

The Impact of Microfinance on Entrepreneurship Development in Mogadishu, Somalia

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Abstract: *The purpose of this study was to investigate the impact of microfinance on entrepreneurship development in Mogadishu. A cross-sectional survey design was employed to gather primary data from selected 120 respondents. The data were analyzed using both descriptive statistics and inferential statistical techniques. This study concluded that microfinance programs are effective instruments for the advancement of entrepreneurship due to the diverse services they provide and the roles they serve in the growth and development of small businesses. This study suggested that microfinance institutions should facilitate the lending requirements of small businesses and also provide training and technical assistance to small businesses to improve the efficiency and effectiveness of small businesses.*

Keywords: Microfinance, Entrepreneurship Development, Microfinance Institutions, Small Businesses, Mogadishu, Somalia

1. Introduction

Despite substantial advances and developments, more than 2 billion people are still living in poverty around the world at levels below US\$ 2.00 a day. One way to resolve this inequality is to offer microfinance to disadvantaged entrepreneurs (Copestake et al., 2001; Afrane, 2002), but there are significant limitations on financial inclusion for low-income residents (Amin et al., 2003). Microfinance involves the provision of financial services to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector (Schreiner & Colombet, 2001). These financial services include saving, insurance, transfer of payment services, and remittance.

According to Otero (2000), microfinance offers financial services to low-income and disadvantaged self-employed individuals. For the last two decades, microfinance meant offering very small loans (microcredits) to the low-income and allowing businesses to fund their operations. When they are working well new businesses can start-up and existing firms can grow. However, overtime, the scope of microfinance has expanded to cover a variety of financial services. These services include credit, savings schemes, money transfers, and insurance to those who lacked access to traditional formal financial institutions needed to achieve meaningful improvement in their business activities (Samsone, Olubunmi & Olusegin, 2013). In addition to financial intermediation, many microfinance institutions provide social intermediation services such as group formation, development of self-confidence, and financial literacy training, and management capabilities among members of a group (Ojo, 2009). Microfinance institutions help two sorts of small scale business people: one is a potential small business and the other is an existing small scale business. Microfinance institutions help potential small businesses by giving financing and preparing them to begin their trade. Moreover, They provide financial and nonfinancial administrations to existing small businesses by empowering them to expand their business capabilities (Aftab and Naveed, 2013).

Furthermore, Taiwo (2012) believes that microfinance is more than an experiment or a wish, but is a proven success. It has operated efficiently in many parts of the world and has become the most resilient financial system in history. Researchers have subsequently started to research the effect of microfinance on the growth of entrepreneurship. For example, Ojo (2009) investigated the impact of microfinance on entrepreneurial development. The researcher concluded that microfinance institutions in the world and especially are identified to be one of the key players in the financial industry that have positively affected individuals, businesses, and the economy at large through the services they offer and the functions they perform in the economy. Similarly, Kyerewaa (2010) who investigated the financial accessibility of SMEs in Ghana supported that financial accessibility plays an imperative role in the SMEs sector and poverty reduction because it improves SMEs performance, creates employment, promotes growth, expansion, improvement, and development of businesses.

Another study by Christopher (2010) investigated the impact of microfinance on SMEs in Nigeria. The findings of the study reveal that a significant number of the SMEs benefited from the MFIs loans even though only a few of them were capable enough to secure the required amount needed. Interestingly, the majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence, and the overall economic company competitive advantage. Gulani and Usman (2013) also evaluated the challenges Small and Medium Scale Enterprises (SMEs) face in financing new or existing businesses in Gombe State, The result revealed that SMEs face financing challenges that have remarkably distort the development of entrepreneurship.

In Kenya, another study examined the impact of microfinance services on entrepreneurship development. The research was driven by the Grameen model, which was used as the perfect microfinance theory. A cross-sectional survey design was employed to collect data from a population of 114 with a sample size of 92 workers from microfinance institutions was chosen in this study. They

found that there was a positive effect on entrepreneurship development. They recommended that microfinance institutions should train entrepreneurs on appropriate business practices to avoid business failure (Gedion et al., 2016) However, most of the studies mentioned about the impact of microfinance on entrepreneurship development have been conducted outside countries. This indicates that there is a significant gap in the relevant literature on Somalia that needs to be filled by the study. Therefore, the specific objectives of this study are:

- 1) To investigate the impact of lending programs on entrepreneurship development especially small businesses in Mogadishu.
- 2) To investigate the impact of saving programs on entrepreneurship development especially small businesses in Mogadishu.
- 3) To investigate the impact of saving programs on entrepreneurship development especially small businesses in Mogadishu.

2. Data and Methodology

This section was focused on the research techniques adopted to achieve the research objectives. A cross-sectional survey research design was employed in this study. A sample of 120 respondents was selected in this study following the previous studies (such as Kumah, 2017). To achieve the main purpose of the study which was to investigate the impact of microfinance on entrepreneurship development, several statistical data analysis techniques were utilized using IBM SPSS statistics software. To test the hypothesized relationship between microfinance and entrepreneurship development, the following regression models were formulated:

$$ED = \beta_0 + \beta_1LP + \beta_2SP + \beta_3TP + \varepsilon$$

Where β_0 is Intercept of the equation; β_1 to β_3 are the regression coefficients; ε is the error term.

(ED, LP, SP, and TP represent Entrepreneurship Development, Lending programs, Saving programs, and Training programs respectively)

3. Results and Analysis

3.1. Profile of the respondents

This section of the study presents the background information of the research respondents who participated in the study. Table 1 shows the gender of the respondents. 63.3% of the respondents were male, while 36.7% of the respondents were female. In terms of the ages of the respondents, the majority of them (54.2%) were between the ages of 26-40 years and 28.3% of them were less than 25 years, 16.7% of respondents were above 40 years. With regards to the educational level of the participants, 56.6% had a secondary school certificate; 36.7% of the respondents were university level and the rest of the participants which represents 6.7% were elementary school level. In relation to the experience of the respondents, 34.2% had two to five years of experience; 23.3% of the respondents had six to eight years of experience; 21.7% had less than one-year business experience, while 20.8% had more than eight years of business experience. Considering the nature of the

businesses surveyed, 65.8% of the business was service businesses, 25% of the respondents engage in merchandising activities, while 9.2% were manufacturing companies.

Table 1: Profile of the respondents

Profile	Category	Percentage (%)
Gender	Male	63.3
	Female	36.7
	Total	100.0
Age (Years)	Less than 25	28.3
	26-40	54.2
	Above 40	17.5
	Total	100.0
Educational Level	Elementary	6.7
	Secondary	56.6
	University Level	36.7
	Total	100.0
Business Experience	Less the 1 Year	21.7
	Two-Five Year	34.2
	Six-Eight Years	23.3
	Above Eight Years	20.8
	Total	100.0
Nature of Business	Trading	25.0
	Manufacturing	9.2
	Services	65.8
	Total	100.0

Source: Researcher's compilation from SPSS 20

3.2. Descriptive Statistics for Aggregate Variables

This section of the study presents the descriptive statistics of the aggregate variables. Table 2 indicates the descriptive statistics of the dependent and independent variables used in this study. It shows the items of microfinance services to microfinance services (saving, lending, and training programs) and its impact on entrepreneurship development. Considering the three dimensions of microfinance services, saving related items scored with an overall mean of 4.02 and a standard deviation of 0.854 which lies under "agree" in accordance with the scale of the study. This indicates that saving programs contribute to the growth and development of small businesses because of the accumulation of wealth. It also helps small businesses manage frequent cash flows and provide them a cushion against business risks.

In terms of lending service-related items, it has been reported an overall mean of 3.86 and a standard deviation of 0.950. This falls under "agreement" following the scale of the study. Respondents agreed that lending services have enabled small businesses to expand and increase their profitability. They also agreed that the lending programs support small companies to avoid business failures and boost their innovation. Furthermore, training service items achieved an overall mean and standard deviation of 4.12 and .857 respectively. This indicates that providing training programs has helped small businesses improve their communication and use of technology, strengthened their leadership and management skills, and influenced the small businesses' growth and survival.

In relation to entrepreneurship development, it has been reported an overall mean of 4.08 and a standard deviation of 0.859 which lies under "agree" under the scale of the study. This suggests that microfinance services contributed to the

creation of employment opportunities, introducing a new product, increasing the profitability of small businesses, and also played a significant role in the growth and development of small businesses.

Table 2: Descriptive Statistics for Aggregate Variables

	Mean	Std. Deviation
Saving Services	4.02	.854
Lending Services	3.86	.950
Training Programs	4.12	.857
Entrepreneurship Development	4.08	.859

Source: Researcher's compilation from SPSS 20

3.3. Reliability Test

To ensure that the scale of the study is reliable and consistent, a reliability test was made using Cronbach Alpha and the result are shown below. It indicates that all variables have Cronbach Alpha values of more than 0.7. which makes all variables accepted, internally consistent and the scale deemed reliable for further analysis.

Table 3: Reliability Test

No	Variables	Items	Cronbach's Alpha
1.	Saving programs	4	.844
2.	Lending programs	4	.786
3.	Training programs	4	.809
4.	Entrepreneurship Development	6	.800

Source: Researcher's compilation from SPSS 20

3.4. Multivariate Analysis

To investigate the impact of microfinance services on entrepreneurship development, multivariate regression analysis was conducted by using lending services, saving services, and capacity building services as independent variables and entrepreneurship development as a dependent variable. According to Table 4, the result indicated that lending services and capacity building services have a significant and positive effect (p-value < 0.05 level of significance) on the entrepreneurship development of the selected small businesses. This implies that a one-point increase in the lending services and capacity building services will increase the entrepreneurship development of the selected small businesses by 0.331 and .318 points respectively. In contrast, saving services have an insignificant positive effect with a significance level > 0.05 on the entrepreneurship development of the selected small businesses. According to Table 4, the correlation coefficient between lending services and capacity building services, and entrepreneurship development is 71%. The coefficient of determination is 0.509. This implies that 51% of the entrepreneurship development is explained by the variation of lending services and capacity building services. Thus, the outcome supports the hypothesis that lending services and capacity building services have a significant impact on the entrepreneurship development of the selected small businesses.

Table 4: Multivariate Regression Analysis

	Predicted sign	Coefficient	Std. Error	t-value	Sig.
(Constant)		1.302	.277	4.703	.000
Lending	+	.331	.080	4.155	.000

Saving	+	.049	.090	.542	.589
Training	+	.318	.072	4.397	.000
R		.714			
R Square		.509			
Adjusted R Square		.497			
F-value		40.152			
Sig (F)		.000			

Dependent Variable: Entrepreneurship development (Significance Level at 5%)

Source: Researcher's compilation from SPSS 20

4. Discussion of finding

The first objective of the study was to investigate the impact of lending programs on the entrepreneurship development of small business in Mogadishu. The result indicated that lending programs have a significant impact on the entrepreneurship development of selected small businesses. The results support that these programs have enabled small businesses to expand and increase their profitability. The results also support that the lending programs assist small companies to avoid business failures and boost their innovation. The findings are in line with the early works in this area that found lending programs contribute to the growth and development of small businesses such as (Olusola & Oluwaseun, 2015; Kumah, 2017). Furthermore, the second objective of the study was to investigate the impact of saving programs on entrepreneurship development, especially small businesses in Mogadishu. The findings revealed that saving programs have an insignificant positive effect on the entrepreneurship development of the selected small businesses. This contradicts the previous that reported saving programs contribute to the growth and development of small businesses and help them manage frequent cash flows by providing a cushion against business risks (Agboola, & Osunde, 2012; Ferdousi, 2015; Gedion et al., 2016). Considering the final objective of the study which was to investigate the impact of training programs on entrepreneurship development especially small businesses in Mogadishu. The result showed that training programs have a significant and positive effect on the entrepreneurship development of the selected small businesses. This result is consistent with the previous studies (such as Boateng, 2014; Awale & Mohamud, 2016; Kumah, 2017; Sussan & Obamuyi, 2018) that showed providing training programs will assist small businesses to improve their efficiency, communication, and use of technology, strengthen their leadership and management skills and influence the small businesses' growth and survival.

5. Conclusion and Recommendations

This section provides conclusions and implications to the findings obtained from the objectives of the study which was to examine the impact of microfinance on the entrepreneurship development of small businesses in Mogadishu. The study concludes that the lending programs have a significant impact on the entrepreneurship development of selected small businesses. This study concludes that lending facilities allow small companies to grow and improve their profitability and also assist small

companies to avoid business failures and boost their innovation. Furthermore, the results showed that savings programs have an insignificant positive impact on the development of entrepreneurship among selected small businesses. It has been concluded providing saving programs neither contributes nor improves the development and growth among selected small businesses. Based on the results of this study, It can also be concluded that delivering training services assist small businesses to increase their performance, communicate and employ technology effectively, develop their leadership and management skills which eventually contribute to the development and sustainability of small businesses. Finally, it can be concluded that microfinance programs are effective instruments for the advancement of entrepreneurship due to the diverse opportunities they provide and the roles they serve in the growth and development of small businesses.

The following suggestions are made in the light of the results and conclusions derived from the study. First, microfinance institutions should facilitate the lending requirements of small businesses to contribute to the development of small companies. Second, microfinance institutions should also provide training and technical assistance to small businesses to improve the efficiency and effectiveness of small businesses.

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