3. Findings of this study may contribute to the existing information/literature that may be used academicians who may wish to carry out further studies on a related subject matter.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

This chapter presents the review of literature relating to the variables under investigation. The theoretical review and conceptual framework are also presented and summary.

2.1 Theoretical perspective

This study adopted microfinance theory developed by (El-Solh 1999). El-Solh (1999), postulated that theoretical proposition on the macro-level for supporting microfinance services. This theory emphasize that microfinance services is labor-intensive, facilitating access to microfinance is likely to result in the acquisition of new skills and the upgrading of existing ones and thus improve on the capacity of the poor people to generate income and enabling the establishment of new micro-enterprises, so microfinance program supports the efficient use of labor and capital as factors of production and therefore contributing to economic growth, to improve their livelihood and ultimately gain sustainable development to their businesses.

El-Solh (1999), argues that microfinance cannot generate income by itself but should be perceived as an important input in the process of developing micro-enterprises. Microfinance institutions are perceived as important because they fund micro- and small-scale enterprises which are integral to the private sector which in turn are perceived as an engine of growth for economies of developing countries that have moved from state-directed to market-oriented economies.

Accessing credit is considered to be an important factor in increasing the development of SMEs. 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 such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995).

According to Navajas et al, (2000) The main objective of microcredit is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. In addition to the discussed theories underlying microfinance, another development theory is that of empowerment: the poor become empowered when they participate in microfinance activities by self-selecting themselves into groups and self-managing their groups, and gaining control over the means of making a living, poor people become empowered and independent. Empowerment has been particularly relevant for women who are perceived as being marginalized in most developing countries (Kuhn, et el 2002).

The theories underlie the concept of microfinance it is the economic dimension that stands out as most significant, poor people are provided with capital which they invest in income-generating activities and make profit, and this should result in a virtuous cycle: credit leads to increased production and incomes, and allow for greater consumption and savings, and result in further investment. Therefore, the theory developed by El-Solh (1999), assumed that microfinance improves the welfare of the poor people. It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on small business development because they guarantee sustainable access to financial service by the poor people and small business.

2.3 CONCEPTUAL FRAMEWORK

2.3.1 Nature of Microfinance services

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 (Ali, 2013).

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 (Ledgerwoo,1999).

These definitions agree that microfinance programs that help the low income and poor people, also they have similarities that microfinance provides small loans to poor people and small enterprises. However they ignore that the field of micro-finance has broaden greatly beyond credit only, but microfinance is considered as a tool for economic development and provision micro-savings, micro-leasing, micro-insurance and money transfer to help poor people and small businesses.

According to Yasin et all (2013), described that micro-finance is providing financial services to low income groups and poor people, the

original focus of micro finance was on the provision micro-credit usually for short periods to finance working capital for small enterprises and entrepreneurship 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 people. 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 (Omar et all 2013).

According to Ali et all (2013), defined that microfinance is a development tool that grants or provides 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 (Abuhadi, et all 2013).

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 (Ledgerwoo,1999).

2.3.2 Principles of Microfinance

According to Muhjabeen (2008), Microfinance is an alternative for micro entrepreneurs, which are normally not entitled or bankable to receive loans from commercial banks. The basic principle of microfinance as succinctly expounded by Dr. Muhammad Yunus, the founder of Grameen Bank

Bangladesh, and the receiver of the Nobel Peace Prize in 2006, that credit is a fundamental human right. The primary mission of microfinance is, therefore to help poor people in assisting themselves to become economically independent. Credit or loan is given for self employment and for financing additional income generating activities. However, the assumption of the Grameen model is that the expertise of the poor are underutilized; in addition, it is also believed that charity will not be effective in eradicating poverty as it will lead to dependency and lack of initiative among the poor. In the case of Grameen Bank of Bangladesh, women comprised of 95% of the borrowers, and they are more reliable than men in terms of repayments (Gibbons & Kassim 2001).

In order to facilitate loan process for the poor, loan is given without collateral or guarantor, and normally is based on trust, since microfinance is an alternative for loan because the conventional banking system recognized the poor as not-credit worthy, loan facility is provided based on the belief that “people should not go to the bank but bank should go to the people” in order to obtain the loan, the view borrower needs to join the recipient group of microfinance (Abdulrahman, 2007).

2.3.3 Objectives of Micro Finance Institutions (MFIS)

According to Ali (2013), the goal of microfinance institutions as development organization is to service the financial needs have served and underserved market as a means of meeting development objectives, the development objectives generally include; reducing poverty, empowering women or other disadvantaged population groups, creating jobs or employment, supporting exist business grow or diversify their activities and encouraging development of a new business.

In World Bank study of lending for SMEs projects, three objectives were most frequently cited, these include first, creating employment and income opportunities through the creation and expansion of micro enterprises, second increasing the productivity and income of vulnerable groups, especially

women and the poor and finally, reduce rural families dependence on drought prone crops through diversification of their income generating active (Yaron, at ell, 2000).

2.3.4 The Micro-Finance Industry in Somalia

In Somalia, a number of non-governmental organizations provide micro credit such as Sa'id. In 1993, Sa'id began its micro-credit program in 1996; SA'ID received its first substantial capital injection from Oxfam America. Oxfam America provided the capital outlay for the initial training-of-trainers, training innumeracy, and literacy and business principles for poor Somali women and first loan of US \$200 for 200 women. This program intends to provide small credit and technical training to poor women (SA'ID Foundation report, 2005).

Salaam Somali bank has launched microfinance program in 2010 to help the poor and small businesses named as "Kalkaal" (Somali term for help), the program is intended to help people with limited income and entrepreneurs in small businesses. The purpose of this program is to facilitate low income people and small businesses to access micro-loans and saving in order to improve their live (Salam Somali Bank, 2011).

2.4.0 Microfinance Institution

According to Ojo (2009), Microfinance institutions provide the following financial and nonfinancial services include; microcredit, training on skill development, Business Information and saving.

2.4.1 Microcredit

Microcredit is a component of microfinance and is the extension of small loans to entrepreneurs, who are poor to qualify for traditional bank loans. Especially in developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income, thus allowing them

to improve the standard of living for themselves and their families (Hassan, 2010).

Microcredit is a system of providing credit to those people who cannot borrow money from the usual formal sources of credit because they are too poor and have no collateral. They are usually women, and if they borrow from traditional moneylenders, are exploited and then become part of the continuing cycle of poverty. Microfinance however includes both a savings and a credit component (Ojo, 2009)

2.4.2 Training on Skill Development

Success of microfinance depend upon people income generation Activities, to enter in new segments of enterprise development, people need skill development training on new area for adopting new technology it is important for microfinance Program that before lending credit, training plays vital role for successfully implementation of enterprises which will be significant for sustainable microfinance program (Ojo,2009) Apart from infrastructure, micro enterprises need access to information about market trends and skills to run their micro enterprises. Lack of sufficient market information poses a great challenge to small enterprises although the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information however microfinance institutions play a vital role providing sufficient business information to the their clients (Wanjohi at ell, 2008)

2.4.3 Savings

Microfinance institutions can either provide savings services directly through deposit taking or make arrangements with other financial institutions to provide savings facilities to tap small savings in a flexible manner. Savings facilities make large scale lending operations possible (Wanjohi at ell, 2008).

2.5.0 Small business growth

2.5.2 Definition of small business

In developing countries, microenterprises comprise the vast majority of the small business sector a result of the relative lack of formal sector jobs available for the poor. These micro entrepreneurs operate microenterprises not by choice, but out of necessity, because microenterprises typically have little to no access to the commercial banking sector, they often rely on "micro-loans" or microcredit in order to be financed. Microfinance institutions often finance these small loans, particularly in the Third World (Hassan, 2010).

The terms microenterprise and micro business have the same meaning, though traditionally when referring to a small business financed by microcredit the term microenterprise is used. Similarly when referring to a small, usually legal business that is not financed by microcredit, the term micro business is used. Small scale enterprise is very crucial to the development of a country's economy, especially countries like Somalia. In fact, academic interest that shows the impact of Microfinance on enterprise development is evidenced by the fact that some academic journals have devoted special issues to research establishing this linkage. Some scholars focused on the mechanism by which poverty is reduced (Kuhn, et al 2002).

According to Ali (2013), defined small scale enterprise is a privately owned and operated business, characterized by a small number of employees and low turnover. A small enterprise usually only shares a tiny segment of the market it operates in. Small scale enterprises (also, small scale businesses) are essential to the economy for industrial growth and diversification. The definition of a small scale enterprise may vary in different economies of the world, but the underlying concept is the same. Some measures used to define small scale enterprises include annual sales, asset valuation, net profit, headcount and balance sheet totals.

Perhaps the most important measure in defining small scale enterprises is the number of people employed by the business.

In African nations, a business is considered to be small scale if it employs less than 30 people. In Asian countries, it is between 30 and 100, while in the United States it is any number below 500. A micro-enterprise is one with fewer than five employees, a small enterprise with 5-49 employees, a medium enterprise with 50-99 employees and a large enterprise with more than 100 employees (Abdijalil, et al 2012).

2.5.2 Indicators of small business growth

According to Hoy et al (1992), stress that a consensus has been reached among academics that sales growth is the best growth measure. It reflects both short and long term changes in the firm and is easily obtained. Furthermore these authors maintain that sales growth is the most common performance indicator among firms themselves.

A growth process is likely to be driven by increased demand for the firm's products or services. That is, sales increases first and thus allow the acquisition of additional resources such as employment or other assets (Ardishvili, et al., 1998). It is also possible to increase sales, by outsourcing the increased sales volume, without acquiring resources or employing additional staff. In this case, only sales would increase. Thus, sales growth has high generality.

On the other hand, there is a widespread interest in the creation of new employment. This makes employment growth. Another important aspect to capture in the process of rationalization; it is possible to replace employees with capital investment. In other words, there is to some extent an inverse relationship between capital investment and employment growth, as a consequence, assets are another important measure of growth. Measuring growth in terms of assets is often considered problematic in the service sector (welnzimmer et al, 1998). This appears to be mainly an accounting problem.

While intangible assets indeed may expand in a growing service firms, this is not reflected in the firm balance sheet.

There are two basic approaches to measure growth: absolute and relative. Measures of absolute growth examine the actual difference in firm size from one observation to another. Growth rates refers to relative changes in size, that is size changes are related to initial size of the firm typically, by dividing the absolute growth by the initial growth of the firm.

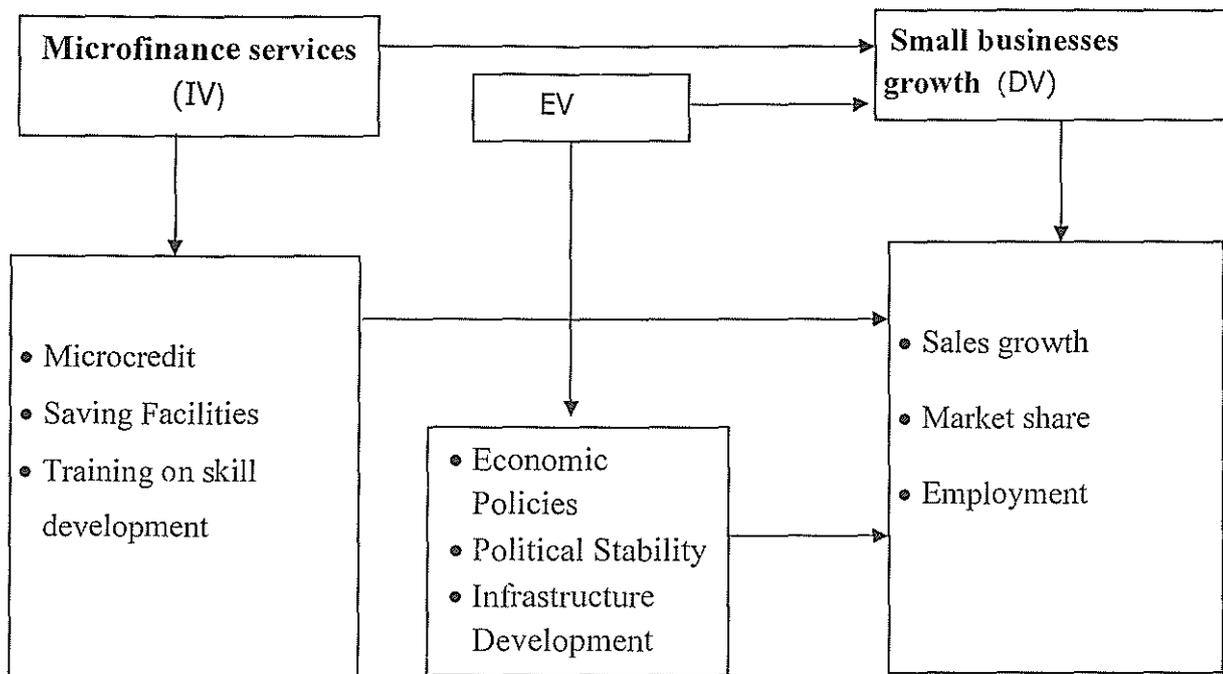
Business growth is typically defined and measured using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins. Therefore, sales growth need not correspond to or underpin other dimensions of growth in which policy makers might also be interested; for instance, sales can increase while employment and/ or profits fall. This is partly related to contextual or structural issues such as sector or age of business but also to the strategic choices made by principal decision makers in the firm. Sales and /or employment growth is a better measure of new and small business performance than accounting based measures such as profits, return on investment or market share.

Sales data are usually readily available and business owners themselves attach high importance to sales as an indicator of business performance. In practice sales growth is also easier compared with some other indices and is much more likely to be recorded. Sales are a good indicator of size and therefore growth. Sales may also be considered as precise indicator of how a firm is competing relative to that market. Business owners themselves often treat sales as key motivator and indicator of performance rather than, for example, job creation (Koech, 2011).

Small Medium Enterprises (SMEs) are the main driving forces of economic growth & job creation that have a special importance, not only in developed countries but also in developing and emerging economies (Cabbar, 2000). On the other hand, there is a widespread interest in the creation of new employment. This makes employment growth. Another important aspect to

capture in the process of rationalization; it is possible to replace employees with capital investment. In other words, there is to some extent an inverse relationship between capital investment and employment growth, as a consequence, assets are another important measure of growth.

Figure 2.1 Conceptual framework



Adopt: Ali et all, (2013)

Figure 2.1. In the conceptual frame work illustrated in figure 1, Microfinance is defined as providing financial services such as Microcredit, saving facilities, and training on skill development. The frame work postulates that the status of microcredit, training on skill development, saving facilities, directly affects expansion of sales growth, employment, market share.

2.4 Related studies

Microfinance services and Small Businesses growth

According to Provident & Zacharia (2008), investigate a critical look at the role of microfinance banks in poverty reduction in Tanzania, the study

based on questionnaires, semi structured interviews, observations and documentary reviews. The main findings of their Study shows that majority of the poor 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. According to Job & Aniefiok (2011), examined their study the role of microfinance banks in the social-economics of the rural communities in Cross River State, Nigeria, and their study was used questionnaires. The main finding of the study shows that micro-finance bank operations (roles) has no significant effect on credit demand by small scale business enterprises; and that the roles of microfinance banks has no significant effect on the socio-economic development of rural communities in Cross River State (CRS).

Another hand Kopla (2009), investigate financing small scale enterprise the role of microfinance in South Tongu, Ghana, and their study used questionnaires. The main findings of his study focus on that microfinance has the ability to reduce poverty in its clients when the products given to clients were incorporated with training, supply of equipment, and regular monitoring. It was also observed that most of the selected MFIs placed strong emphasis on gender particularly women. It has also revealed that beneficiaries who benefited considerably from the products of microfinance enjoyed increase in income, increase in equipment, creation of employment, and improvement in standard of living.

Ojo (2009), the impact of microfinance on entrepreneurial development in Nigeria, his study was used questionnaires. The finding of his study that microfinance institutions world over and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions. As well as Christopher (2010), focus on his article on the impact of microfinance on small and medium-sized enterprises in Nigeria, the primary data collection

used questionnaires instrument. The findings of the study reveal that significant number of the Small and Medium-Sized Enterprises (SMEs) benefited from the microfinance loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of Microfinance institutions loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage.

Provident & Zacharia (2008), Job & Aniefiok (2011), Kopla (2009), are found different result from each other these variances may cause demographically, economically situations. The other hand Ojo (2009), and Christopher (2010), are same resulted on their findings and focus them that microfinance has positive impact on small businesses and other organizations. 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).

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).

Accessing microfinance service 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). According to Hossain (1999), 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 Zeller and Sharma (1998), argue that microfinance can support in the increase or establishment of family enterprise, potentially making the difference between reducing poverty and economically secure life.

According to Burger (2000), shows that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs. 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 (Mahjabeen, 2008). The reason is because access to sustainable financial services enables owners of small businesses to finance income, build assets, and reduce their vulnerability to external shocks (Ehigiamusoe, 2005).

According to Wydick & Kevan (2001), the provision of credit to the poor people 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).

Summary

The several literatures show that the microfinance becomes a tool for fighting poverty; also microfinance provides financial services to support small businesses, poor people and low income groups. In Mogadishu, a number of non-governmental organizations provide micro credit program and the first time this program was implemented Sa'id organization in 1993. Recently, Salaam Somali Bank has started microfinance services to help poor people and small businesses. The main findings of studies show that microfinance programs recognized as one of key players in the financial industry that has positively affected individuals, business organizations, and other financial institutions.

However, the effect of microfinance services on small businesses growth has not received adequate research attention in Mogadishu, Somalia. Most of the studies on effect of microfinance services on small businesses that have been tale were on industrialized countries. This means that there is a gap in the relevant literature on developing countries including Somalia, which needed to be enclosed by research. This study will try to fill this gap by investigating the situation in Mogadishu, Somalia and also the research will provide more empirical evidence on the relationship between microfinance services and small businesses growth in Mogadishu.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter consists of design, population, sampling strategies, data collection methods, data collection instruments, data quality control, procedure and data analysis.

3.1 Research Design

In this study, Survey method employed. Survey method selected because the variables that are being studied are simply being observed as they are without attempting to control or manipulate them. In this study, the descriptive correlation and quantitative design used to establish the relationship between the independent and dependent variable through quantifiable result. The researcher used this approach because of it easy to quantify frequencies and describe current conditions, since this study investigates the relationship between microfinance services and small businesses growth using information obtained from the questionnaire.

3.2 Research Population

This study was conducted among microfinance services and small enterprises in Mogadishu. Total target population of this study 25 microfinance institutions managers and 200 small businesses owners in Mogadishu, researcher selected some of small enterprises in Mogadishu and used categories namely; small clothes shops, women charcoal businesses, small shops, electronic shops and Small beverage shops. Researcher selected these small businesses because they are most popular small businesses exist in Mogadishu. Since this study investigates the relationship between microfinance services and small businesses growth in Mogadishu.

Source: (Sa'id Foudation report 2005)

3.3 Sample size

The sample size of the study was identified by using Slovin's formula:

$$n = \frac{N}{1 + (N \cdot e^2)}$$

Where N= Population n= Sample e= is the confidence level at 0.05^2

$$n = \frac{225}{1 + (225 \cdot 0.0025)} = 144 \text{ subjects.}$$

Table 3.1: Respondents of the study

Microfinance institutions	Total Target Population				Sample size	
	Managers	Type of businesses	of small	small business Owners	managers	Small business Owners
Salaam Somali bank	5	Small shops,	clothes	40	3	26
Danish refuge council	4	women businesses	charcoal	40	3	26
Sa'id Foundation	4	Small shops	beverage	40	2	26
Hormuud foundation	4	Electronic shops		40	2	26
Social development organization	4	small shops		40	2	26
Manhal charitable organization	4				2	
Total	25			200	14	130
Grand total				225		144

Source: Primary data, 2014

3.4 Sample Procedure

The sampling procedure used in this study was non-probability sampling procedure particularly Purposive sampling to select the respondents based on these criteria:

1. Male or female respondents in any of the districts in Mogadishu.
2. Businesses experiences experience ranging from one year and above
3. An administrator of the microfinance institutions under study

From the list of qualified respondents chosen based on the inclusion criteria, the simple random sampling used at last to select the respondents with consideration to the computed minimum sample size.

3.5 Research Instrument

The study employed questionnaire as the tool for collecting data. The questionnaire was developed and administered by the researcher. Because it gave the researcher, opportunities to meet face to face with the respondents and help them to fill the questionnaires. It also allowed for clarification and explanation of questions to respondents before they answer.

The questionnaires of the study designed and structured by the researcher the instrument encompass three parts, part one profile of respondents (PR), part two microfinance institutions (MFIs), part three some selected small businesses. Finally researcher structured the questionnaires as four point liker scale format and will make pilot test through a number of experts, researcher, microfinance services and small businesses in order to improve validity and reliability, after making pilot test the researcher re-corrected error/mistakes and distribute to participants.

3.6 Validity and Reliability

According to Saunders et al (2009), Reliability the degree of data collection method will result in constant findings while, Validity is the extent

to which results can be exactly interpreted and generalized to the population. To enhance the quality of the study, the researcher make sure any effort to reach validity and reliability coefficient of at least 0.70 or 70 %; and the primary data was analyzed using cronbach's Alpha by the help of SPSS.

Table 3.6.1 Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	N of Items
.76	21

Since the computed value was 0.76, yet the level of reliability is 0.70, as suggested by Kathuri & Palls (1993), the instrument with validity coefficient of at least 0.70 or 70% are accepted as valid in research.

3.7 Data Gathering Procedures

Before the administration of the questionnaires

Before getting to the field of the study the researcher ensure the following steps;

- 1) An introduction letter obtained from the college of higher degree and research to solicit approval to conduct the study from microfinance institutions and small businesses in Mogadishu-Somalia.
- 2) When approved, the researcher divided the respondents into two categories managers from microfinance institutions and owner of small businesses, in using Simple Random sampling, the minimum sample size was arrived.
- 3) The respondents explained about the study and requested to sign the Informed Consent Form.

- 4) The researcher reproduced more than enough questionnaires for distribution.
- 5) Research assistants selected to assist the researcher in the data collection; brief and orient them in order to be consistent in administering the questionnaires.

During the administration of the questionnaires

- 1) The respondents requested to answer completely and not to leave any part of the questionnaires unanswered.
- 2) The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.
- 3) On retrieval, all returned questionnaires checked if all are answered.

After the administration of the questionnaires

The data gathered collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS) version 17.

3.8 Data Analysis

The frequency and percentage distribution used to determine the demographic characteristics of the respondents. The mean and standard deviations applied for the levels of Microfinance services and small businesses growth. A Pearson's product correlation coefficient used to test the hypothesis on correlation (H_0 #2) at 0.05 level of significance by using a Pearson's product correlation coefficient. The regression analysis R^2 (coefficient of determination) computed to determine the effect of the independent variables on the dependent variable.

A functional regression model derived from the conceptual frame

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3$$

Where Y= Dependent variable (small business growth)

$\alpha = \text{constant}$

$\beta = \text{Beta}$

Component of microfinance service

X_1 is microcredit

X_2 is saving facilities

X_3 is training on skills development

3.9 Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities implemented by the researcher:

- 1) The respondents under of this study coded instead of reflecting their names.
- 2) Solicit permission through a written request to the concerned officials of the institutions and small businesses under study.
- 3) To request the respondents to sign in the Informed Consent Form.
- 4) Acknowledge the authors quoted in this study and the author of the standardized instrument if it exists through citations and referencing.

3.10 Limitations of the Study

In view of the following threats to validity, the researcher claim an allowable of error 0.05 level of significance. Measures are also indicated in order to minimize if not to eradicate the threats to the validity of the findings of this study. Also limitations of the study include the following:

- 1) *Extraneous variables* which beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.
- 2) *Instrumentation*: The research instruments on microfinance institutions and small businesses are not standardized. Therefore a validity and reliability test will be done to produce a credible measurement of the research variables.
- 3) *Testing*: The use of research assistants can bring about inconsistency in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents. To minimize this threat, the research assistants will be oriented and briefed on the procedures to be done in data collection.
- 4) *Mortality*: Not all questionnaires will be returned completely answered nor even retrieved back due to circumstances on the part of the respondents such as travels sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher will reserve more respondents by exceeding the minimum sample size. The respondents will also be reminded not to leave any item in the questionnaires unanswered and will be closely followed up as to the date of retrieval.

CHAPTER FOUR

DATE PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 INTRODUCTION

This chapter shows the presentation of data analysis and interpretation. The data analysis and interpretation was based on the research questions as well as research objectives, the presentation was divided in two parts. The first part presents the respondents profile or demographic information, while the second part deals with presentation, interpretation and analysis of the research questions and objectives.

4.1 Demographic information of the respondent

This section presents the background information of respondent who participated in the study. The purpose of this background information was to find out the characteristic of respondents and show the distribution of the population in the study.

Table: 4.1 Profile of Respondent

Category	Frequency	Percentage %
Sex		
Male	97	67.0%
Female	47	33.0%
Total	144	100%
Age		
21-30	59	41.0%
31-40	53	37.0%
41-50	32	22.0%
51 and above	18	13.0%
Total	144	100%
Educational Qualifications		
High school	73	51.0%
Diploma	54	38.0%
Bachelors	17	12.0%
Masters	6	4.0%
Total	144	100%
Number of work experienced		
1 -2 years	17	12.0%
3-4 years	49	34.0%
5-6 years	63	44.0%
7 above	21	15.0%
Total	144	100%

Source: Primary Data 2014

Gender: The data presented above table 4.1 indicates that the gender distribution was 67.0% was f male and 33.0% 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 cultural diversity most Somali women are not work in business they are in home.

Age: Indicates on the table 4.1 , 41% of the respondents are at the age of 20-30; 37% of the respondents are at the age of 31-40, 22% of the respondents are at the age of 41-50, which is the age of the majority of the respondents and the 13 % above 51 age.

Qualification The majority of the respondents said they held high school certificate (51% each), 38% of respondents were held diploma, 12% bachelor degree and remaining were held master degree (4%).

Business experience: 1-2 years (12. %) and 3-4 years (34.%) and The majority had worked for between 3-4 years (44%). Those who said they had worked for 7 and above years were the least, representing 7% of the total respondents.

Objective one

Research question one was derived from the first objective of the study. The first objective of this study was to determine the extent of microfinance services in Mogadishu, Somali. To achieve this objective Respondents were subjected to a number of questions to provide answers to research question one mentioned above.

The independent variable in this study was microfinance services, this variable was broken into three parts namely microcredit (with four questions), saving (with three questions) and training on skill development (with four questions). Each of these questions was based on the four point Likert scale where respondents were asked to rate the extent to which microfinance service is satisfactory or unsatisfactory by indicating the extent to which they agree or

disagree with each question and their responses were analyzed using SPSS and summarized using means and rank as indicated in table 4.2:

Table 4.2 Microfinance services			
Variables	Mean	Interpretation	Rank
Microcredit			
Microcredit enables poor people to engage in employment projects that generate income.	3.14	High	1
Microcredit is considered to be important factor increase development of small business.	2.92	High	2
Microcredit improves the welfare of poor people as result of better access to small loans.	2.45	low	3
Microcredit allows entrepreneurs to star new business or expand their small businesses.	2.16	low	4
Average mean	2.67	High	
Savings			
MFIs contributed Provision of Saving facilities to small enterprises.	3.26	Very high	1
MFIs provide individual savings such as credit facilities are important tools for efficient liquidity management.	3.15	High	2
Savings facilities are strong business pillars for all nstitutions.	2.86	High	3
Average mean	3.09	High	
Training on skill development			
MFIs offer technical skill training to the micro enterprise	3.27	Very high	1
MFIs provide managerial and leadership skills training to he micro entrepreneurs	3.17	High	2
microfinance is likely to result in the acquisition of new skills	2.73	High	3
MFIs provide Entrepreneurial skills development programmers to the micro enterprise	2.45	Low	4
Average mean	2.91	High	
Grand mean	2.89	High	

source: Primary data, 2014

Mean range	Response range	Interpretation
3.26 - 4.00	Strongly agree	Very high
2.51 - 3.25	Agree	high
1.76 - 2.50	Disagree	low
1.00 - 1.75	Strongly disagree	Very low

Results in table 4.2 indicate that the extent of microfinance services is generally high and this is indicated by the overall mean (overall mean=2.89), this implies that microfinance institution in Mogadishu, Somalia provided financial services which included the following;

Microcredit - four items were used to measure this construct and three items were rated satisfactory and only two were rated unsatisfactory out of the four items, therefore on average microcredit was rated high and this was indicated by the average mean (mean=2.67).

Savings- this variable was measured by three items and respondents were asked whether they agreed with the statements under investigation. Responses reveal that saving as a construct on the independent variable was rated high (mean = 3.09), implying that having saving helps the small business growth.

Training on skill development- four items were used to measure this construct and respondents were asked whether they agreed with the statements there in, their responses indicated that training on skills development as a construct on the independent variable was rated high on average (mean =2.91), implying that small business owners in Mogadishu access training.

Finding

Level of Microfinance institutions in Mogadishu, Somalia is high. This is indicated by the by a high mean-rate score of clients' satisfaction. This

interprets that microfinance institutions provide financial service to small business growth in Mogadishu.

Objective two

Objective two was derived from the second objective of the study. The second objective of this study was to find out the level of small business growth in Mogadishu, Somali. The researcher determined its level, small businesses growth was broken into three constructs and these included the following; Sales growth (with four questions), market share (with four questions) and employment (with four questions). Each of these questions was based on the four point likert scale where the respondents were asked to rate the extent to which the quality of financial reporting is satisfactory or unsatisfactory by indicating the extent to which they agree or disagree with each question and their responses were analyzed using SPSS and summarized using means and rank as indicated in table 4.3:

Table 4.3 small business growth

Variables	Mean	Interpretation	Rank
MIFs have contributed greatly to the growth of small business.	3.17	High	1
Small business increase their productivity through getting MFIs fund which leads enterprise growth	3.10	High	2
Microfinance institutions have helped in developing small business.	3.08	High	3
MIFs played a vital role increasing sales growth of small business	2.53	High	4
Average mean	2.97	High	
Employment			
MIFs contributed self employment of poor people.	3.47	Very high	1
MIFs Improved skills of employees.	3.45	Very high	2
Small business provide job opportunity	3.30	Very high	3
MIFs improved Managerial and Leadership Skills of small businesses.	3.19	High	4
Average mean	3.35	Very high	
Market share			
MIFs helps small business to access market by providing financial service such as loan and saving.	3.28	Very high	1
MIFs help small business to respond new products, new market.	3.25	High	2
MIFs help small business to increase their market share.	2.56	High	3
MIFs Improved Marketing Skills of small business.	2.33	Low	4
Average mean	2.86	High	
Grand mean	3.06	High	

Source: primary data 2014

Mean range	Response range	Interpretation
3.26 - 4.00	strongly agree	Very high
2.51 - 3.25	Agree	High
1.76 - 2.50	Disagree	Low
1.00 - 1.75	Strongly disagree	Very low

Results in table 4.3 denoted that small business growth was generally rated high and this was indicated by the grand mean (mean=3.06), implying that microfinance institutions play a vital role for growing small business by providing microfinance services. Small business growth was broken into three constructs which included the following;

Sales growth- this variable was operationalized using four items and respondents were asked whether they agreed with the statements under investigation, their responses revealed that on average understandability was rated high (mean = 2.97), implying that microfinance service helps small business growth.

Employment - four items were used to measure this construct and respondents were asked whether they agreed with the statements. Responses indicated that materiality was rated very high on average (mean =3.35), this implying that majority of small business in Mogadishu Somalia highly recognize to create self employment by accessing microfinance services.

Market share - four items were used to measure this construct and results indicate that on average market share was rated high and this was indicated by the average mean (mean=2.86), this implies that the microfinance service increase market share of small business by providing financial service.

Finding

It was therefore concluded that the level of small business growth is satisfactory to most clients. This implies that microfinance institutions play a vital role for growing small business by providing microfinance services.

Objective three

Research question three was derived from the third objective of the study. The third objective of this study was to establish the relationship between Microfinance services and small business growth in Mogadishu, Somali, to achieve these objective Respondents were subjected to a number of questions

to provide answers to research question three. The results are presented in the following table.

Relationship between Microfinance services and small business growth in Mogadishu, Somalia.

Table 4.4 Pearson’s correlations

Variables correlated	r-value	Sig	Interpretation	Decision on H₀
Microfinance services Vs Small businesses growth	.395	.000	Significant correlation	Rejected

Source: primary data 2014

Pearson’s product moment correlation in table 4.4 indicated a positive and significant relationship between the extent of microfinance services and small business growth (r-value=.395 and sig=.000), Hence the research hypothesis was accepted that there is a significant relationship between the microfinance service and small business development. This means that microfinance institutions affected small business growth in a way that providing microfinance services such as microcredit, and saving, training.

Finding

The above table gives the nature and type of relationship between microfinance services and small businesses growth, the discrepancy between the computed value and the critical value reveals that there is significant relationship between microfinance service and small business growth.

4.3 Regression Analysis

To establish the effect of microfinance services to the Small business growth in Mogadishu, a multiple regression analysis was conducted to establish the relative effect of microfinance services to the of Small business growth in Mogadishu, Somalia.

Variables regressed	Adjusted r^2	F-value	Sig.	Interpretation	Decision on H_0
microfinance services Vs small business growth	0.563	141.686	.000	Significant effect	Rejected
Coefficients	Beta	t-value	Sig.		
(Constant)		11.252	.000	Significant effect	Rejected
Microcredit	.320	3.108	.002	Significant effect	Rejected
Saving	.312	3.481	.001	Significant effect	Rejected
Training on skill	.251	2.292	.024	Significant effect	Rejected

From the table 4.5 Regression analysis results indicated that microfinance service accounted for 56.3% on the small businesses growth. It implies that 56.3% of microfinance services influence by the small businesses growth. The researcher concludes that there is sufficient evidence at the 0.05 level of significance, that microfinance services effect the small businesses growth.

The coefficients table further showed that of all the aspects of microfinance services, microcredit accounted for the biggest improvement on the extent of microfinance service ($\beta=0.320$, $\text{Sig}=0.002$).

Using the hypothetical regression model given as

$$Y = X + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$$

We derive a regression model given

$$Y = 0.563 + 0.32X_1 + 0.312X_2 + 0.251X_3$$

Where

Y= Small businesses growth

X_1 , X_2 & X_3 are components of microfinance service

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion of the findings, conclusions and recommendations.

5.1 DISCUSSION OF THE RESEARCH FINDINGS

Objective One:

To find out the extent of microfinance services in Mogadishu

The first objective of this study was to determine the level of microfinance services in Mogadishu. Data analysis and interpretation revealed following findings under this objective. Based on analysis of chapter four, majority of respondents reported that MFIs contributed Provision of microcredit to small enterprises, Microcredit is considered to be important factor increase small business development, Microcredit improves the welfare of poor people as result of better access to small loans, Microcredit enables poor people to engage in employment projects that generate income, Microcredit allows entrepreneurs to star new business or expand their small businesses.

Also respondents agree that MFIs contributed Provision of Saving facilities to small enterprises, Savings facilities are strong business pillars for all institutions, MFIs provide individual savings such as credit facilities are important tools for efficient liquidity management, MFIs offer technical skill training to the micro enterprise, MFIs provide managerial and leadership skills training to the micro entrepreneurs, microfinance is likely to result in the acquisition of new skills, Microfinance institutions play a vital role providing sufficient business information for small businesses, Microfinance institutions provide information about market for stating new businesses and

Microfinance institutions Providing business information small businesses to succeed.

Therefore the findings is in line with Yasin (2012) that states Microcredit is a component of microfinance and is the extension of small loans to small business, who are too poor to qualify for traditional bank loans. Especially in developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income thus allowing them to improve the standard of living for themselves and their families. Also the findings of this study showed that MFIs in Somaliland did not provide insurance services, business information and individual lending.

This findings of this study also in line with Lan,(2004) Micro finance is considered as the provision of financial services to the low-income clients including the self-employed which has evolved as economic development approach intended to benefit the marginally poor especially the women.

In addition this is also in line with Edgcomb and Klein, (2005) Small scale enterprise is very crucial to the development of a country's economy, Entrepreneurship is sine qua non to national development, poverty eradication and employment generation. It is the bedrock of any nation's industrialization. A number of studies have been carried out on the impact of microfinance on entrepreneurial development. In fact, academic interest that shows the impact of Microfinance on small business development is evidenced by the fact that some academic journals have devoted special issues to research establishing this linkage. Some scholars focused on the mechanism by which poverty is reduced.

However the fact is that external finance has a vital role to play in creating an enabling environment in developing countries, and supplementing domestic resources on order to create employment, raise investment levels, and support social and economic recovery, yet external funding whether from

government, international financial institutions, private capital markets or non-governmental organizations (NGOs), involves far more than a simple financial transfer. The relationship between donor and recipient raises fundamental issues of unequal power and the danger of local priorities being unduly influenced or distorted and of local capacity being undermined.

Ojo (2009) argued that the evolution of microfinance in the 1970s is to break the barricade to access capitals by low income individuals for developmental purposes. Microfinance is the provision of financial services to low-income, poor and very poor self-employed people, to say that microfinance empowers the entrepreneurial spirits that exist among Small-scale entrepreneurs worldwide is not an exaggeration. Microfinance has the ability to strengthen micro enterprises and encourage best practices among operators of small and medium scale enterprise.

The findings also in line with Thomas (2002) By delivering financial services at a scale, and by mechanism appropriate to them, micro-credit can reach poor people with credit for micro-enterprise it can help them work their own way out of poverty, and by providing loans, rather than grants the micro-credit provider can be sustainable by recycling resources over and over again in other words micro-credit appears to deliver the holy trinity of out reach impact and sustainability, no wonder the development sector has become so excited.

Objective two

To determine the level of small businesses growth in Mogadishu.

The second objective of this study was to find out the level of small business growth in selected in Mogadishu. Data analysis and interpretation revealed following findings under this objective. Based on analysis of chapter four, majority of respondents reported : MIFs have contributed greatly to the growth of small business, Small business increase their productivity through getting fund MFIs which leads enterprise growth, microfinance institutions

have helped in developing small business, MIFs played a vital role increasing sales growth of small business, MFIs contributed self employment of poor people, MFIs Improved skills of employees, Small business provide job opportunity, MFIs improved Managerial and Leadership Skills of small businesses; MIFs helps small business to access market by providing financial service such as loan and saving, MIFs help small business to respond and accommodate new products, new markets, or new competitors in the market, MIFs help small business to increase their market share, Small business has the ability to respond and accommodate periods of poor delivery performance, MIFs encourage small business to respond and accommodate demand variations in the market.

This is in line with (Kumar, Poornima, Abraham, & Jayashree, 2003) business development refers to the process of growing business, entrepreneurial skills and knowledge through structured training and institution-building programmes. This accelerates employment generation and economic development. Also the findings of this study indicate that the majority of respondents agreed that MFIs improved marketing skills, production skills, managerial and leadership skills, negotiating skills of micro entrepreneurs.

The fact is that Success of microfinance depend upon people income generation Activities, to enter in new segments of enterprise development, people need skill development Training on new area for adopting new technology. It is important for microfinance Program that before lending credit, training plays vital role for successfully implementation of Enterprises which will be significant for sustainable microfinance program.

Development of small business and of the private sector is the key to enhancing productivity and competitiveness. Recognizing the size and complexity of this challenge, it is imperative that various actors in an economy—government, development partners, and private-sector institutions—formalize partnerships to work together towards common goals.

The findings of the study also in line with Yaron, J., Benjamin, M., Piperk, G., (1997). study of lending for SMEs projects, three objectives were most frequently cited, these include; creating employment and income opportunities through the creation and expansion of micro enterprises, to increase the productivity and income of vulnerable groups, especially women and the poor. and finally to reduce rural families dependence on drought prone crops through diversification of their income generating active.

Objective three

Relationship between microfinance services and small businesses growth.

The third objective of this study was to establish the relationship between microfinance services and small business growth in Mogadishu, Somalia. Data analysis and interpretation revealed the following major findings under this objective; it revealed that there is a significant relationship between Microfinance services and small business growth. These findings indicate that the relationship between microfinance service and small business development in Mogadishu.

According to Ojo (2009), the impact of microfinance on entrepreneurial development in Nigeria, his study was used questionnaires. The finding of his study that microfinance institutions world over and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions.

Christopher (2010), focus on his article on the impact of microfinance on small and medium-sized enterprises in Nigeria, the primary data collection used questionnaires instrument. The findings of the study reveal that significant number of the Small and Medium-Sized Enterprises (SMEs) benefited from the microfinance loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of Microfinance institutions

loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage.

This is in line with Ojo(2009) Microfinance program had a significant effect on the number of microenterprises and the number of persons employed in them, reflecting that the program was designed to cater to the entrepreneurial poor and increase their skills. 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.

Zeller and Sharma (1998), argue that microfinance can support in the increase or establishment of family enterprise, potentially making the difference between reducing poverty and economically secure life. On the other hand, Burger (1989), shows that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs.

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 (Mahjabeen, 2008). The reason is because access to sustainable financial services enables owners of small businesses to finance income, build assets, and reduce their vulnerability to external shocks (Ehigiamusoe, 2005).

5.3 CONCLUSIONS

This study investigated the relationship between microfinance services and small business growth. It was intended to determine relationship between microfinance services and small business growth in Mogadishu, Somalia. This was in relation to the difficulty of access to loan from financial institutions banks constitute a great setback to small business growth in Mogadishu, Somalia.

The results obtained in this study showed that level of Microfinance services in Mogadishu, Somalia is high. This interprets that microfinance institutions provide financial service to small business growth in Mogadishu.

It was therefore concluded that the level of small business growth is satisfactory to most clients. This implies that microfinance institutions play a vital role for growing small business by providing microfinance services. This ultimately promotes small business to participate in the economic development of the country.

Finally, the finding of the study showed that there is a significant relationship between microfinance services and small business growth in Mogadishu, Somalia as also literature showed that relationship according to Ojo (2009) Microfinance program had a significant effect on small business growth. The above table gives the nature and type of relationship between microfinance services and small business growth, the discrepancy between the computed value and the critical value reveals that there is significant relationship between microfinance services and small business growth.

5.4 RECOMMENDATIONS

Basing on the findings in this study, the researcher provided a summary of the study's recommendations based on the four key objectives and following recommendations have been suggested.

1. The financial institution whose role needs to be visible in promoting small businesses growth and development is microfinance.
2. Small businesses themselves should be more receptive to new ideas and prepared to make financial commitments to ensure growth.
3. The government, development parts, and microfinance institutions should set accessibility in collaboration with small businesses those are engaging in borrowing money, saving, training skill and business information from microfinance institutions.
4. This study recommends that guidelines by microfinance institutions to finance small business need to be flexible to accommodate the SMEs only when financial institutions appreciates and give technical assistant to the small business growth would be contributing to the small business is to ensure success in the small business sector.

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APPENDIX I A

Questionnaire

Dear respondents,

I am student doing MBA- Accounting and finance, from Kampala international university (KIU). I am currently doing my final year research project and I hope that you could make me a favour by helping me to fill up my questionnaire and interview.

Your answer will be kept PRIVATE AND CONFIDENTIAL and used solely academic purposes.

Thank you for your participation.

Dear sir/madam

Direction: Please tick in the blanks provided as your response.

SECTION (A): Profile of the respondents (PR)

Gender:

a) Male b) Female

Age :

a) 20-30 b) 31-40 c) 41-50 d) Above 51

Level of education:

a) High School b) Diploma c) Bachelor degree
d) Master

Experience:

a) One year b) Two year c) Three year d) Above

Type of institution:

a) Bank b) NGO c) others please specify

Please select the appropriate number in the following scale according to your suitable choice:

1= Strongly disagree 2= Disagree 3= Agree 4= Strongly agree

Section (B)					
S/n	Items for microfinance services	1	2	3	4
Microcredit					
1.	Microcredit Microcredit enables poor people to engage in employment projects that generate income.				
2.	Microcredit is considered to be important factor increase development of small business.				
3.	Microcredit improves the welfare of poor people as result of better access to small loans.				
4.	Microcredit allows entrepreneurs to star new business or expand their small businesses.				
Saving					
5.	Savings MFIs contributed Provision of Saving facilities to small enterprises.				
6.	MFIs provide individual savings such as credit facilities are important tools for efficient liquidity management.				
7.	Savings facilities are strong business pillars for all institutions.				
8.	Training on skill development				
9.	MFIs offer technical skill training to the micro enterprise				
10.	MFIs provide managerial and leadership skills training to the micro entrepreneurs				
11.	microfinance is likely to result in the acquisition of new skills				
12.	MFIs provide Entrepreneurial skills development programmers to the micro enterprise				

Section (c)					
S/n	Items for small businesses growth	1	2	3	4
Sales growth					
1.	MIFs have contributed greatly to the growth of small business.				
2.	Small business increase their productivity through getting MFIs fund which leads enterprise growth				
3.	microfinance institutions have helped in developing small business.				
4.	MIFs played a vital role increasing sales growth of small business				
Employment					
5.	MFIs contributed self employment of poor people.				
6.	MFIs Improved skills of employees.				
7.	Small business provide job opportunity				
8.	MFIs improved Managerial and Leadership Skills of small businesses.				
Market share					
9.	MIFs helps small business to access market by providing financial service such as loan and saving.				
10.	MIFs help small business to respond new products, new market.				
11.	MIFs help small business to increase their market share.				
12.	MFIs Improved Marketing Skills of small business.				

Thanks for your contribution

APPENDIX 11
CLEARANCE FROM ETHICS COMMITTEE

Date _____

Candidate's Data

Name _____

Reg. # _____

Course _____

Title of Study _____

Ethical Review Checklist

The study reviewed considered the following:

- Physical Safety of Human Subjects
- Psychological Safety
- Emotional Security
- Privacy
- Written Request for Author of Standardized Instrument
- Coding of Questionnaires/Anonymity/Confidentiality
- Permission to Conduct the Study
- Informed Consent
- Citations/Authors Recognized

Results of Ethical Review

- Approved
- Conditional (to provide the Ethics Committee with corrections)
- Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson _____

Members _____

APPENDIX III

INFORMED CONSENT

I am giving my consent to be part of the research study of Mr. Abdimajid Omar Abu-hadi that will focus on emotional intelligence and leadership styles. I assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime. I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials: _____

Date _____

APPENDIX III

TRANSMITTAL LETTER FOR THE RESPONDENTS

Dear Sir/ Madam,

Greetings!

I am master degree in Business Administration candidate of Kampala International University. Part of the requirements for the award is a thesis. My study is entitled, *Microfinance services and small businesses growth in Mogadishu, Somalia*. Within this context, may I request you to participate in this study by answering the questionnaires, Kindly do not leave any option unanswered. Any data you will provide shall be for academic purposes only and no information of such kind shall be disclosed to others.

May I retrieve the questionnaire within 10 days?

Thank you very much in advance.

Yours faithfully,

Mr. Abdimajid Omar Abu-Hadi

RESEARCHER'S CURRICULUM VITAE

To document the details of the researcher, his competency in writing a research and to recognize his efforts and qualifications, this part of the research report is thus meant.

Personal Profile

Name: Abdimajid Omar Abu-Hadi

Gender: Male

Nationality: Somalia

Educational Background

Master of Business Administration-in Accounting and finance at Kampala international University (KIU) (2014)

Uganda Institute of Social Work & Community Development postgraduate diploma of Entrepreneurship Development (2013)

Bachelor degree of Science accounting (SIMAD UNIVERSITY) (2012)

High school Certificate (Muzami secondary School) (2008)

Work Experiences

- 1 Year of teaching institute at Star (2010-2011)
- 2 Work with manhal charitable organization (2011-2012)
- 3- Current Working with NABUKO general trading company (2014).
4. Part time lecturer @ Salaam University and Imam university (2014)