

**MICRO-FINANCE INSTITUTION LENDING AND THE GROWTH OF SMALL AND  
MEDIUM ENTERPRISE IN HARGEISA, SOMALILAND.**

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**RESEARCH REPORT SUBMITTED TO THE FACULTY OF BUSINESS  
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BANKING AND  
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## DECLARATION

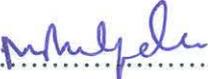
I, **SULEIMAN ABDIRAHMAN HUSSEIN** declare that this is my own original work and has not been submitted by anybody else for the award of a bachelor in business administration or any other award at any university or any other institution of higher learning

Sign.....

Date ..23/09/2014.....

## APPROVAL

This is to certify that the research report by Suleiman **Abdirahman Hussein** under the topic “*Micro-Finance Institution Lending and the Growth of Small and Medium Enterprise in Hargeisa, Somaliland,*” has been prepared under my supervision and is now ready for submission to the college of economics and management.

Sign  .....

**Mr. Ruteganda Michael**  
(Academic Supervisor)

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## LIST OF ABBREVIATIONS

MPS	Ministry of Private Sector Development
SME	Small and medium Enterprise
NBSSI	National Board for Small Scale Industries
SCB	Somaliland Commercial Bank
FUSMED	Fund for Small and Medium Enterprise Development.
ADF	African Development Fund
MFI	Microfinance institutions

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Introduction

This chapter covered the background of the study, the main and specific objects of the study, the problem statement, and the significance of the study, study scope, research questions, and limitation of the study.

#### 1.1 Background of the Study

According to Otero (1999, p.8) he defined micro finance as “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledger wood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, 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.

The beginnings of the microfinance movement are most closely associated with the economist Muhammad Yunus, who in the early 1970's was a professor in Bangladesh. In the midst of a country-wide famine, he began making small loans to poor families in neighboring villages in an effort to break their cycle of poverty. Financial services that allow poor people to save in times of prosperity and borrow or collect insurance when necessary allow them to maintain a consistent level of consumption without selling off income-producing assets. Microfinance can also provide an opportunity for expanding or pursuing new business opportunities that allow poor people to increase or diversify the sources of their income.

The terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, among others)”. Therefore microcredit is a component of microfinance in that it involves providing credit to the

poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

Microcredit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs. These often resulted in high loan defaults, high loss and an inability to reach poor rural households (Robinson, 2001).

Robinson states that the 1980s represented a turning point in the history of microfinance in that MFIs such as Grameen Bank and BRI2 began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (Robinson, 2001). It was also at this time that the term “microcredit” came to prominence in development (MIX, 2005). The difference between microcredit and the subsidized rural credit programs of the 1950s and 1960s was that microcredit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit (ibid.). It was now clear for the first time that microcredit could provide large-scale outreach profitably.

The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale” (Robinson, 2001.). Dichter (1999) refers to the 1990s as “the microfinance decade”. Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor microcredit, to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services (mix, 2005).

As highlighted, one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This is their social mission. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector. These banks tend to be found in urban centers while the majority of the poor in the developing world

live in rural areas, where financial services are not provided. Therefore, if MFIs are to fill this void they must reach the rural poor. However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004).

A 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 medium scale enterprise is a privately owned and operated business characterized by a medium number of employees and low turnover. In Somaliland there is no proper agreement the definition medium scale enterprises however in African nation a business is considered to be medium scale enterprise if it employs 30 to 50. (Edgcomb & Klein, 2005). The Small and Medium Enterprises (SME) in Somaliland constitute the large part of the private sector with specific reference to their numbers and employment figures. Most of these enterprises are indigenously owned and family run, less than five years old and rarely grow beyond medium scale level due to lack of access to markets and finance, limited skills and enterprise-to-enterprise linkages that would provide opportunities for growth. The accessibility of microfinance services could be considered difficult to small businesses due to the heavy collateral requirement that MFIs may impose.

## **1.2 Problem statement**

Microfinance is the service that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self employed, who traditionally lack access to banking and related services. Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. It is rather an important tool for the eradication of poverty. As microfinance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs. A study of MFIs in seven countries carried out by Mosley and Home (1998) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improved. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SME development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed. This means that there is a major gap in the relevant literature on developing countries including Somaliland, which has to be covered by the research. This research attempts to fill this gap by studying the situation in Hargeisa, Somaliland and providing more empirical evidence on the effects of microfinance on developing Business. This study intent to address the following research question, what is the effect of microfinance institutions lending on the growth of small and medium enterprise in Somaliland?.

## **1.3 General objectives**

To determine the relationship between financial institution lending and the growth of small and medium enterprises in Hargeisa Somaliland.

## **1.4 Purpose of the study**

- To assess the roles of financial lending institutions on the growth of small and medium enterprises
- To examine the challenges faced by the financial institutions in lending to small and medium enterprises
- To identify the possible measures to combat the challenges faced by financial lending institutions.

## **1.5 Research questions**

- What are the roles of financial lending institutions on the growth of small and medium enterprises?
- What challenges are faced by the financial institutions in lending to small and medium enterprises?
- What are the possible measures to the challenges faced by financial lending institutions?

## **1.6 Scope of the study**

### **1.6.1 Geographical scope**

The study will be conducted in selected small and medium enterprises business in Hargeisa Somaliland

### **1.6.2 Time scope**

This study will be conducted February 2014 up to September up to 2014 during time research will be done without any delay

### **1.6.3 Theoretical perspectives**

This study will be guided theory of Churchill and Lewis (1983), growth is part of the natural evolution of a firm.

### **1.6.4 Content scope**

The study examined the level of financial institution lending and quality growth of small and medium enterprises and also the relationship between the independent variable (financial institution lending) and dependent variable (growth of small and medium enterprises)

## **1.7 Significant of the study**

The study benefited the managers and owners of small and medium enterprises who were living in Hargeisa experiencing nowadays financial lending problem and improving their understanding towards the role of growth of small and medium enterprises

The study contributed additional knowledge to the previously existing facts about the role of financial institution lending to future researcher who are interested financial institution lending for further research. This study was important to the student to fulfill the obligation in order to be

...with the information to guide financial lending institutions improve on their performance.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.0 Introduction**

This chapter focused on the concepts of microfinance and the role they play in the growth of SMEs. It highlights Concepts, Ideas, theories, and Opinions from Authors/ Experts, theoretical perspectives. Also it describes related studies. It involved secondary data obtained from textbooks, journals and internet.

#### **2.1 Role of financial lending institutions on the growth of small and medium enterprises.**

The services provided by MFIs can be categories into four broad different categories (Leger wood, 1999): Financial intermediation or the provision of financial products and services such As savings, credit, credit cards, and payment systems, Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Enterprise development services or non financial services that assist micro entrepreneurs include skills development, business training, marketing and Technology services, and subsector analysis and Social services or non financial services that focus on advancing the welfare of Micro entrepreneurs and this include education, health, nutrition, and literacy.

Robinson (1998) defined microfinance as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where firms do not have access to other sources of financial assistance. In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledger wood, 1999).

According to Ledger wood (1999), MFIs can offer a variety of products/ services to SMEs. The most prominent services are financial. Banks do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the banks find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral due to distance. It is by this that the cost to lend a dollar will be very high and also there is no tangible security

for the loan. The high lending cost is explained by the transaction cost theory (Christabell, 2009). As Christabell (2009) the transaction cost can be conceptualized as a non financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan.

Training, Garmaise and Natiridada (2010) provide direct evidence on the impact of asymmetric information on both financing and operating activities through a study of credit evaluations of microfinance institutions (MFIs). They employ a regression discontinuity model that exploits the eligibility criteria of an evaluation subsidy offered by a non-profit consortium. The evaluations dramatically cut the cost of financing and found the effect strongest for commercial lenders and for short-term MFI–lender relationships. The impact of evaluations on the supply of finance is mixed. Evaluated MFIs lend more efficiently, extending more loans per employee.

Increase in their incomes, Matovu (2006), using pooled data from Uganda, concludes that all the women clients reported increase in their incomes which has improved their standard of living, enabled them to send their children to school; pay their medical bills, feed their families, and cope with future crises using their savings; the women have been empowered economically. He also notes that well functioning market, entrepreneurial skills and other infrastructure support microfinance to achieve results. However, some of the findings may not be conclusive; one should therefore be careful in drawing conclusions there from.

Khandker (2005) observes microfinance supports mainly informal activities that often have a low return and low market demand. It may therefore be hypothesized that the aggregate poverty impact of microfinance is modest or even nonexistent. If true, the poverty impact of microfinance observed at the participant level represents either income redistribution or short-run income generation from the microfinance intervention. Khandker's article examines the effects of microfinance on poverty reduction at both the participant and the aggregate levels using panel 21 data from Bangladesh. The results suggest that access to microfinance contributes to poverty reduction, especially for female participants and to overall poverty reduction at the village level. Microfinance thus helps not only poor participants but also the local economy.

Sichanthongthip's study (2004) also points to a positive impact of microcredit on the income level of individual borrowers. This can be seen from the higher monthly income earned after the member accessed credit. Shaw (2000) studied two microfinance institutions (MFIs) in Southeastern Sri Lanka and showed that the less poor clients 'micro-business owner that accessed loans from microfinance programs could earn more income than those of the poor could. Mosley (2001) evaluated the impact of loans provided by two urban and two rural MFIs on poverty in Bolivia. He found that the net impact of microfinance from all institutions, at the average level, was positive in relation to borrowers 'income, even though the net impact for poorer borrowers might be less than the net impact on richer borrowers. Copestake (2002) conducted a case study of the Zambian Copperbelt, applying the village bank model to investigate the effect on income distribution at the household and enterprise levels. The study showed that the impact on income distribution depends on who obtains the loan, who moves on 22 to larger loans and who exits the programs: group dynamics was also an important factor. He notes, —Some initial leveling up of business incomes was found, but the more marked overall effect among borrowers was of income polarization (Copestake, 2002).

Impact Studies of Microfinance on Expenditure, Expenditure is another indicator used to measure the impact of microfinance. Pitt and Khandker (1996 and 1998) estimated the effect of microcredit obtained by both male and female clients of Grameen Bank and two other group-based microcredit programs in Bangladesh on various indicators such as expenditure on household consumption, health, education and welfare. They showed that the clients of the programs could gain from participating in microfinance programs in many ways. It was clear that per capita consumption could be increased by accessing a loan from a microcredit program such as the Grameen Bank. Khandker (2003) also conducted research on the long-run impacts of microfinance on household consumption and poverty in Bangladesh by identifying types of impact in six household outcomes as outlined below: per capita total expenditure; per capita food expenditure; per capita non-food expenditure; the incidence of moderate and extreme poverty; household non-land assets. The author found that the microfinance effects on male borrower were much weaker than the impact effect on female borrower and there was a decrease in return to borrowing all the time. Moreover, he noted that the impact on food expenditure was less pronounced than that on non-food expenditure. Besides, he showed that the poorest gained

benefits from microfinance and that microfinance had a sustainable impact in terms of poverty reduction among program participants.

Role of Microfinance on Wealth accumulation, a further indicator of the impact of microfinance is wealth. Montgomery et al. (1996) examined the performance and impact of two microfinance programs in Bangladesh. They found that there were positive impacts of a microcredit program on both enterprise and household assets. Clearly, even though total value of household assets had a slight increase after the borrowers obtained their last loans, they had a significant increase in the value of productive assets. Pitt and Khandker (1996 and 1998) also noted that the microcredit had a positive impact on women's non-land assets. Mosley (2001) also observed that there was a positive impact of microfinance on asset levels. He points out that accumulation of asset and income status are generally highly correlated, leading to an extreme correlation between income poverty and asset poverty.

Coleman (1999) investigated the impact of a village bank on borrower welfare in Northeast Thailand. He found that there was a slight impact of program loans on clients' welfare. However, he discovered that the village bank had a positive and significant impact on the accumulation of women's wealth, particularly landed wealth but this result included bias from measured impact (discussed in methodology below).

The role of financial lending institutions on Educational Status, Many impact studies of microfinance have focused on educational status. Chowdhury and Bhuiya (2004) studied the impact of a microfinance program, Bangladesh Rural Advancement Committee (BRAC) poverty alleviation program, in Bangladesh and found that both member and non-member groups of BRAC had improved educational performance. However, the BRAC member households benefited much more than poor non-member households. Furthermore, girls gained more than boys. Holvoet (2004) investigated the effects of microfinance on childhood education by examining two microfinance programs in South India one with direct bank-borrower credit, the other with group-mediated credit. The author showed that loans to women, through women's groups, had a significant positive impact on schooling and literacy for girls, whereas it remained mainly unchangeable in the case of boys. However, in the case of direct individual bank-borrower lending, there was no improvement in educational inputs and outputs for children

Improvement on Health status, Indicators-related health issues is also applied as proxies to examine the impact of microfinance. Chowdhury and Bhuiya (2004) found that microfinance programs led to a good improvement in child survival and nutritional status. Pitt and Khandker (1996) also noted that there was a rise in contraceptive use and decrease in fertility in the case of the participants obtaining a credit provided by the Grameen Bank. However, there was no evidence to prove that an increase in contraceptive use or a decrease in fertility resulted from the participation of women in group-based credit programs. But fertility reduction was observed and contraceptive use slightly increased in the case of men's participation (Pitt et al., 1999).

## **2.2 Challenges faced by the financial institutions in lending to the SMEs**

Lack of access to finance has been identified as one of the major constraints to small business growth (Owualah, 1999; Carpenter, 2001; Anyawu, 2003; Lawson, 2007). The reason is that provision of financial services is an important means for mobilizing resources for more productive use. The extent to which small enterprises could access fund is the extents to which small firms can save and accumulate own capital for further investment (Hussian, 1988). However, small business enterprises find it difficult to access formal financial institutions such as commercial banks for funds. The inability of the SMEs to meet the standard of the formal financial institutions for loan consideration provides a platform for informal institutions to attempt to fill the gap usually based on informal social networks, and this is what gave birth to micro-financing.

Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SME's risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor.

Despite the potential role of SMEs to accelerate growth and job creation in developed and developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors. A set of constraints, which is not intended to be exhaustive, is identified below.

Input Constraints: SMEs face a variety of constraints in factor markets (Kayanula and Quartey, 2000).Debt and Equity: SMEs have limited access to capital markets, locally and internationally,

in part because of the perception of higher risk, informational barriers, existence of high collateral to financial institutions, credit rating, accounting and auditing, economies of Scale and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

**Labor Market:** An insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations. **Information and Technology:** SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. At the same time, other constraints on capital, and labor, as well as uncertainty surrounding new technologies, restrict incentives to innovation.

**Production inputs:** SMEs face constraints in the availability of production inputs. For instance, better quality raw materials are generally exported or are available only to larger firms and their suppliers tend to be oligopolies. Inadequate infrastructure and weak provision of basic services such as transportation, energy, urban planning and production sites represent particular impediments for SMEs.

**Lending infrastructure:** The lending infrastructure includes the information environment, the legal, judicial and bankruptcy environment, and the tax and regulatory environments. All of these elements may directly affect SME credit availability by affecting the extent to which the different lending technologies may be legally and profitably employed. The final element, the regulatory environment, may also restrict SME credit availability indirectly by constraining the potential financial institution structure (Allen and Gregory, 2005).

**Output Constraints:** Access to domestic and international markets can be constrained by factors that relate to the size of SMEs (Kayanula and Quartey, 2000). **Domestic Markets:** The diminished role of the state in productive activity and renewed private investment has created new opportunities for SMEs. Nonetheless, limited access to public contracts and subcontracts, often because of cumbersome bidding procedures and/or lack of information, inhibit participation in these markets. Also, inefficient distribution channels and their control by larger firms pose important limitations to market access for SMEs.

**International Markets:** Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. Limited international marketing experience, poor quality control and product standardization and little access to international partners, however, impede expansion into international markets.

**Management Constraints:** The lack of economies of scale and competition for one of the most scarce resources, management know-how, place significant constraints on SME development (Gockel and Akoena, 2002). **Management skills and training:** Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries of the region, has a magnified impact on SMEs.

**Consulting Services:** The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for the scale of SMEs.

**Regulatory Constraints:** Although wide ranging structural reforms have improved prospects for enterprise development, many issues remain to be addressed at the firm level (Kayanula and Quartey, 2000).

**Taxation & Tariffs:** Complicated and inefficient tax codes that include cascading sales taxes and stamp taxes are least favorable to SMEs. At the same time, the tariff and non-tariff barriers which favor larger firms that play a role in policy making are often biased against SMEs (Kayanula and Quartey, 2000).

**Legal:** High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits SME access to foreign technologies.

### **2.3 Measures to the challenges faced by financial lending institutions in lending on small and medium enterprises.**

There are several institutions, programs and government agencies that aim at promoting SME development. These were created to help SMEs in various ways such as: access to finance, training programs and technological development. These are discussed briefly below.

Government has implemented several programs to benefit the SME sector in Hargeisa, Somaliland. This started in 1969 with the establishment of the Credit Guarantee Scheme, which was administered by the Bank of Somaliland to assist entrepreneurs to obtain bank credit.

Shortly after this, in 1970, the Business Promotion Program was established to provide financial assistance to newly establish SMEs. Unfortunately these schemes did not have the intended impact because of low loans repayment rates and the fact that beneficiaries were politically connected to former managers of foreign-owned enterprises (BOG Policy

Brief, 2006) Under an Act of Parliament in 1981, Act 434, The National Board for Small Scale Industries (NBSSI) was established to promote and develop the small-scale industrial sector because of their importance and contribution to the economic development of Ghana. The NBSSI also has a revolving loan scheme that is intended for working capital and fixed assets acquisition by enterprises in selected sectors. It collaborates with and receives support from several NGOs and international organizations such as the Friedrich Ebert Foundation, World Bank, and UNDP. Unfortunately, according to Adu-Amankwah(1999), this institution is poorly funded thus limiting the assistance that they can offer to help SMEs develop and grow in the economy.

GRATIS is another organization that was established by the Government of Somaliland to promote small and medium scale industrialization, provide employment opportunities, improve incomes and enhances the development of Somaliland. This is accomplished through the dissemination of appropriate technologies by developing and demonstrating marketable products and processes for small and medium enterprises.

The Ministry of Private Sector Development (MPSD) was also established to coordinate and harmonize inter-sectoral efforts to propel the development of private sector as an engine of growth and poverty reduction. With a majority of the working population in this sector,

government is aiming at a successful reform that will have a major effect on the development of society and economy.

Within the MPSD is the Business Development Unit, which aims to facilitate business support services targeted especially at the informal sector and access to credit for micro and SMEs. Some of these services are the African Development Fund (ADF)

The Italian Credit Facility of 10 million Euros; the Danish Government's contribution of US\$30 million for the Business Sector Programs Support; and the Swiss Government support of US\$5 million which is being administered by The Trust Bank Limited. Also in addition to a US\$40m HSBC credit, MPSD has arranged for the SOFITEL Bank of USA to approve a release a US\$17m facility to the Somaliland Commercial Bank (SCB) to enable the bank to provide long-term project credit to SMEs.

Government has also issued several policy papers to support SMEs. These include the Investment Code 1985 (PNDC Law 116), Draft Policy Paper on Micro and Small Enterprise Development (May 2002), MPSDs Policies, Strategies and Action Plan: 2002-2004, Somaliland.

Poverty Reduction Strategy Paper (2002-2004) and the National Medium-Term Private Sector Development Strategy (2004-20008), which articulates government's commitment to facilitate private sector-led growth. There have also been various programs and initiatives over the past 10 years to support the sector such as Vision 2020 and the Fund for Small and Medium Enterprise Development (FUSMED).

As a result of the unsuccessful nature of direct lending by government in recent past, more donor interventions in SME finance have recently used existing financial institutions to channel funds to SMEs. Examples of some of the available credit facilities are Trade and Investment program created by USAID to provide assistance to SMEs in the non-traditional export sector, African Management Services Company funded by UNDP to assist SMEs ( training ) (Mensah, 2004).

Somaliland and established to offer assistance to SMEs. The former raises funds for SMEs through venture forums where entrepreneurs are linked with potential investors. The latter on the other hand, helps entrepreneurs to build businesses that create income, employment opportunities and economic growth for the nation.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter outlined the study design that was used in the research, the area of study, the population to sample from, the sample size, research instruments, limitation of the study, sources of data and data analysis as well as the data collection and management tools be applied in the study.

#### **3.1 Research design**

The study used a correlation descriptive design involving the use of both qualitative and quantitative research designs. Qualitative research design seeks to locate the study in scholarly debates in all Organizations. Quantitative research design was used to compare the financial lending institutions and the growth of small and medium enterprises because the findings of the study were both numerical and non-numerical (respondents options and views about the study variables) and had to be quantified for easy interpretation and description accompanied. Descriptive design was used by researcher where the analysis was based on the relationship between the financial lending institutions and the growth of small and medium enterprises.

#### **3.2 Study Population**

A population is the aggregate or totality of objects or individual having one or more characteristics in common that are of interest to the researcher (Mugenda, 2006). The study was carried out from Somaliland. The target population consisted of 134 respondents – these were from government firms, local residents, non government organs, accountants and Municipal officials.

##### **3.2.1 Sample Size**

The sample in this study was restricted to the information required and for the purpose of this study; a sample size was determined using Slovene's Formula to come up with appropriate sample size to be used in the study only a sample of 100 respondents was used out of the total population of 134 respondents. The computation involved stratifying the population into their strata characteristics of NGO representatives (25), 20 local residents, 10 government firms and

40 accountant professionals and 5 municipal officials. The total population of 100 was used in data collections.

Solven's Formula states that, given a population, the minimum Sample size was given by:

$$n = \frac{N}{1 + N\alpha^2}$$

Where; n = the sample size

N = total population of respondents, that is 134.

$\alpha$  = the level of significance, that is 0.05

$$n = \frac{N}{1 + N\alpha^2}$$

$$n = \frac{134}{1 + 134(0.05)^2}$$

$$n = \frac{134}{1 + 134 * 0.0025}$$

$$n = \frac{134}{1.335}$$

$$N = 100.37 = 100 \text{ respondents}$$

A sample size of 100 respondents was selected to participate in the study.

### **3.2.2 Sampling Procedure**

Sampling was the process of selecting elements from a population in such a way that the sample elements selected represents the population. It's the process of extracting a portion of the population from which generalization to the population can be made. Because of resource constraints, a small sample was chosen and handled using a simple random sampling procedure to select the sample population and the respective people for data collection. Then he selected simple random sample independently from each Sub- population. Purposive sampling was used in the selection of the district officials, this was because this are perceived to have more suitable information so purposive sampling enabled the attaining those officials with key knowledge on non-governmental organizations, systematic sampling was used in the selection of non government representatives and simple random aided in the selection of community or local population.

### **3.3 Data Collection Instruments**

This study comprised of two research techniques to collect data i.e. data collection was done using two methods, in-depth interviews and questionnaires were administered to some respondents who can read and interpret the question.

#### **3.3.1 Questionnaire**

This was a technique in which the researcher was given a list of short questions to the respondents requesting them to fill and collect data later. Both open and closed ended questions designed to suit the objectives used to effectively attain data for the study.

#### **3.3.2 Interviews**

In this technique, the researcher personally went to the respondents and asks them questions directly related to the topic of study. It involved individual interviews.

### **3.4 Sources of data**

In this study two types of data used by the researcher, in that secondary and primary data used. In recognition to this, the researcher collected data that was relevant to the research problem.

### **3.4.1 Primary data**

Primary data was that data collected a fresh and for the first time, have not been processed. While the secondary data was one which have been already collected by someone else for other purposes and can be used to compile data or raw data.

Primary Data used questionnaires and interview as common research tools to collect data. This aimed at collecting primary data from the selected respondents.

### **3.4.2 Secondary data**

Secondary data was obtained through notes, correspondences and minutes of meetings from journals published in Somaliland on NGOs performance. In this study the researcher used documents and other records that are already published to access information about Non-government organizations.

## **3.5 Quality control (validity and reliability of Data)**

### **3.5.1 Validity of the study**

To establish the validity of the instruments, the researcher administered questionnaires to the clearly selected respondents from Somaliland. This was together with choosing a clear sample population of 100 respondents that included representatives of NGOs, accounts municipal officials and selected local population that gives a representation of the entire population. Consultation was made on areas are of great importance and how to ask the respondents in the way that right information was got from them. The purpose of this was to ensure the correctness of information attained.

### **3.5.2 Reliability of the study**

Reliability means the degree of consistency of the items of the instruments. For reliability, the researcher carried out a pilot test of questionnaires on 5 respondents in Hargeisa city. The sample chose adequate and representative and more than one instrument was used, all these provide reliable results and was pre-tested and reviewed.

## **3.6 Data Analysis**

Data analysis was done in accordance with the principles of data management. Data analysis framework was created by the researcher and data manipulations done in excel. The analysis was

mainly by descriptive (frequency tables). Upon collection of Necessary data from the field, the researcher will analyze, and interpret it in relation to the objectives of the study. The researcher will present the findings in form of tables, graphs and pie charts. Data from field was tabulated to show the frequency of responses to the questionnaires and these used to compute percentages in different attributes under the study. The similarity in the percentages was deduced to arrive at conclusions.

### **3.7 Ethical considerations**

To ensure that ethics was practiced in this study as well as utmost confidentiality for respondents and the data provided by them, the following were done:

All questionnaires were coded; the questionnaires were not included the names of the respondents for issue of privacy and confidentiality of information attained.

The respondents were requested to sign the informed consent and Authors quoted in the study was acknowledged within the text through citation and referencing. This ensured originality and avoids duplication.

### **3.8 Limitations of the study**

Sensitive information: Some aspects of the study might be sensitive and officers may not be willing to disclose all the information that there was. Such information to be accessed was kept confidential.

Intervening or confounding or extraneous variables: There was a very big threat on some respondents with personal biases and dishonesty. To minimize this threat, the researcher requested respondents to avoid being subjective while answering the questionnaires.

Instrumentation: the data collection instrument was not standardized and this problem was solved through testing it for validity and reliability

The sample may not fully address the concerns of the whole organization. The data collection instrument (technique) might also be hard for some individuals to comprehend and understand hence respond accordingly. The research may not capture the salient features (bias) that corrupt the subject under study which are not in other organizations.

## CHAPTER FOUR

### DATA PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

#### 4.0 Introduction

The data is presented and interpreted in view of the topic micro-finance institution lending and the growth of small and medium enterprise in hargeisa, Somaliland. The focus was on 100 respondents. The interpretation also sought to answer the research questions that were raised in chapter one. Presentation and interpretation of data in this chapter has been done with the aid of quantitative and qualitative methods. Quantitative methods involved the use of tables, percentages and personal analysis and interpretation presented in essay form as shown below;

#### 4.1 Respondents information

##### 4.1.1 Gender of respondents

**Table 1: Showing Gender respondents**

Respondents	Frequency	Percentage
Female	65	65
Male	45	45
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary Data, September, 2014*

From table 2, it can be seen that the majority of respondents are female that is 65 representing 65% of the total number of respondents, 45 respondents are male representing 45% of the respondents. This is an indication that gender sensitivity was taken care off so the findings therefore cannot be doubted on gender grounds; they can be relied for decision making in this research.

#### 4.1.2 Age distribution of respondents

**Table 2: Showing age distribution of respondents**

Respondents	Frequency	Percentage
20 - 30	20	20
30 – 40	40	40
40 – 50	27	27
50 above	13	13
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary Data, September, 2014*

Table 1 above clearly indicates that, the majority of respondents were aged between 30 – 40 years 40(40%) respondents followed, by 40 - 50 years represented by 27(27%) respondents, followed by 20 - 30 represented by 20 (20%) respondents followed by 50 above making it the least with 13 respondents with 13%. From the above analysis, it can be construed that majority of the respondents are mature and gender sensitive hence the information obtained from them can be trusted and looked at as true and good representation of the information that the researcher was looking for.

#### 4.1.3 Academic Qualifications of respondents

**Table 3: Showing academic qualifications of the respondents**

Academic qualifications	Frequency	Percentage
Primary	14	14
Secondary	26	26
Certificate	45	45
Diploma	03	03
Degree	12	12
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary Data, September, 2014*

Results in table 3 indicate that majority of the respondents were 45 for degree holders representing 45% followed by secondary level 26 respondents with 26%, followed by primary with 14 respondent with 14% followed by degree holds with 12 respondents with 12% and finally diploma who were 03 representing 03%. This implies that the respondents are well educated and therefore the information obtained from them can be relied on for the purpose of this study. The higher rate of secondary leavers was attained from the local population. It is of no doubt therefore that information is attained from highly educated respondents and even the low primary levels. Information can therefore be relied on for decision making in this topic.

#### 4.2.0 Roles of financial lending institutions on the growth of small and medium enterprises

##### 4.2.1 Whether the financial lending institutions are important to the growth of small and medium enterprises

**Table 4: Showing responses on whether the financial lending institutions are important to the growth of small and medium enterprises?**

Response	Frequency	Percentage
Yes	52	52
No	40	40
Not sure	08	08
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

*Source: Primary Data, September, 2014*

In the table above, on topic whether the financial lending institutions are important to the growth of small and medium enterprises were 52 respondents, 52% agreed while 40 respondents representing 40% disagreed and 8 respondents representing 8% were not sure. The analysis therefore showed that most of the respondents agreed and most disagreed meaning that there is a mixed reaction about the statement so it require a big intervention to ascertain the matter.

#### 4.2.2 Role of financial lending institutions to the growth of small and medium enterprises

**Table 5. Showing the Role of financial lending institutions to the growth of small and medium enterprises**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Support agricultural practice	08	8
Impact of microcredit on the income level of individual borrowers.	13	13
Impact Studies of Microfinance on Expenditure	20	20
increase their investment in long-term interventions such as dietary	15	15
Accumulation of asset and income	10	10
Empowerment of women	10	10
The role of financial lending institutions on Educational Status	14	14
Improvement on Health status	06	6
Facilitating Market Access.	04	4
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary Data, September, 2014*

From the table above about the question of the Role of financial lending institutions on the growth of small and medium enterprises it was found out that 20 respondents representing 20% agreed with it Impact Studies of Microfinance on Expenditure followed by increase on their investment in long-term interventions such as dietary with 15(15%), The role of financial lending institutions on Educational Status had 14 respondent representing 14%, followed by Impact of microcredit on the income level of individual borrowers. That had 13(13%) of respondents. Accumulation of asset and income and Empowerment of women on the roles had an equal portion share of 10 respondents representing 10% each, followed by Support agricultural practice that had 8 respondents and represents 8%, followed by Improvement on Health status with 6 respondents representing 6% and finally Facilitating Market Access had the least of all with 4 respondents representing 4%. The analysis broadly indicates that financial lending institutions

had various roles on the survival of small and medium enterprises that need to be recognized although there are different views about these roles.

#### 4.2.3 Whether financial lending institutions are Appropriate to the growth of small and medium enterprises

**Table 6 showing whether financial lending institutions are Appropriate to the growth of small and medium enterprises**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	49	49
No	41	41
Not sure	10	10
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

**Source: Primary Data, September, 2014**

In the table above, on topic whether the financial lending institutions are appropriate to the growth of small and medium enterprises were 49 respondents, 49% agreed while 41 respondents representing 41% disagreed and 10 respondents representing 10% were not sure. The analysis therefore showed that most of the respondents agreed and most disagreed meaning that there is a mixed reaction about the statement so it require a big intervention to ascertain the matter.

#### 4.2.4 Appropriateness of the financial lending institutions to the growth of small and medium enterprises

**Table7. Showing Appropriateness of the financial lending institutions to the growth of small and medium enterprises**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Promote development of religion through constructing churches	18	18
Role of supporting politicians achieve their goal	24	24
Helps organize ceremonies such as wedding, burial	20	20
Contributes tax base to government	17	17
Advisory services	10	10
Custody of precious properties	01	01
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: Primary Data, September, 2014**

In above table, the respondents had the following responses concerning the Appropriateness of the financial lending institutions to the growth of small and medium enterprises, 24(24%) of respondents who contributed the majority agreed with the role of supporting politicians achieves their goal, followed by 20 respondents representing 20% agreed with the role of Helps organize ceremonies such as wedding, burial, followed by a role of Promotes development of religion through constructing churches with 18 respondents representing 18%, followed by Contributes tax base to government 17(17%), followed by Advisory services with 10(10%), and finally Custody of precious properties with only 1(1%) making it the least. The analysis is therefore that most respondents agreed that there are ways financial lending institutions are appropriate to the growth of small and medium enterprises that need be recognized as illustrated in the above table.

### 4.3 Challenges faced by the financial institutions in lending to the SMEs.

#### 4.3.1 Whether there are some Challenges faced by the financial institutions in lending to the SMEs.

**Table 8 Showing whether there are some Challenges faced by the financial institutions in lending to the SMEs.**

Response	Frequency	Percentage
Yes	67	67
No	29	29
Not sure	2	2
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

*Source: Primary Data, September, 2014*

From the table above, most of our respondents agreed with the presence of challenges that are faced by the financial institution in lending to SMEs by 67 respondents representing 67% followed by 29 respondents who disagreed with the statement where the minority of all who were not sure were only 2 respondents representing 2%. In the general analysis is just clear from the above data indicates that many of these respondents have fully knowledge and concedes that these institutions are faced by multiple challenges that require redress

#### 4.3.2 The challenges that are faced by the financial institutions in lending to the SMEs

**Table 9 showing some of the challenges that are faced by the financial institutions in lending to the SMEs**

Challenges	Frequency	Percentage
Inflexible labor codes	11	11
High start-up costs for firms	06	6
limited access to capital markets	01	1

Input Constraints	05	5
SMEs face constraints in the availability of production inputs	09	9
Lack of access to finance	04	4
insufficient access to credit	07	7
difficulties in gaining access to appropriate technologies and information on available techniques	15	15
Regulatory Constraints: Although wide ranging structural reforms have improved	02	2
Consulting Services: The lack of support services.	07	7
Management Constraints	10	10
Limited international marketing experience	13	13
Output Constraints	05	5
Lending infrastructure	05	5
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: Primary Data, September, 2014**

Table 9 above evaluated the responses about the challenges faced by financial lending institution in lending to small and medium enterprises (SMEs) were found out that Lending infrastructure, Output Constraints and Input Constraints each point had 5 respondents with agreed with it representing 5%, we had also Limited international marketing experience that had 13 respondents representing 13%, Management Constraints had 10 respondents representing 10%, Consulting Services: The lack of support services and insufficient access to credit each point had 07 respondent representing 7%, Regulatory Constraints: Although wide ranging structural reforms have improved with 02 respondents representing 2%, Lack of access to finance had 4(4%) of respondents, SMEs face constraints in the availability of production inputs had 9(9%)

of respondents, High start-up costs for firms had 6(6%) of respondents who were in favour of it, Inflexible labor codes had 11 respondents represent 11%. Besides these, limited access to capital markets had the smallest of all of 1(1%) on the other hand difficulties in gaining access to appropriate technologies and information on available techniques had the majority of 15(15%). the analysis therefore, indicates that there are numerous challenges that are faced by financial lending institution and therefore necessities several intervention from several organs both private and government.

#### 4.3.3 The challenges faced by SMEs in adopting finance from the MFI's

**Table 10 showing the challenges faced by SMEs in adopting finance from the MFI's**

<b>Challenges in Adopting to MFIs</b>	<b>Frequency</b>	<b>Percentage</b>
Bureaucracy tendencies	34	34
High interest rate	21	21
Inflation	25	25
Strict terms and conditions	12	12
Debt collection expenses	08	8

*Source: Primary Data, September, 2014*

Table 10 indicated the challenges faced by SMEs in adopting finance from the MFI's where Bureaucracy tendencies had the majority of 34 respondents who agreed with the point representing 34%, followed by inflation with 25 respondents represent 25%, followed by high interest rate with 21 respondents representing 21%, strict terms and conditions had 12 respondents representing 12% and debt collection expenses had the lowest of 08 respondent representing 8%. The analysis therefore indicated that indeed small and medium enterprises have challenges they pass through in adopting to financial lending institutions

#### 4.4 Measures to the challenges that are faced by the financial institutions in lending to the SMEs

##### 4.4.1 Whether there are some measures to the challenges that are faced by the financial institutions in lending to the SMEs

**Table 11 Showing whether there are some measures to the challenges that are faced by the financial institutions in lending to the SMEs**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	78	78
No	22	22
Not sure	0	0
<b>TOTAL</b>	<b>100</b>	<b>100%</b>

*Source: Primary Data, September, 2014*

From the table above, most of our respondents agreed with the presence of measures that have been adopted to solve the challenges faced by the financial institution in lending to SMEs with 78 respondents representing 78% followed by 22 respondents who disagreed with the statement but none were not sure. The general analysis is just clear from the above data indicating that many of these respondents have fully knowledge that at least the number of measure have been put forward but few disagreed and yet no body was not sure meaning that there is high awareness about the existence of the measures but they are not satisfying to the whole population.

#### 4.4.2 Measures that needs to be done to improve the Microfinance contribution to SME's in Somaliland

**Table 12 Showing the Measures that needs to be done to improve the Microfinance contribution to SME's in Somaliland**

Response	Frequency	Percentage
Government should implemented several programs to benefit the SME	18	18
Poverty Reduction Strategy Paper	07	7
Government should also issued several policy papers to support SMEs	09	9
The Italian Credit Facility	14	14
Coordinate and harmonize inter-sectoral efforts to propel the development of private sector as an engine of growth and poverty reduction.	06	6
promote small and medium scale industrialization	15	15
The National Board for Small Scale Industries	08	8
Business Promotion Program should be established	20	20
Loan fund	03	3
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: Primary Data, September, 2014**

From the above table 12, on the topic of the Measures that needs to be done to improve the Microfinance contribution to SME's in Somaliland, are Government has implemented several programs to benefit the SME had 18(18%) respondents making it the second highest majority, Poverty Reduction Strategy Paper had 07(7%) respondents, Government has also issued several policy papers to support SMEs had 9(9%) of respondents, The Italian Credit Facility had 14(14%) respondents, Coordinate and harmonize inter-sectoral efforts to propel the development of private sector as an engine of growth and poverty reduction had 06(6%) respondents, promote small and medium scale industrialization had 15(15%) of respondents, The National Board for Small Scale Industries 08(8%) of respondents, Business Promotion Program was established had

20(20%) making it the highest respondents with the majority, Loan fund had the least of 03 respondents representing 3% .The analysis therefore concludes that several measures needs to be put in place to overcome the challenges faced by financial lending institution in lending to SMEs.

#### 4.4.3 Measures MFIs have established to influence growth of SMEs in hargiesa, Somaliland

**Table 12 showing the measures MFIs have established to influence growth of SMEs in hargiesa, Somaliland**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
They have reduced interest rate	23	23
Increased customer care	25	25
Increased technological devices and appliances	27	27
Advertisement	14	14
Established many branches	10	10
Sell shares	01	1
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Primary Data, September, 2014*

From the above table, it was discovered that increased technological devices and appliances had the majority of 27 respondents representing 27%, followed by Increased customer care 25(25%) of respondents, followed by They have reduced interest rate with 23(23%), followed by Advertisement with 14(14%) of respondents, followed by Established many branches with 10(10%) of respondents and finally the minority had 01 respondents represented by 1% only. Here the analysis is therefore that MFIs have established measure to influence growth of SMEs in Haragiesa Somaliland but still there is room to include and establish more options

**CHAPTER FIVE**  
**SUMMARY, CONCLUSION, RECOMMENDATIONS AND**  
**AREAS OF FURTHER STUDY**

**5.0 Introduction**

**5.1 Summary of the findings**

The key findings of the study include the following:

On topic of whether the financial lending institutions are important to the growth of small and medium enterprises were 52 respondents, agreed while 40 respondents representing 40% disagreed and 8 respondents representing 8% were not sure.

Role of financial lending institutions on the growth of small and medium enterprises was that it impact on expenditure, increase on their investment in long-term interventions such as dietary with 15(15%, improving on educational Status had 14%, followed by supporting on the income level of individual borrowers with 13(13%) of respondents. Accumulation of asset and income and Empowerment of women on the roles had an equal portion share of 10 respondents representing 10% each, followed by Support agricultural practice with 8% of the respondents, improvement on health status and finally facilitating market access for SMEs.

On topic of whether the financial lending institutions are appropriate to the growth of small and medium enterprises were 49 respondents, 49% agreed while 41 respondents representing 41% disagreed and 10 respondents representing 10% were not sure.

concerning the Appropriateness of the financial lending institutions to the growth of small and medium enterprises, 24(24%) of respondents who contributed the majority agreed with the role of supporting politicians achieves their goal, followed by 20 respondents representing 20% agreed with the role of helps organize ceremonies the Custody of precious properties had only 1(1%) making it the least.

most of our respondents agreed with the presence of challenges that are faced by the financial institution in lending to SMEs by 67 respondents representing 67% followed by 29 respondents who disagreed with the statement where the minority of all who were not sure were only 2 respondents representing 2%.

challenges faced by financial lending institution in lending to small and medium enterprises (SMEs) were found out that Lending infrastructure, Output Constraints and Input Constraints each point had 5 respondents with agreed with it representing 5%, we had also Limited international marketing experience that had 13 respondents representing 13%, Management Constraints had 10 respondents representing 10%. Besides these, limited access to capital markets had the smallest of all of 1(1%) on the other hand difficulties in gaining access to appropriate technologies and information on available techniques had the majority of 15(15%)

The challenges faced by SMEs in adopting finance from the MFI's where Bureaucracy tendencies had the majority of 34 respondents who agreed with the point representing 34%, followed by inflation with 25 respondents represent 25%, followed by high interest rate with 21 respondents r4epresenting 21%, strict terms and conditions had 12 respondents representing 12% and debt collection expenses had the lowest of 08 respondent representing 8%.

Respondents agreed with the presence of measures that have been adopted to solve the challenges faced by the financial institution in lending to SMEs with 78 respondents representing 78% followed by 22 respondents who disagreed with the statement but none was not sure.

Measures that needed to be done to improve the Microfinance contribution to SME's in Somaliland, are Government has implemented several programs to benefit the SME had 18(18%) respondents making it the second highest majority, The National Board for Small Scale Industries 08(8%) of respondents, Business Promotion Program was established had 20(20%) making it the highest respondents with the majority, Loan fund had the least of 03 respondents representing 3%.

it was discovered that increased technological devices and appliances had the majority of 27 respondents representing 27%, followed by Increased customer care 25(25%) of respondents, followed by They have reduced interest rate with 23(23%), followed by Advertisement with 14(14%) of respondents, followed by Established many branches with 10(10%) of respondents and finally the minority had 01 respondents represented by 1% only.

## **5.2 Conclusion**

The study was set to determine the relationship between financial institution lending and the growth of small and medium enterprises in Hargeisa Somaliland. It was based on three

objectives which included exploring the roles of financial lending institution on the growth of small and medium enterprises, examining the challenges faced by the financial institutions in lending to small and medium enterprises and establishing the possible measures to combat the challenges faced by financial lending institutions. The study findings were that microfinance institutions play an important role on the growth of small and medium enterprises through increase on their investment in long-term interventions, improving on educational Status, supporting on the income level of individual borrowers, accumulation of asset and income and empowerment of women on the roles had an equal portion share, support agricultural practice, improvement on health status and finally facilitating market access for SMEs. It is therefore viable to argue that microfinance institution contribute to growth of SME. It was found that financial lending institutions provide finance to SMEs despite the challenges faced such bureaucracy tendencies, inflation, high interest rate, strict terms and conditions and debt collection expenses due to poor debt payment by SMEs. The measures in place to support its operation include business promotion program and availability of funding from central bank of Somalia. It was found by suggested measures that there is need for increased technological devices, the need for increased customer care, the need for reduced interest rate and advertisement. The measures if applied will uplift the operation of financial lending institutions in Hargeisa, Somaliland.

### **5.3 Recommendations**

The study was carried out successfully about micro-finance institution lending and the growth of small and medium enterprise in Hargeisa, Somaliland. And the research recommended the following:

The lending institution should try as much as possible to relax the steps and procedures in accessing its activities since most of the small and medium enterprises are not flexible to the strict current formal procedures.

Training schemes seemed to have been neglected from the findings yet these strategies of establishing several training centers upcountry to train business people about the existence of the banking services and how they operate them so that many can register with these financial lending institutions.

The government of Somaliland should implement and pass some of rewarding systems to recognize the roles played by these financial lending institutions towards the economic development of this country because this will encourage competition which will promote provision of quality services to the customers as this was cited as a weakness from the research which was carried out.

These small and medium enterprises will need to introduce inter-co-operation operations and management in running their business affairs and bargaining for low interest rates. A joint contribution of an emergency fund will equally be important to strengthen the liquidity capacity of these firms.

Massive registration of the illegal operating firms and incorporating them, these small and medium enterprises are many and distributed all over Hargeisa Somalia therefore this has been the challenge to the financial lending institutions in adopting and debt collection expenses.

#### **5.4 Areas of further research**

The researcher suggests the following as possible areas for further research on food insecurity and level of house hold income;

- The growing trends in the financial lending institution an approach to improve the financial services.
- The influence of information communication technology on the activities of small and medium enterprises.
- The effect of central bank regulations on the ability of financial lending institution to lend to SMEs.

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## APPENDICES

### Appendix I: Research Questionnaire

#### TO RESPONDENTS

I **Suleiman Abdirahman Hussein** a student of Kampala international University pursuing bachelors of business administration am carrying out the research on the topic MICRO-FINANCE INSTITUTION LENDING AND THE GROWTH OF SMALL AND MEDIUM ENTERPRISE IN HARGEISA, SOMALILAND.

This questionnaire is mainly for data collection and has been designed for academic reasons and as a partial fulfillment for an academic award. The researcher will hold confidential any information given and under no circumstance will any one's name appear as an individual.

#### PART A; GENERAL INFORMATION

1. Gender

Male

Female

2. In which age bracket do you fall in?

20 - 30  40 - 50

30 - 40  50 above.

3. Education level

Primary  Diploma

Secondary  Degree

Certificate

**PART B; THE ROLE OF FINANCIAL LENDING INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES.**

4. Are the financial lending institutions important to the growth of small and medium enterprises?

a. Yes

b. No

c. Not sure

5. What are the roles of financial lending institutions to the growth of small and medium enterprises?

.....  
.....  
.....

6. Are the financial lending institutions appropriate in contributing to growth of small and medium enterprises?

a. Yes

b. No

c. Not sure

7. If yes how appropriate are the financial lending institutions to the growth of small and medium enterprises?

.....  
.....

**PART C; THE CHALLENGES FACED BY THE FINANCIAL INSTITUTIONS IN LENDING TO THE SMES.**

8. Are there some challenges that are faced by the financial institutions in lending to the SME's
- a. Yes
  - b. No
  - c. Not sure

9. What are some of these challenges that are faced by the financial institutions in lending to the SMEs?

.....  
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.....

10. What are some of the challenges faced by SMEs in adopting finance from the MFI's

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**PART E; THE POSSIBLE MEASURES TO THE CHALLENGES FACED BY FINANCIAL LENDING INSTITUTIONS IN LENDING ON SMALL AND MEDIUM ENTERPRISES**

11. Have the MFI's established measures to the challenges that are faced by the financial institutions in lending to the SMEs?

- Yes
- No
- Not sure

12. What measures have the MFIs established to influence growth of SMEs in Haragiesia Somaliland?

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.....  
.....

13. What do you think need to be done to improve the Microfinance contribution to SME's in Somaliland?

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.....  
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Appendix ii: Gant chart showing the time frame

<b>Duration Activity</b>	<b>Mid July 2014</b>	<b>Late July 2014</b>	<b>Early August 2014</b>	<b>Late August 2014</b>	<b>Early September 2014</b>
Introduction					
Literature					
Methodology					
Designing questionnaire <sup>a</sup>					
Time frame and budget					
Completion and submission					

### Appendix iii: Actual Research Budget

No	Item	Qty	Unit cost	Total cost
1	Printing			40,000
3	Binding	2	10000	15,000
5	Literature			80,000
6	Transport	5000	30	20,000
7	Miscellaneous			100,000
	<b>Total</b>			<b>265,000/=</b>