



Analysis of credit accessibility and its effects on small and medium sized enterprises (SMEs) in Mogadishu – Somalia.

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DECLARATION

I hereby declare that this is my original work and to the best of my knowledge has never been presented in any other university or for any other academic award.

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APPROVAL

I certify this research report satisfies the partial fulfilment of the requirement for the award of Master of Finance and Economic Development awarded by Accord University with my approval as the university supervisor.

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DEDICATION

I wish to dedicate this research project to Bukenya Family. Your inspiration, encouragement and support in diverse forms will always be remembered and cherished. I wish to also dedicate this to Ms. Doreen Ayesigye who makes me strive every day to be the best .You are my strength and the reason for my hard work. Lastly, I wish to dedicate this project to all Somalis striving to gain financial success through small and medium sized enterprises and knowledge on access of finances. God bless you all.

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LIST OF ABBREVIATIONS

ABE	Australian Business Excellence
CGAP	Consultative Group to Assist the Poor
FFIS	Formal Financial Institutions
GDP	Gross Domestic Product
IFC	International Finance Corporation
KNBS	Kenya National Bureau of Statistics
MFIS	Micro Finance Institutions
MSMEs	Micro Small Medium Sized Enterprises
PM	Performance Measurement
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investments
SMEP	Small and Micro-Enterprise Programme
SMEs	Small and Medium sized Enterprises
TQM	Total Quality Management
USA	United States of America
WEF	World Economic Forum

ABSTRACT

Small and Medium Enterprises (SMEs) play an important role in the socio-economic development of any country. They provide an appropriate channel for the achievement of national macroeconomic objective in terms of employment generation at low investment cost and enhancement of apprenticeship training. The objective of the study is to; (i) to identify the factors influencing access to credit by small medium enterprises in Mogadishu – Somalia (ii) to determine the effect of access to credit on financial performance of small medium enterprises in Mogadishu – Somalia. The study adopted descriptive and regression analysis to analyze the data. The study used a sample of 100 respondents out of whom 70 responded. Data analysis was done using STATA version 14.0. The study finds that: (i) Gender, collateral security and size of the business affects credit accessibility by SMEs. The SMEs that had collateral and were operated by men accessed credit this greatly affected the amount of loan accessed and the SMEs that were small never accessed credit since they had no assets to present as collateral and savings allowed the entrepreneurs a chance to borrow from the banks and also measured their revenue generation capacity. (ii) Savings, number of workers employed, credit accessibility and improved relation with the financial institutions influences SME performance positively. Due to increased profits SMEs were able to save, acquire more assets and use more capital in the business and entrepreneurial development skills provided by financial institutions played a key role in the performance of SMEs. The study concludes that; (a) the accessibility of credit from credit facilities affects positively the financial performance of the SMEs to a very great extent. Some of the SMEs in Mogadishu have been able to make savings while others have not through their respective MFIs. (b) Training has improved the management skills of the entrepreneurs in Mogadishu in financial management, record keeping and business management. This study therefore recommends that; (i) the management of MFIs revise their lending policies and requirements so as to ensure that most of the traders can be able to access credit more easily. (ii) The MFIs use that traders savings as part of collateral since most may not have large tracts of land or the physical collateral needed. (iii) The training on investment monitoring be offered more hours since it was established that the traders had not improved their skills in the region.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Small and medium-sized enterprises (SMEs) are the engine of growth for a nation's economy. They contribute to: employment, productivity, and income. In addition, as small business owners are often on the vanguard of technological progress, they can serve as a catalyst for change in their host society by adopting new technologies such as machine learning or artificial intelligence (AI). However, despite their contributions and potential benefits to host societies across the globe there is one barrier that exists which hinders SMEs from accessing to credit. Poor credit accessibility by SMEs can lead to diminished economic development and even cause grand economic shocks if it were to occur in an advanced economy. In Somalia, credit accessibility is constrained due to lack of proper legislative framework and government regulation, poor socio-economic conditions that impact on access to finance, as well as high commercial bank lending rates which make it difficult for SMEs to access finance.

1.1.0 Background of the Study

Small and medium businesses are the backbone of many economies across the globe. The major challenge is to overcome the high failure rate among these small and medium businesses (BOYSANA LEPHOI MBONYANE, 2006). Globally, the move to recognize the role of Small and medium-sized enterprises (SMEs) with regards to economic development has gained power over the years (Thobakani Lose, Robertson K. Tengeh, Eugene Tafadzwa Maziriri, Nkosivile Welcome Madinga, 2016). Prior research documented that SMEs play a significant role in the economy of a country. Consequently, the performance of the SME sector is closely associated with the performance of the nation (Chuthamas Chittithaworn, Md. Aminul Islam, Thiyada Keawchana, Dayang Hasliza Muhd Yusuf, 2010).

The role of small and medium enterprises (SMEs) in a national economy has been emphasized all over the world, as they play a crucial role in the creation of jobs, growing the economy and reducing poverty. SME's are flexible and innovative, taking into account the size and the business structure (Lekhanya, 2016). Interestingly, small businesses play key role in creating jobs, contribute to tax revenue and export and import revenue, facilitate the distribution of goods and services when they serve as middlemen. Unfortunately, the greater portion of efforts, resources and government policies are mostly directed towards larger corporations, one can still not disprove the fact that the contribution of SMEs in today's economy cannot be over emphasized.

Despite the collapse of the central state of Somalia 1991 had an influence all sectors (Public & Private), small and medium business had the major influence. SMEs have been identified as the catalyst for the economic growth of the country as they are a major source of income and employment and consequently poverty reduction by contributing substantially to gross domestic product.

Their contribution to gross domestic product is in the area of corporate taxes, export duties and import taxes flowing from their activities (Bernard Effah, Ernest Boampong, Osei Asibey, Ninette Afi Pongo, Augustine Nkrumah;, 2014). The growth of SMEs does not occur similarly in all countries. In countries in transition, different related obstacles delay the growth of firms; these factors include business environment factors, amongst which the most important are institutional ones. These barriers are existing as a result of a hostile and unpredictable environment for doing business (Florin Peci, Enver Kutlllovci, Qazim Tmava, Venet Shala, 2012).

According to (Anthony Kusi, 2015) defined that Small businesses are companies which employ between 6 and 29 employees with fixed assets of 100,000 dollars and above. Also, Medium businesses as companies which employ between 30 and 99 employees with fixed assets of up to 1 million dollars.

According to (Lekhanya, 2016) stated that the Small Medium Enterprises (SMEs) are Companies which have fewer than 50 employees are categorized as "small" and those with fewer than 250 as "medium". Although the definition of small and medium enterprise diverges across countries. This study adopted the definition from (Lekhanya, 2016), Small businesses are companies which employ between 6 and 29 employees with fixed assets of 100,000 dollars and above. Also, Medium businesses as companies which employ between 30 and 99 employees with fixed assets of up to 1 million dollars. This definition is considered as suitable because it gives the appropriate meaning of small and medium businesses.

SMEs is a major tool for contributing the growth of the country's GDP, also an essential for economic development, poverty reduction and diminishing the unemployment rate. As we aware of, the obstacles facing the growth and survival of small businesses in Somalia seems to be unclear. Therefore, this study investigates the challenges facing the performance of small businesses in Mogadishu.

1.1.1 Financial Performance in Mogadishu, Somalia.

The Somalian financial sector has gradually come out from the informal style of functioning to a more formalized regulatory systems with the Central Bank of Somalia being established in 2009. Although Somalia has had no central monetary authority for upwards of 15 years between the outbreak of the civil war in 1991 and the subsequent re-establishment of the Central Bank of Somalia in 2009, the nation's payment system is actually fairly advanced due primarily to the widespread existence of private money transfer operators (MTO) that have acted as informal banking networks, while in the last couple of years, commercial banks are now playing an important role in the development of the nation's payment system. The present financial system comprises of Central bank (including in Somaliland), commercial banks, microfinance institutions (MFIs), money transfer businesses (MTBs), and mobile network operators (MNOs) providing mobile money

services. Financial performance is a measure of how well an organization can use assets from its primary mode of business and generate revenues (Greenwood & Jovanovic, 1990).

The country's banking sector is in its developing stage with few commercial banks registered.

(5 licensed banks operating are- Premier Bank, Dhabsil Bank, Salaam Bank, International Bank of Somalia and Amal Bank, while 3 other new banking licenses have been given recently). Two of the newly opened banks in Mogadishu are Amaana Bank and Daryeel Bank. The other one is headquartered in Puntland region. Furthermore, Somalia will have agricultural bank for the first time since 1990. This agricultural bank is incorporated as Beeraha Bank. It is likely to be operational by the beginning of the next year. The Central Bank of Somalia (CBS) was revived and came to existence only in 2012 and many regulatory measures are still to be in place. Since, the financial system currently is dominated by Money Transfer Operators (MTO) and Mobile money networks, the penetration of the commercial banking is very limited. Only about 15 percent of the population (and just 7 percent of women) has a bank account, and less than 5 percent of people with bank accounts are active users. Though, some informal resources have indicated that there has been significant increase in bank accounts, approximately 28 percent of the population have bank account of the local commercial banks (IMF Country Report No. 18/212, Somalia, July 2018).

A variety of studies have found that, across Somalia, women now run 80% of petty trade (micro business) and small businesses, as well as running their own households. It is sometimes argued that this dramatic socioeconomic shift demonstrates an enhanced position for women – although there is little evidence that this has translated into changes either in their economic status or their decision-making powers outside the family (CRD, 2007). Since its independence in 1960, Somalia has been facing political instability and recurrent civil wars. The collapse of the state and its institutions in 1991 was the beginning of a period marked by:

- (i) the protracted political and military upheaval that culminated in the civil war of 1992

- (ii) Economic decline due to reduced international trade.
- (iii) Socio-economic deterioration, both in urban areas and especially in rural areas.

The absence of a strong government prevented Somali people from having access to a functioning financial system. Small businesses, which are usually not involved with a bank for two main reasons, mainly due to their size or limited means, were forced to seek alternative sources of credit.

The Somali financial system was basically a branch banking system in which the Central Bank of Somalia existed but the country did not have a strong government or any other financial institution like in other developed countries. Therefore, the provision of credit services remained limited, with no new lending institutions emerging to make up for those that had been forced to close. This led SMEs to seek alternative sources of credit as banks were not providing them with loans.

Lack of credit facilities has also been identified as one of the most serious constraints facing SMEs and hindering their development (Tomecko and Dondo, 1992). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs in Kenya (Bokea, Dondo & Mutiso, 1999). SMEs have special features as to compare with the larger organizations. Medium and Small Enterprises (MSEs) must consider the motivations, constraints and uncertainties facing smaller firms and recognize that these factors differ from those facing larger firms. According to Westhead and Storey (1996), the characteristics which distinguishes small organizations from larger ones other than size itself is that of uncertainty. For small organization, external uncertainty has affected the most especially when it comes to accessing financial services because of their limited collateral and high level of uncertainty.

1.1.2 Small and Medium Sized Enterprises in Mogadishu, Somalia.

For approximately twenty years, the Somalia country experienced conflict and civil unrest that destabilized many families and communities. However, the situation has greatly changed as peace slowly returns to the country. With this new development, several issues need to be addressed, including the widespread poverty that most people find themselves in. Women and children are the most affected by poverty in this country that has gone through turmoil for over twenty years of civil unrest (Gure, 2014). Despite the civil unrest, many people have kept on struggling and through the help of some Non-Governmental Organizations (NGOs) such as the Danish Refugee Council and the Norwegian Refugee Council have managed to start small enterprises that have seen them become the breadwinners in their families. People have been given grants ranging from US\$250 to US\$500 that have enabled them to start a small business, including shops for groceries and other basic necessities such as milk and many other food items. Most small businesses or enterprises are currently operated by women and this has enabled them to earn income and create employment opportunities. Most microfinance activities in Somalia are available through NGOs that are working closely with communities to fund income generating activities (Gure, 2014).

1.1.3 Credit Facilities and Financial Performance

The Somalian finance industry is still un-regulated with the FIL law of 2012 doesn't give mandate to Central bank of Somalia to draft monitoring and regulatory framework to include micro-finance operations under its ambit. Though informal and un-regulated, the microfinance institutions are playing a crucial role in financing needs of the under privileged. At present, six major MFIs are operating in the country with many of them affiliated with commercial banks, while many local and international NGOs provide heavily subsidized microfinance products too. Asset sizes of MFI players in Somalia range from US\$0.3 million to US\$3 million.

Microfinance regional coverages differs by institution. Microfinance operators affiliated with commercial banks generally operate in the same regions as their parent institutions while NGO-based MFIs are usually concentrated in major urban centres such as Mogadishu, Garowe, and Kismayo.

The average loan size is around USD 1000 with women being the most represented client group. The loans are for both business and consumption. It is also note-worthy to mention here that similar to commercial banking sector, MFIs too provide services using Islamic financing instruments. The two most utilized financial instruments within the industry are Qardu Hassan (charity-based and often subsidized with donor money) and Murabaha (cost plus).

The Qardu Hassan is not easily available for all individuals looking for short- term loan but only to those individuals who have strong recommendation from well established businesses in Somalia.

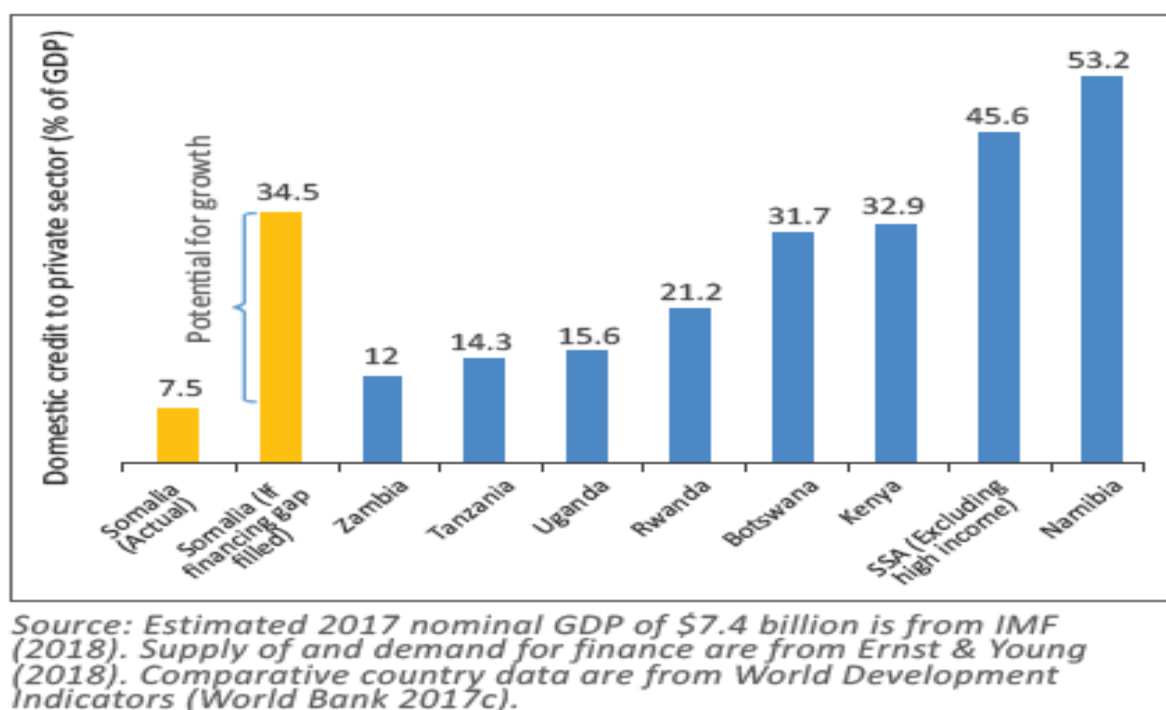
Gradually, in last few years, the informal sector credit needs are tried to be addressed through micro-credit. Many of the existing commercial banks and few large NGOs have started their own verticals for lending small ticket loans for individuals and micro businesses. Interestingly, the operations of micro-credit institutions are still not under any regulation and needs interventions to formalize and expand.

Somalia a war destroyed economy, financial institutions find it hard to issue out loan to SMEs which limits access to credit and most of business owners resort to the informal mean of obtaining capital. Such informal loan providers attract high interests due to uncertainties involved in the process.

In order to understand whether the credit availability is a felt need or not, the enterprise owners were queried on the difficulties faced in the finance of the business. The response overwhelmingly indicates towards the absence or shortcomings in the credit availability. The credit availability scenario for business and individuals in Somalia is typically true for any war ravaged economy

where in-availability of financial infra-structure prohibits development of effective credit financing tools. A study by E & Y in 2018, indicated that the gap between the demand for credit from both businesses and individuals and supply is about 2 billion USD. In-fact, if this gap is lowered, the credit to private sector in Somalia will surpass that of Kenya.

Figure 1. 1: Credit Facilities and Financial Performance



The major means of raising of finance for both individuals and businesses is still the informal sources such as family, friends and business acquaintances. According to Ernst & Young

(2018), about two-thirds of businesses depend on friends or family to cover financial needs. The two main reason for this use of informal source is the un-favorable terms and conditions of financial institutions as well as inability to provide large collaterals.

This behavior of banking fraternity is example of operating in a conflict zone where risk of lending is tried to be offset by high cost of financing. In Somalia, banks started operations with very high cost of financing, which was as high as 30%. Practically, banks strive to satisfy their shareholders,

who look for high profit margins. Somali banks' high cost of financing has pushed a lot of household consumers back and this discouraged a lot of poor and low-income households to apply for financing. High cost of financing coupled with limited contract duration created an environment where private sector's access to credit gets undermined.

Lending is heavily concentrated on short-term trade finance, which makes up approximately 85 percent of the total portfolio of financial institutions leaving a large unmet market demand in the real economy.

In addition, the banks have a weak pipeline of bankable micro, small, and medium enterprises (MSMEs) operating in productive sectors of the economy and limited understanding of project financing resulting in little to no provision of credit to businesses and/or poor credit terms.

1. 2 Research Problem

SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Sievers and Vanderberg (2004) hold the view that access to financial and business development services are essential for growth and development of Micro and Small Enterprises. The Microfinance industry has become a major backbone in the sustenance and survival of SMEs through the provision of credit. SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. They therefore cannot fund their expansions and take on value adding projects as they would wish to hence may not have avenues to improve their performance if no financing is availed. A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance 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. Small business especially in Africa can

rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans.

Microfinance provides a wide range of financial services to low-income clients, including self-employed and low earning individuals who are working in informal sectors. The core objective of microfinance is to create a favorable environment for the low income self-employed and near-poor households in which they have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and general banking services. Microfinance provides a comprehensive range of financial services to the many people who can't access banking services, especially those working in informal sectors (Siyad, 2013). Somalia is a country that has gone through civil unrest and many people still lives in poverty. For small enterprises to access the credit they have to go through a rigid process from the few existing MFIs (Ali, Abu-Hadhi and Ali, 2013). There is evidence from research that access to microfinance services has an effect on the performance of small enterprises but have diverse and contradicting findings. For instance Duvendack et al. (2011) carried out a study on the impact of microfinance on the well-being of people. The study revealed that there is no solid evidence on whether microfinance has a positive influence on the well-being of the people. Idowu (2010) carried out a study on the impact of microfinance on small and medium-sized enterprises in Nigeria. The study revealed that the majority of the SMEs acknowledges positive contributions of MFIs loans towards promoting their market share, product innovation, achieving market excellence and the overall economic company competitive advantage. Ali (2013) also conducted a study on the effect of MFI lending on the growth of SMEs in Mogadishu. The study established that there is a positive relationship between MFI lending and SME growth.

It is evident that despite the extensive research that has been carried out on MFI and SMEs, there is no study that has attempted to investigate the effect of MFI services on the financial performance of small enterprises in Mogadishu. The only closest available study by Ali (2013) focused only on

MFI lending and not all the services that are offered by MFIs. This leaves a substantial research gap that requires to be filled. This study, therefore, sought to fill this gap by assessing the effect of microfinance institutions' services on the financial performance of small scale enterprises in Somalia

From the above presentations, limited studies if any have focused on the effect of access to micro financing on financial performance of SMEs in Mogadishu, Somalia. This study therefore sought to fill this research gap by answering one research question: What is the effect of access to micro financing on performance of SMEs in Mogadishu, Somalia?

1.3 Objective of the Study

The general objective of this research is twofold:

- a) The first aim is to identify factors that impact on credit accessibility in Mogadishu. There are various factors that impact on the availability of credit to SMEs. Some of these factors include the financial development of an economy, lending rates set by banks, government effectiveness and economic freedom and unemployment rate. This research aims to identify the role each factor plays in limiting access to credit for SMEs in Mogadishu.
- b) The second, this research aims to investigate the impact that credit accessibility has on the performance of small and medium-sized enterprises (SMEs) in Mogadishu.

Improving access to finance has a direct positive impact on SMEs with increased opportunities for growth which ultimately translates into increased income for households and contribution to the country's GDP.

1.4 Specific Objectives

In order to achieve the general objective, the following objectives were formulated:

- To identify factors that impact on credit accessibility by SMEs in Mogadishu - Somalia.

- To investigate the impact that credit accessibility has on the performance of small and medium-sized enterprises (SMEs) in Mogadishu.
- To analyze the possible alternative ways for credit accessibility by SMEs.

1.5 Research Questions

The potential for economic growth is stymied by the absence of an active and competitive financial sector, which has resulted to poor growth in income and employment, as well as low levels of investment. In addition, there exists a severe lack of access to credit by small and medium-sized enterprises (SMEs) in Somalia. It can be concluded that credit constraint is high among SMEs and households in Mogadishu, Somalia. This gave a basis of this research to critically analyze the existing obstacle to SMEs growth. In order to dig deep to understand the impact of credit accessibility on SMEs, the following questions were established:

- i. What are the factors that impact credit accessibility by SMEs in Mogadishu?
- ii. How does access to credit impact small and medium-sized enterprises' performance and firm expansion?
- iii. What could be done to improve credit accessibility in Mogadishu Somalia by SMEs?

1.6 Scope of study

The study targeted Small and Medium-sized enterprises (SMEs), credit institutions and within the city limits. The research area was limited to the boundaries of Mogadishu, Somalia. The study target population was the people living within Mogadishu because it is the center for economic activities in Somalia. The study focused on the different forms of SMEs that are operating within Mogadishu.

1.7 Content scope

The content of this study covered SMEs and credit institutions in Mogadishu. The research area was limited to the boundaries in Mogadishu, Somalia. It intended to establish the groups that needed accessibility and how they survived in a constrained financial environment.

The current informal financial system in Somalia includes both formal and informal financial institutions such as moneylenders, pawnbrokers, financiers, barber shops and so on. The pawn broking system has been widely practiced in Somalia for years due to an unregulated way of lending, which is also known as fixed interest or usury.

In an unregulated market, there are no institutions that provide loans or lenders who make them to a large number of customers. In the informal financial system, in which interest rates are not regulated by either the state or any other institution, both lenders and borrowers have high levels of flexibility in the terms and conditions of their transactions.

1.8 Significance of the Study

This study would contribute to the development of knowledge in the field of banking and finance, especially in Somalia. This study would expose different mechanisms for improving access to financial services, especially credit, within a developing country like Somalia, through conducting interviews with a sample from different targeted areas within the research area. This study is also expected to raise awareness about credit availability by providing information on priority areas for improving access to financial services, especially credit; this is relevant because there are few studies and no analysis on it that has been conducted so far.

The study would increase the understanding of credit among SMEs and banks in building macroeconomic data that will then be used by government officials, policy makers, researchers, businesses, banks and other financial service providers. Together with this information, we expect that this study would contribute to improving access to formal credit among SMEs in Mogadishu.

This study would be valuable to several stakeholders. It would be valuable to the Government of Somalia in policy formulation especially on the regulation of SMEs and Microfinance institutions. The findings from this study would act as a guide to future policy formulation processes. The findings of this study would also be valuable to entrepreneurs in SMEs as it would provide useful information on the effect of micro financing on performance of SMEs in Mogadishu. This would help them to take necessary measures to ensure their qualifications for micro finance loans in order to grow their businesses. By making necessary arrangements to improve their chances of accessing microfinance, they would be able to take on more projects hence improve their financial performance.

1.9 Definition of terms

Small and medium-sized enterprises (SMEs): are defined differently around the world. The country a company operates in provides the specifics on the defined size of an SME. The sizing or categorization of a company as an SME, depending on the country, can be based on a number of characteristics. The traits include annual sales, number of employees, the number of assets owned by the company, market capitalization, or any combination of these features. The United States also defines SMEs differently from one industry to another.

SMEs make up the majority of the businesses operating around the world. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers. Generally, they are independent firms with less than 50 employees. However, the maximum number of employees is different from one country to the next. For most companies, the upper range sits around 250. Some countries dock the total number of employees at 200. The United States defines an SME, among other characteristics, as those with no more than 500 workers.

Credit accessibility: refers to the availability of formal lending services from financial institutions by SMEs in a given region or country. Credit accessibility is in turn associated with the overall

financial development of a region. Access to finance is the ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services are referred to as the unbanked or underbanked, respectively.

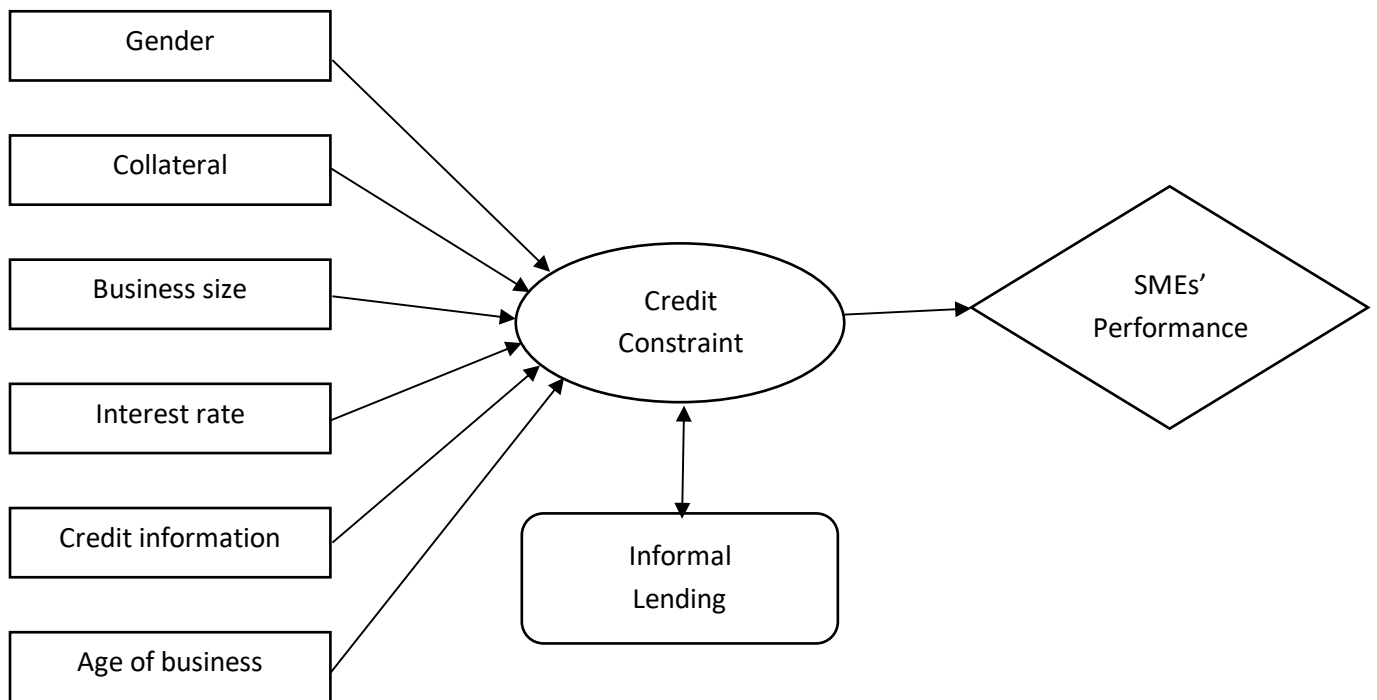
Accumulated evidence has shown that financial access promotes growth for enterprises through the provision of credit to both new and existing businesses. It benefits the economy in general by accelerating economic growth, intensifying competition, as well as boosting demand for labor. The incomes of those in the lower end of the income ladder will typically rise hence reducing income inequality and poverty.

The lack of financial access limits the range of services and credits for household and enterprises. Poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education and businesses, which limits their full potential and leading to the cycle of persistent inequality and diminished growth.

Financial institution (FI): Refers to a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers.

1.10 Conceptual framework

Figure 1. 2: Conceptual framework



From fig 1.1, the independent variables were the factors which limit credit accessibility which include; gender, number of available banks (with branches), interest rate, credit information, collateral security and business size. All the factors influence the dependent variable (SMEs). Due to uncertainties in the legal lending institutions, owners of SMEs resort to the available informal lenders to access credit at a high interest.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the literature on the effect of micro financing on performance of SMEs in Mogadishu Somalia. Specifically, the chapter addresses the theoretical review guiding the study, empirical literature and conclusion.

2.1. Theoretical Framework

This section reviews theories that guided the study. It consisted of the theories governing the performance of SMEs. In particular, the section looks at the financial intermediation theory which holds that for a business to make returns, it had to obey the modern economics. It also reviewed information asymmetry that holds that increased external market forces results into Market Power.

2.1.1. Credit Rationing Theory.

One of the most important theories that focused on financing gap analysis is the Credit Rationing Theory by Stiglitz & Weiss (1981). In their formulation, Stiglitz and Weiss (1981) argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs have constrained access to finance.

Credit facilities are defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date (Abiola, 2011). Small and Medium Enterprises are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs). This is because these SMEs cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In

addition to this, the associated risks involved in lending to SMEs make it unattractive to the banks to deal with them (Quaye, 2011). Statistically, small enterprises are reported to have high failure rates making it difficult for lenders to assess accurately the viability of their enterprises, the abilities of the entrepreneur, and the likelihood of repayment.

They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk.

Stiglitz and Weiss (1981) explained the choice among different financing sources under conditions of asymmetric information and credit rationing.

Asymmetric information can lead to credit rationing conditions by modifying the risk-return distribution; this fact encourages banks to refuse capital for investments and produces divergence between capital demand and supply (Alfo & Trovato, 2006). Deakins, North, Baldock and Whittam (2008) argued those information asymmetries are more acute in new and technology-based propositions. They argued at an early stage, information is limited and not always transparent and assets are often knowledge based exclusive associated with the founding entrepreneur. Especially with manufacturing and technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit. There are some categories of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas.

According to the findings of a study by Joeveer (2006), bank loans have a significant positive effect on most performance indicators of Small and medium sized enterprises (SMEs) in the transition economies. Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that

are targeted at low income clients (Asiama, 2007). A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance 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. Small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs) (World Bank 1994). A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Accessing finance 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. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2002).

2.1.2. The Firm Growth Theory

The firm growth theory known asserts that SMEs are more likely to disappear and be replaced by modern large-scale industry. This theory has, however, been shown to be inaccurate in the sense that SMEs do not normally compete directly with large enterprises; rather, they often tend to remain micro and small, co-existing with large multinational companies, which phenomenon the World Bank (1989) has identified as the 'missing middle' (Ryan, 2005).

The most obvious activity where these niches exist is in distribution to areas or income groups where their costs would be prohibitively high for large enterprises. However, in a literature survey on macro analyses of micro enterprises in developing countries, Liedholm and Mead (1993) came to the conclusion that macro-level empirical evidence indicates that, as aggregate per capita income

increases, there is a systematic pattern of evolution of MSEs towards larger firms based in larger localities, producing more modern products. Nevertheless, critics of this view argue that analyses on MSE development must take account of differences in their efficiency, the type of influence MSEs exercise in society, linkages between small and large enterprises, the changing roles of women entrepreneurs, differences in the level of education in the labor force and other socio-economic differences (Murinde et al, 2006).

Small and medium-sized enterprises (SMEs) are the engine of growth for a nation's economy. SME contributes to the national objective of creating employment opportunities, training entrepreneurs, productivity, generating income and providing a source of livelihoods for the majority of low income households in an economy especially for developing countries (Beck, Demirguc-Kunt & Levine, 2005).

Small and Micro Enterprises (SMEs) play an important economic role in many countries of the world. Over the years, economic planners have realized the importance of the small enterprises in achieving economic development. Many governments and development organizations have focused on the promotion of SMEs as a way of encouraging broader participation in the private sector. Micro, small and medium-sized enterprises (SMEs) play a central role in the African economy. They are a major source of entrepreneurial skills, innovation and employment. Availing financial services to SMEs plays a key role in determining how they conduct their businesses as they need a range of enabling and sustaining financial services in order to enable them effectively exploit abundant resources in their field of specialization in order to realize their full potential. Most of the industrialized countries, over 98% of all manufacturing sector firms originate from the SMEs sector and they are main employment providers (Sanusi, 2003). The SME sector employs more than 22% of the productive labor force in the developing countries (Kayanula et al., 2000).

It is generally recognized that SMEs face unique challenges in their operations which affect their growth and profitability hence, diminish their ability to contribute effectively to sustainable development. According to the Economic Survey (Kenya National Bureau of Statistics, 2013), According to the last comprehensive estimates conducted in 2012, Somalia maintains an informal economy largely based on livestock, remittance/money transfer companies, and telecommunications. Recognizing the critical role small businesses play in the Somali economy, the United Nations Development Program through the Economic Foundations envisages the strengthening of SMEs to become the key industries of tomorrow by improving their productivity and innovation through small business grants (UNDP, 2013).

SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Sievers and Vanderberg (2004) hold the view that access to financial and business development services are essential for growth and development of Micro and Small Enterprises.

The Microfinance industry has become a major backbone in the sustenance and survival of SMEs. Microfinance Institutions (MFIs), as part of their core business, provide credit to SMEs (Abiola, 2011). In addition to these financial services, MFIs also provide non-financial services like business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted them. 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 (Ledgerwood, 1999). Financial services provided to SMEs include financial products and services such as savings, credit, insurance, credit cards, and payment systems.

2.1.3. Financial Intermediation Theory

Financial intermediation is a process which involves surplus units depositing funds with financial institutions who then lend to deficit units. Bisignano (1992) identified that financial intermediaries

can be distinguished by four criteria. First, their main categories of liabilities or deposits are specified for a fixed sum which is not related to the performance of a portfolio. Second, the deposits are typically short-term and of a much shorter term than their assets. Third, a high proportion of their liabilities are chequeable which can be withdrawn on demand and fourthly, their liabilities and assets are largely not transferable. The most important contribution of intermediaries is a steady flow of funds from surplus to deficit units.

According to Scholtens and van Wensveen (2003), the role of the financial intermediary is essentially seen as that of creating specialized financial commodities. These are created whenever an intermediary finds that it can sell them for prices which are expected to cover all costs of their production, both direct costs and opportunity costs. Financial intermediaries exist due to market imperfections. As such, in a „perfect“ market situation, with no transaction or information costs, financial intermediaries would not exist. Numerous markets are characterized by informational differences between buyers and sellers. In financial markets, information asymmetries are particularly pronounced. Borrowers typically know their collateral, industriousness, and moral integrity better than do lenders. On the other hand, entrepreneurs possess inside information about their own projects for which they seek financing (Leland and Pyle, 1977). Moral hazard hampers the transfer of information between market participants, which is an important factor for projects of good quality to be financed.

2.1.4 Information Asymmetry Theory

Asymmetries can be of an ex ante nature, generating adverse selection, they can be interim, generating moral hazard, and can be of an ex post nature, resulting in auditing or costly state verification and enforcement Healy and Palepu (2001). The informational asymmetries generate market imperfections like deviations from the neoclassical framework. Many of these imperfections

lead to specific forms of transaction costs. SMEs operate in an environment characterized by high level of information asymmetry. For example, According to Healy and Palepu (2001), frictions that relate more to investors' information sets, numerous authors have stressed the role of asymmetric information as an alternative rationalization for the importance the effects of micro financing on the financial performance of SMEs.

According to Healy and Palepu (2001), one of the earliest papers, Leland and Pyle (1977), suggests that an intermediary can signal its informed status by investing its wealth in assets about which it has special knowledge. Diamond (1984) has argued that organizations overcome asymmetric information problems by acting as "delegated monitors." Microfinance overcome information asymmetry challenges by devising several products and pulling of risks especially where they lend to groups.

2.2. Empirical Review

Several scholars and researchers have reviewed the concept of performance of SMEs. Brau and Woller (2004) review over 350 articles and studies on microfinance institutions (MFIs) and their impact on both economic growth and society. The review includes a section on sustainability of MFIs where they site many studies concluding that institutional sustainability is a necessary goal as subsidized loan funds generally are more fragile and less focused. Just as Yunus knows that these subsidies distort the incentives in the microfinance institution, others have further argued that subsidies undercut the efficiency and the scale of operations. Abrams and von Stauffenberg (2007) conclude that an increase in international support of microfinance by development institutions is “crowding-out” private investment. Development agencies are supporting the largest and most successful MFIs, increasing their scale, and discouraging support of these institutions that should be the primary market for private investors.

Lin (2007) did an empirical study of SMEs in Taiwan. The study attempted to probe within a multi-dimensional perspective the nature and type of daily innovation practices of small- and medium-sized enterprises (SMEs) located in Taiwan. The relationship between innovation and organizational performance will also be explored. Lin collected through a telephone survey from 2000 Directory of manufacturing and service Industries in the northern Part of Taiwan, companies with a total employee number less than 200 (the definition of an SME in Taiwan) were considered. After finding out that that over eighty percent of the companies conducted some sort of innovation on its workers, it was concluded that creating a successful innovation platform to serve as a base for non-technology-related innovations could prove to be the most critical catalyst to capitalize on innovation efforts.

Strong (2008) did a study on entrepreneurial solutions to poverty alleviation concluded that although microfinance has become extremely popular as approach alleviation, there are still various controversies associated with it. For instance, he argued that microfinance is primarily used for debt and consumption rather than real investment in revenue-generating business. In the same effect, Copestake (2002) argues that microfinance has a polarizing effect as there is discrimination in favor of richer clients, who benefit from better access to credit, and exclusion of poorer people. He adds that if one of the aims of microfinance is to assist the “Poorest of the Poorest” the microfinance is not always the most appropriate intervention.

Todd (2007) studied internationalization of SMEs in India. The study sought to determine determinants influencing the internationalization of small and medium- sized enterprises (SMEs) in India. It evaluated the business environment and, then, examined the importance of developing and promoting entrepreneurship to allow SMEs in India to develop a competitive position in the international marketplace. The study proposed that the primary method for fostering or promoting the growth of entrepreneurship was through the utilization of technology and that special attention

be given to the gaps in infrastructure that could enable a more efficient use of resources and the impact of entrepreneurship on the economic growth of the SMEs.

Akisirimire (2010) did a study on microfinance credit terms and performance of SMEs in Uganda. The study sought to establish the relationship between MFI credit terms and performance of SMEs in Mbarara Municipality. The study was carried out to establish whether MFIs provided favorable credit terms to SMEs in Uganda and the relationship between credit terms, liquidity levels and SME performance. He performed a cross sectional and correlation quantitative design analysis on the population and found out that terms from the MFIs to SMEs were not favourable. It was also established that there existed a significant and positive relationship between credit terms and SME performance. Results also revealed a significant relationship between liquidity levels and SME performance. And positive and significant relationship between MFI-SME relationships and SME performance was established

Kwaku and Singh (1998) examined the customer orientation - performance link in small- and medium-sized businesses and tested for the possible effects of innovation orientation, market dynamism and competitive intensity on the degree of customer orientation among those firms. Specific performance measures such as new product success, sales growth and return on investment (ROI) were used to complete the study. Based on constructs of these measures, a research scale was developed for the study and data were collected. The results showed a positive effect of customer orientation on SME performance. There were also findings on the varied influences of innovation orientation and the competitive environment on the levels of SME customer orientation.

Rahman (2001) did a comparative study of Total Quality Management (TQM) practice and organizational performance of SMEs with and without ISO 9000 certification. This study aimed at providing empirical evidence on the differences in TQM implementation and organizational performance of SMEs in Western Australia, with and without ISO 9000 certification. Rahman used

questionnaire and followed the Australian Business Excellence (ABE) framework to collect and analyze data. The results showed that there was no significant difference between SMEs with and without ISO 9000 certification with respect to TQM implementation and organizational performance.

Nabintu (2013) studied the factors affecting the performance of SMEs traders at City Park Hawkers Market in Nairobi County, Kenya. The study sought to establish how accessibility to business information services affects the performance of SMEs traders at City Park Hawkers Market in Nairobi County, examining how access to finance affect performance of SMEs traders at city park hawkers market in Nairobi County; determine how the use of technological input in payment system affect the performance of SMEs traders at city park hawkers market in Nairobi County and examine how the availability of managerial experience affect the performance of SMEs traders at city park hawkers market in Nairobi County. Nabintu in this study applied survey research design on a sample of SMEs Traders. Nabintu used of questionnaires to collect primary data through interviews as research tools since information that is not directly observable such as feelings, motivations, attitudes, accomplishments as well as experiences of individuals was desirable. It was found out that that access to business information services affected the performance of the business to a great extent because it limited the entrepreneurs' ability to take advantage of opportunity as and when they arose. In addition, this study found out that technology affected the businesses to a very great extent by facilitating communication with both the supplier and customers, by easing the transportation of goods and by easing the marketing of our products.

Sakwa (2013) did a study on the purposes of youth enterprise development fund on performance of youth run small and micro enterprises in Ruiru District, Kiambu County, Kenya. Sakwa examined the extent of influence of YEDF sponsored business incubators on the number and type of youth run SMEs, as well as to determine how business linkages created by YEDF affected performance of youth run SMEs. In addition, the study wanted to find out how YEDF marketing initiatives

impacted on performance of youth run SMEs. A descriptive survey research design was employed whereby characteristics of the fund were described on a subset of the population. Among other things, the study found out that supplier/buyer relationship was deemed most important linkage an SME would wish to establish, and that all the SMEs with airy relationship had changes in annual revenue. In addition, recommended that more funds be channeled through the programme to have tangible effects on performance of funded SMEs, funding to each SME be increased to realize a bigger effect of the fund, the fund be diversified to include tangible assets that can be registered in group names and persons in charge of the fund formulate and implement strategies that would realize all the five purposes of YEDF and not just loaning.

Njanja and Pelissier (2010) did an investigation into the effect of management factors on performance of (micro, small and medium enterprises) in Kenya. The primary aim was to critically investigate the management factors affecting performance of MSMEs in Kenya. The findings reveal that the critical management factors critical to the different categories of enterprises differed in MSMEs. This creates an important beginning in policy recommendation towards economic recovery in Kenya. This study sought to identify critical management factors affecting the performance of MSME's in Kenya by looking at the management process. The study established that the planning function is well applied. Nonetheless, the managers reported that resources would be required in order to implement the strategies. The organizing function was established in the majority of businesses ascertained by the presence of organization charts. The structure in micro businesses was not as elaborate as in the small or medium enterprises. The directing and staffing functions were applied on average in all MSMEs. The business categories displayed a major difference in controls. The medium firms had the highest ratings followed by the small firms. The micro enterprises had the lowest levels of controls.

Wangombe (2013) examined the role of the family counsel board on the growth of small and medium enterprises in Kenya after exit of the founder: a case of Nairobi CBD family small SMEs.

The general objective of this study was to establish the role of the family counsel on the financial performance of family small and medium enterprises in Kenya. The study also sought to determine whether family counsel, family counsel skills, family counsel composition and family counsel leadership structure on the financial performance of family small and medium enterprises in Kenya. This study used a descriptive research design. The target population for this study was all the counsel members in family SMEs located in Nairobi Central Business District. The target population for this study was therefore being 720. The sample size of this study will therefore be 72 respondents. Primary data was collected using a questionnaire. The data collected was mainly quantitative, however some qualitative data was collected from the open ended questions to enhance uncover any convergent and divergent views. Descriptive statistics was used to summarize the data. Mwarari (2013) examined factors influencing listing of Kenyan SMEs in the securities market for capital raising opportunities. The Purpose of this study is to examine the factors influencing listing of SMEs in the securities market as a source of expansion capital. Research design refers to the way the study is designed, that is the method used to carry out the research. The researcher examined twenty respondents drawn from a population of 80 respondents based in Nairobi. The study used both secondary data from other sources and primary data collected using questionnaire to carry out the study. Descriptive statistical tool helped the researcher to describe the data and determine the extent to use. Analysis was done quantitatively by use of descriptive and inferential statistics. This included frequencies, mean, tables, percentages, mode and median. The study revealed that access to information influence listing of SMEs in the NSE to greatest extent.

Wanjiku (2009) did an investigation into management strategies affecting performance of Micro, Small and Medium Enterprises (MSMEs) in Kenya. The objectives of this research was to: identify the critical management factors affecting the performance of MSMEs in Kenya; To establish the process through which managerial factors affect the performance of a MSMEs in Kenya; determine the integrative effect of various management factors in the MSMEs in Kenya; establish the effect

of demographics and management factors on performance; and establish effects of external environment on internal management factors.

Kabinga (2014) Examined factors affecting supplier performance in Small and Medium Enterprises (SMEs) in Kirinyaga County, Kenya. This study focused on the factors affecting supplier performance in Small and Medium Enterprises (SMEs) in Kirinyaga County, Kenya. The factors affecting supplier performance included supplier selection, supplier relationship and supplier evaluation. Literature review was well constructed to bring a good understanding of the study by use of available literature materials. The researcher used descriptive research design which primarily shows the state of affairs as it exists at the present and stratified random sampling to group the businesses into homogeneous entities. The findings from the study confirmed the relationship between factors affecting supplier performance and supplier performance yielding moderate regression coefficient (Supplier selection practices at 5 percent significance level was 0.134, supplier performance criteria was 0.53, supplier relationship was 0.39 and supplier evaluation was 0.61, indicating a moderately positive correlation between the variables.

2.3. Summary of Literature Review

This chapter reviewed literature by other scholars and researchers on the subject of technological involvement and financial performance of SMEs. The existing studies have concentrated theory and practice in SME performance measurement systems (Hudson, Smart & Bourne, 2001). Other related studies (Lin, 2007; Todd, 2012; Akisimire, 2010; Rahman, 2001) have been conducted in other countries which post different circumstances from those available in kismayo. For the studied done in Mogadishu they concentrated on SMES (Nabintu, 2013). This study therefore aimed at filling this research gap by determining effect of access to credit on financial performance and growth of SMEs" in Mogadishu Somalia.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

According to Kothari (2004), research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It was necessary for the researcher to know not only the methods/techniques but also the methodology.

3.1. Research Design

Research design is described as the linkage and organization of conditions for the collection and analysis of data in a manner that aims at combining relevance to the research purpose with the economy in the procedure (Rajendra, 2008). Vau (2005) concurs with Rajendra (2008) and argues that research design focuses on the structure of an inquiry, which leads to the minimization of the chance of drawing the wrong casual inferences from the data. This study considers two types of research- descriptive research and survey research designs. Descriptive research is a type of quantitative research that usually precedes the more controlled experimental or correlational researches. Descriptive research provides a knowledge base when little is known about a phenomenon or such things as clarification of a situation, classification of information, or description of subject characteristics that will aid in the refinement of the research problem, formulation of the hypothesis, or design of data collection and analysis procedures (Powers & Knapp, 2006). Rajendra (2008) posits that descriptive design involves fact finding inquiries of different kinds, where the researcher has no control of the variables and can only report what has happened or what is happening. Descriptive research is detailed in classifications of: Cross-sectional, sample survey, longitudinal and true panel measures (Lacobucci & Churchill, 2009).

Cross-sectional studies are research studies based on observations representing a single point in time (Babbie, 2010; Powers et al 2006). Whereas cross sectional design defines a onetime reflection of a trend, longitudinal studies are primarily studies that produce a continuous and a repetitive reflection of a trend (Powers et al. 2006; Rajendra, 2008). True panel studies involve interviews or observation of the same sample of people in giving waves over a range of time (Lacobucci & Churchill, 2009). Surveys are generally cross-sectional and descriptive (Thyer, 2009). Surveys are preferred and most common method of research because they are easily adapted for use in many different situations when the researcher wants to find out about a given issue. The surveys can be either qualitative or quantitative and even to a larger extent incorporate a combination of both (Babbie, 2010; Powers et al. 2006; Thyer, 2009).

3.2. Study Area

This study was a survey that involved small scale enterprises operating in Mogadishu, Somalia. The study therefore focused on specifically those small scale enterprises that within the geographical boundaries of Mogadishu City.

3.3. Target Population Sampling for the Study

According to Panneerselvam (2004) a total population is the entire spectrum of a system or process of interest. This description is in tandem with that of Johnston and VanderStoep (2009) which defines a population as the universe of people to which the study can be generalized. According to Mugenda and Mugenda (2003), population is a complete set of individuals, cases or objects with common observable characteristics. The population of a study includes all the elements that stand a chance of being included in the study. In the current study, the population includes all the small scale enterprises in Mogadishu. There are approximately 5000 small scale enterprises that were operating in Mogadishu and the research targeted the Finance Manager, Accountant and the Accounts Clerk; 2 from each of the 5000 making a target population of 10,000 employees.

3.4. Sample Size Determination

The sample is selected basing on probability sampling, which means that the units are selected randomly. The current research used random sampling. According to Krejcie, Robert, Morgan &Daryle (1970). The sample size was 70 respondents who were randomly drawn from the SMEs in Mogadishu who are spread in the 5 Districts of Banaadir region.

3.5. Sampling Procedure

Simple random sampling was used to draw respondents from the SMEs in the 5 administrative districts. Since not all of the SMEs could have sought microfinance services from the MFIs, random selection was applied to qualify respondents from a certain SME since others might not have been in operation or were totally new.

3.6. Data Collection

3.6.1. Types of Data

This study made use primary data. Data refers to all the information to be collected by the researcher to complete the study; these data includes facts and figures relating to a particular activity under study. Primary data is best collected from interactions with the respondents through the aid of hiring research assistants (Mugenda & Mugenda, 2003); this involved the administration of questionnaires to various managers of the small scale enterprises involved.

3.6.2. Research Instruments

The researcher developed a self-administered questionnaire as a means of data collection from respondents. The instrument was in English Language and in five point Likert scale format. The instrument was divided into five sections, each containing questions relating to the objective of the study. The secondary data was collected using a specially developed schedule that assisted in capturing data on all the variables.

3.7. Data Analysis

The data that was collected was in both figures and statements or both quantitative and qualitative in nature. In order for the researcher to conduct analysis on the collected data, data sorting was necessary to ensure completeness of the data. Data coding was also be done, especially for the qualitative data. This was necessary in order to give the qualitative data a quantitative approach in analyzing it. In order to establish the effect of microfinance services on financial performance, responses obtained from the respondents were aggregated and correlated against the return on assets of the small scale enterprises. Pearson's correlation coefficient was used to establish the effect to determine the relationship between the independent variables. The data was analyzed using mean scores, and correlations, then be presented in the form of frequency tables and charts where necessary.

A regression model was applied to determine the relationship between the variables of the study.

The regression was conducted using the following regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

The first test: Factors that influence credit accessibility by SMEs in Mogadishu – Somalia.

Where: Y_a = Credit access of SMEs (Amount of loan/funds obtained)

X_1 = Gender (SMEs operated by men or women)

X_2 = Collateral (Assets owned by the business)

X_3 = Size of the business – SME (Assets owned by the business)

β_0 = Y- intercept

The regression was conducted using the following regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

The second test: Impact of credit accessibility on SME performance in Mogadishu – Somalia.

Where: Y_p = performance of the SMEs

X_1 = Savings by SMEs (deposits on the accounts)

X_2 = Assets acquired (value of assets)

X_3 = number of employees

X_4 = Access to credit

B_0 = intercept

CHAPTER FOUR

FINDINGS AND DISCUSSION

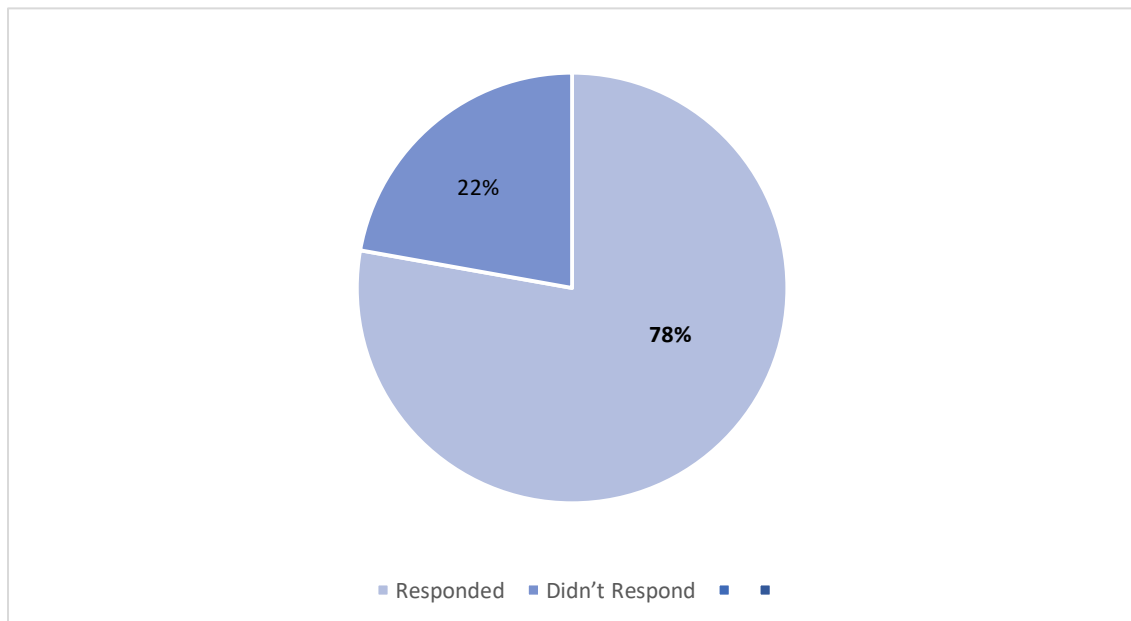
4.0. Introduction

This chapter presents data collected from respondents, SME traders in Banadir region. It includes major four trading districts of Wadajir, Hodan, Howl wadaag and waberi. The data is presented in form of tables, charts and graphs followed with the analysis and the interpretation of the findings.

4.1 Response Rate

The study targeted 90 respondents. Out of the questionnaires distributed (online), 70 questionnaires were duly filled and returned giving a response rate of 78% which is within Mugenda and Mugenda (2003) who prescribed the significant response rate for statistical analysis as a minimal value of 50%. The figure below represents the response rate.

Figure 4. 2: Response Rate



4.2 Demographic Data

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

Table 4. 1 Demographic Data

Table 4. 1		
Variables	Percentage	(%)
Gender		
Male	65.2	
Female	34.8	
Age		
20-35	39.1	
36-59	52.1	
60-75	4.4	
75 above	4.4	
Marital status		
Married	65.2	
Single	34.8	
Qualification		
None	4.4	
Primary	34.8	
High school	21.7	
University level	39.1	

Business Experience

Less than 1 year	17.4
2 -3 years	39.1
4 – 7 years	39.1
7 years & above	4.4

Type of Business

Electronic shops	21.7
Services(shoeshine, saloons)	21.7
Groceries/Boutique/clothing	21.7
Retail shop	30.5
Transport	4.4

Gender: Findings from above table 4.1 indicate that different categories were involved in the study 65.2% of the respondents are male and 34.8% are Female owned the SME, this is in difference with research undertaken by Ojo (2009) which states women are the most clients to the microfinance institutions and SME leading owners. More men are engaged in economic activities than women. This is attributed to culture where women are more of home chores than business and men are the leading sole operators of the SMEs.

Age: 39.1% of the respondents are at the age of 20-35; 52.1% of the respondents are at the age of 36-59 which is the age of the majority of the respondents, 4.4% of the respondents are at the age of 60-75, the 4.4 % above 75 age. Between 20 to 60 years are actively involved in productive activities of running the SMEs and this greatly contributes to the household wellbeing and countries GDP through the increased output that facilitates trade.

Marital status: The marital status of respondents was married and single. 65.2% of the respondents were married and represent that the majority of the respondents are married. 34.8% of the respondents are not married or single.

Qualification: The respondents, 4.4% had no education at all, 34.8% hold Elementary education, 21.7% of the respondents has higher school education and the remaining 39.1% had University degree.

Business Experience: Also the table1 pointed that 17.4% of respondents had 1 year experience as to the owners of small businesses, 39.1% had 2 to 3 years' experience, the respondents 4 to 7 years' experience were 39.1% and 4.4% had above 7 years' experience. Therefore, the majority of the respondents had business experience between 2-5 years.

Type of Business: 21.7% of the respondents are engaged in Electronic shops, 21.7% are engaged in Small clothes shops, 21.7% are engaged in service businesses, 30.5% are engaged in retail business and the remaining 4.4% are in transport businesses. This shows that majority of respondents are in retail businesses.

4.3 Descriptive statistics

The study conducts an analysis of descriptive statistics to establish the minimum value, maximum, median, mean and standard deviation for the various variables considered in the study. The findings are as illustrated in the Table 4.2 below:

Table 4. 2 Descriptive Statistics

Variable	N/70	%	Minimum	Maximum	Median	Mean	Standard Deviation
Amount of Loan Accessed	65	93	140	3500	900	1074.348	793.5812
Value of Assets	65	93	500	12000	3000	4067.391	3105.772
Savings	58	89	300	10000	3000	3366.522	2405.072
Profits generated	55	85	50	1500	400	507.087	387.974

From the findings, the study established the minimum amount of loan accessed as \$ 140 with a maximum of \$ 35000, mean of \$ 1074.348 and a standard deviation of \$ 793.5812. On the value of assets owned by the businesses, the study established a minimum of \$ 500, maximum of \$ 12000, median of \$ 3000, mean of \$ 4067.391 and a standard deviation of \$3105.772. On the savings made by the respondents, the minimum was \$ 300 with a maximum of \$ 100,000. The median was \$ 3000. The mean was \$ 3366.522 with a standard deviation of 2405.072. On the profits generated, the minimum was \$ 50 with a maximum of \$ 1500, Median of \$. 400 and mean of \$ 507.087 and standard deviation of \$ 387.974. These statistics show that the parameters were widely distributed.

4.4: Alternative Job

Respondents were asked if they had an alternative job besides the SME and their responses were recorded in the table 4.3 below

Table 4. 3: Alternative employment.

Response	Percentage (%)	Employed in other sector	Percentage (%)
Yes	78.6	Private	38.9
		Public	55.6
		Other (NGOs)	5.5
No	21.4	0	0

78.6% were employed in other sectors besides the SME and this acted as a source of capital for their business and 21.4% were not employed in any other sector apart from the SME.

Of the 78.6%, 38.9% were employed in the private sector, 55.6% were employed in the public sector and 5.5% were employed in other sectors of the economy including the NGOs.

4.5: Origin of the Business

Respondents were asked about the origin of the business, 62.2% said that the business was established, 37.8% their businesses were inherited from family and they have been running over years by family members as shown in the table 4.4 below.

Table 4. 4: business origin

Business origin	Percentage (%)
Established	62.2
Inherited	37.8

4.6 Business Ownership

Respondents were also asked the form of ownership if the business majority of the businesses over 43.5 % were sole proprietorship, 39.1% were partnership businesses and 17.4% were others as shown in the table 4.5 below.

Table 4. 5: Business Ownership

Business ownership	Frequency	Percentage (%)
Sole proprietorship	30	43.5
Partnership	27	39.1
Other	13	17.4
Total	70	100

4.7 Number of Employees

Respondents were asked about the number workers they employed at the time of establishment and there current number of employees and the findings were recorded in table 4.6 below.

Table 4. 6: Number of Employees

Number of employees	Time of establishment	Currently
Only 1	17	16
1 – 5	5	3
Above 5	1	3

From the table 4.4 above, respondents who employed only one worker at the time of establishment and currently were 17 and 16, between 1 – 5 were 5 and 3 and who employed over 5 workers were 1 and 3 respectively. This showed over years businesses didn't expand shown by no increment in the number of workers from the time of establishment to the current time.

4.8 Source of Capital

Respondents were asked about the sources of capital for their businesses and the findings were as indicated in the table 4.7 below:

Table 4. 7: Source of Starting Capital

Source of capital	Percentage (%)
From family and relatives	60.9
Savings	20.1
Bank	8.9
Other (informal sources)	10.1

From the table 4.5 above, 60.9% they got the capital from family and relatives, 20.1% from saved funds, 8.9% from banks and 10.1 % from other sources including informal sources like private money lenders. From this findings it is clearly shown that the major source of capital was from family members and relatives and business owners hardly use the available financial institutional as it is shown in the other findings of this research.

4.9. Financial performance of the SME

4.9.1 Business with Bank Account

In this research respondents were asked if they had bank accounts for their businesses and which institutions were they affiliated to. The findings were as shown in table 4.8

Table 4. 8: Business with bank account

SME with an account	Percentage (%)	Bank	Percentage (%)
Yes	87.0	Amal	21.7
		Salaam	13.04
		Premier	21.7
		Dahabshil	30.4
No	13.04	0	0

From the findings in table 4.6.1 above, 87.0% of the respondents had accounts and only 13.04 % had no bank accounts for their businesses. Of the 87.0% who had bank accounts, 21.7 had accounts with Amal bank, 13.04 had accounts with salaam bank, 21.7% had accounts in premier bank and 30.4% had accounts with premier bank. This shows that Dahabshil bank is the most bank used by the operators of small businesses.

4.9.2 Rate of satisfaction by bank services

The respondent were asked how satisfied they were with the services that were provided to them by the financial institutions. From the findings, 65.2% were satisfied, 30.4% were quite satisfied and 4.4% were dissatisfied.

Further, the satisfied respondents were asked which services they currently get from the financial institutions. From the findings, 78.3% used the banks for saving (deposits), 8.7% for others, 4.4% for ATM cards and 8.7% for payment services.

Respondents were also asked if their businesses were registered. From the findings, 78.3% of the respondents' businesses were registered and 21.7% were not registered. From this, it shows that there exist records for the operation registered SMEs which makes it easy for planning for their expansions shown in the table 4.9 below.

Table 4. 9: Rate of satisfaction

Rate of satisfaction	Frequency	Percentage (%)
Very satisfied	45	65.3
Quite satisfied	21	30.4
Very dissatisfied	4	4.4
Banking services		
Deposits	54	78.3
ATM	3	4.4
Payment services	6	8.7
Others	6	8.7
Registered businesses		
Yes	55	78.6
No	15	21.4

4.9.3 Loan Received

Respondents were asked if the establishment had acquired any loan from a financial institution and the findings were recorded in the table 4.6.3 below.

Table 4. 10: Loan Received

Loan granted	Frequency	Percentage (%)
Yes	42	60.9
No	24	34.9

Out of 70 respondents, 66 respondents replied to the question, the findings were 60.9% said they had no loan with any financial institution and 34.8% had acquired loans from the financial institutions, savings and credit co-operatives (SACCOs) and informal lending institutions. From this findings it shows greatly that very few individuals access credit form the financial institutions with factors being attributed to the limited knowledge about the available financial services, high interests charged on loans political climate which hinders the effectiveness of businesses and red tape procedures involved in processing and assessing the credit worthiness since some of the businesses are not registered and less records are available for such SMEs. This greatly affects credit accessibility and the performance of the performance.

4.9.4 Amount Accessed

The respondents were asked to indicate the amount they had accessed as a loan over the last four years.

Table 4. 11: Amount Accessed

Years	2018		2019		2020		2021	
Interval	N	%	N	%	N	%	N	%
0 – 500	30	57.7	38	66.6	25	83.4	40	60.6
101 – 500	15	28.8	10	17.5	3	10.0	22	33.3
501- 1000	4	7.7	8	3.6	2	6.6	4	6.1
Above 1000	3	5.8	1	1.8	0	0	0	0
Total	52	100	57	100	30	100	66	100

From the table above, those who took up loans between \$ 0 to \$100 in 2018 were 57.7%, in 2019 were 66.7%, in 2020 were 83.4% and 60.6% in 2021. Those who took up loans of between \$101 to \$500 in 2018 were 28.8% of the respondents, 17.5% in 2019, another 10% in 2020 and 33.3% in 2021. Those who accessed a loan of between \$501 - \$1000 were 7.7% in 2018, 3.6% in 2019, 6.6% in 2020 and 206.1% in 2021. The respondents who had accessed loans above \$1000 in 2018 were 5.8%, 1.8% in 2019, 0% in 2020 and 0% in 2021. Access to credit is beneficial to the SMEs since it helps in the alleviation of poverty through promoting of the businesses. According to Strong (2008), microfinance has become extremely popular as approach alleviation of poverty through loan financing to SMEs that enable them to start businesses and make other small investments.

4.9.5 Ease Access

The respondents were asked how easy it was to access the loan. The responses are in Table 4.12.

Table 4. 12: Ease of access

Ease of access	Frequency	Percentage (%)
Very easy	3	4.3
Moderately easy	6	8.6
With some difficulties	52	74.3
Very difficult	9	12.8
Total	70	100

Only 4.3% of the respondents said they had accessed the loan easily. 8.6% said it was moderately easy, 74.3% said they accessed it but with some difficulties and 12.8% said it was very difficult. The higher percentage of the respondents said that they accessed the credit with some level of

difficulties. According to Copestake (2002), there is discrimination in favor of richer clients, who benefit from better access to credit, gender since the women are not considered to be having the potential to pay back the borrowed money, high collateral required in order to be granted a loan and exclusion of poorer people. Thus the microfinance option may not always be the best especially for the women, poor households due to the difficulty in accessing credit.

4.9.6 Factors that hindered loan accessibility

Over 52 respondents out of 70 respondents experienced some difficulties and 9 respondents it was very difficult for them to get a loan from financial institutions as shown in table 4.13.

Table 4. 13: Obstacles to loan accessibility

Obstacle	Frequency	Percentage (%)
Size of SME	21	34.4
Collateral	28	45.9
Gender	10	16.2
Period of processing	2	3.3
Total	61	100

34.4 % of the respondents faced difficulties with the size of the SME since small businesses are considered inefficient, 45.9% were asked collateral they don't possess which made it hard for them to attain the loan, 16.2% majority were women were denied chance to obtain the loan since the SME is not operated by men and 3.3% faced hardships with the period of processing loan. All

these greatly affect the SME performance since they need finance to cater for capital and operational expenses which is the backbone needed by all small businesses to run smoothly.

4.10. Credit accessibility

4.10.1 Accessibility and Financial Performance

The respondents were asked to what extent the accessibility to credit had influenced financial performance of their business.

Table 4. 14: Accessibility and Financial Performance

Accessibility and Financial Performance	Frequency	Percentage
Very great extent	30	42.9
Great extent	20	28.6
Moderate extent	12	17.1
Little extent	5	10.0
Negligible extent	3	4.4
Total	70	100

From the responses above 42.9% of the respondents said to a very great extent, 28.6% said to a great extent, 17.1% said to a moderate extent, 10.0% said to a little extent and 4.4% said to a negligible extent. These findings are consistent with those of Akisimire (2010) who established that there existed a significant and positive relationship between credit terms and SME performance.

4.10.2 Average Amount Saved

The respondents were asked the average amount they had been able to save/deposit over the last five years.

Table 4. 15: Average Amount Saved

Years	2017		2018		2019		2020		2021	
Interval	N	%	N	%	N	%	N	%	N	%
0 – 250	42	60.0	45	64.3	21	33.3	18	38.3	28	40.0
251 – 500	16	22.9	12	17.1	19	30.2	10	21.7	17	24.2
501- 1000	10	14.3	10	14.3	20	31.7	15	31.5	23	32.9
Above 1000	2	2.9	3	4.3	3	4.8	4	8.5	2	2.9
Total	70	100	70	100	63	100	47	100	70	100

From the responses above those who had saved of up to \$250 in 2017 were 60%, in 2018 were 64.3%, in 2019 were 33.3%, in 2020 were 38.3% and 40.0% in 2021. Those who had saved of between \$251 to \$500, in 2017 were 22.9% of the respondents, 17.1% in 2018, 30.2% in 2019, 21.7% in 2020 and 24.2% in 2021.

Those who had saved between \$501 to \$1000 were 14.3% in 2017, 14.3% in 2018, 31.7% in 2019, 31.5% in 2020 and 32.9% in 2021. The respondents who had saved above \$1000 were 2.9% in 2017, 4.3% in 2018, 4.8% in 2019, 8.5% in 2020 and 2.9% in 2021.

According to Ogujiuba Ohuche & Adenuga (2004) MFIs offer financial services such as savings that are a major backbone for the sustenance and survival of SMEs.

4.10.3 Savings and Business Performance.

The respondents were asked in what ways savings had helped their business performance. The responses are shown in the Table below.

Table 4. 16: Savings and business performance

Yes	No			
	F	%	F	%
Allowed me to borrow from the banks	70	100	0	0
Enabled the bank to measure my sales capacity	55	73	20	27
Improved my relationship with the Bank	60	80	15	20

All the respondents 100% said that savings had allowed them to borrow from the bank. Beck, Demirguc-Kunt & Levine (2005) cited that availing financial services to SMEs plays a key role in determining how they conduct their businesses and the utilization of the available resources. Those who said that savings had enabled the bank to measure their sales capacity were 73% while 27% said No. 80% said that savings had improved their relationship with the bank while 20% said no.

The study further sought to establish whether the respondents had received any form of training from financial institutions. The Table below represents the responses.

Table 4. 17: Entrepreneurial development and financial performance

Response	Frequency	Percentage
Yes	55	78.6
No	15	21.4
Total	70	100

The respondents who said they had received any form of training from financial institutions were 78.6% while 21.4% said no. There is need for entrepreneurs to be trained on management skills. These skills impact the way they run their businesses. A key determinant of the success of any

venture is the management of the business and how they operate the business since management factors have a major impact on the performance of the organization (Njanja & Pelissier 2010).

Those who said yes were asked to rate the extent to which you are conversant on the following skills as a result of the training. 1= Very conversant 2= conversant, 3= moderately conversant 4= a little conversant, 5= Not conversant at all.

Table 4. 18: Entrepreneurial Skills

	Mean	Std. Dev
Financial management	1.181	0.0012
Record keeping	1.421	0.254
Business management	1.110	0.321
Investment monitoring	2.986	0.987

From the responses the respondents were strongly conversant with financial management as it scored a mean of 1.981. Record keeping scored a mean of 1.421 an indication that the respondents were conversant. The respondents were also conversant with business management skills and moderately conversant with investment monitoring as they scored means of 1.110 and 2.986 respectively. In order to successful manage a business the managers need to have the relevant management skills as business management is a key determinant of the success of any business. Njanja and Pelissier (2010) concluded that management factors had a significant effect on performance of micro, small and medium enterprises.

4.11 Profits Generated

The respondents were asked indicate the profits generated in their business over the last five years. The responses are shown in the table below.

Table 4. 19: Profits Generated

Year	Mean (\$)
2017	234.1
2018	350.6
2019	753.8
2020	513.0
2021	421.4

From the responses the average of the respondents profits was 234.1 in 2017, 350.6 in 2018, 753.8 in 2019, 513.0 in 2020 and 421.4 in 2010. The main aim of any enterprise is to generate profits. According to Greenwood & Jovanovic, (1990), a profitability ratio is an important tool for businesses and managers to measure the progress for achieving the targeted goals.

4.12 Value of the Assets

The respondents were asked indicate the total value of assets owned by their businesses over the last five years from 2017 to 2021. The responses are shown in the table 4.20.

Table 4. 20: Value of the Assets

Value (\$)	Frequency	Percentage (%)
0 – 500	18	26.4
501 – 1000	10	14.7
1001 – 5000	15	22.1
5001 – 10000	10	14.7
Above 10000	15	22.1

The percentage of the respondents' value of assets between 2017 to 2021 were 26.4% up to \$500, those who had assets between \$501 to \$1000 were 14.7%, between \$1001 to \$5000 were 22.1%, between \$5001 to \$10000 were 14.7% and above \$10000 were 22.1%. According to Greenwood & Jovanovic, (1990) financial performance is a measure of how well an organization can use assets from its primary mode of business to generate revenues.

4.13. Correlation Analysis

In order to establish the strength of the relationship between the dependent and independent variables, the researcher conducted a Pearson's Moment of Correlation. The findings were as shown in the Table below:

Table 4. 21: Correlation Matrix

	SME performance	Savings/ deposits	Assets acquired
SME performance	1		
Savings/deposits	0.8942	1	
Assets acquired	0.9061	0.9807	1

The data presented before on Accessibility to financing, Savings/deposits and Entrepreneurial development were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table above indicates the correlation matrix between the factors (Accessibility to financing, Savings/deposits and loans obtained by a given gender) and financial performance of SMEs. According to the table, there is a positive relationship between financial

performance of SMEs and Accessibility to financing and Savings/deposits 0.8942 and 0.9061 respectively. The positive relationship indicates that there is a correlation between the independent variables and performance of SMEs. This infers that Savings/deposits had the highest effect on financial performance of SMEs, followed by Accessibility to financing, while loans obtained by a given gender had the lowest effect on the financial performance of SMEs within Mogadishu.

4.14. Regression Analysis

In addition, the researcher conducted a regression analysis to establish the consolidated effects of the independent variables on the dependent variable.

The first test:

Regression model 1:

$$Y_a = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where: Y_a = Access to credit (Amount of loan/funds obtained)

X_1 = Gender (female)

X_2 = collateral security (assets obtained by the SME)

X_3 = Business size

β_0 = Y- intercept

The findings are presented below:

Table 4. 22: Model Summary

Model	R	R Square	Adjusted R Squared	Std. Error of the Estimate
1	0.55798 ^a	0.8152	0.7860	0.0125

a. Predictors: (Constant), credit accessibility, collateral, business size and gender (female).

The above inserted table depicts model summary of regression analysis between three independent variables including, collateral, business size and gender and a dependent variable access to credit. The table shows that value of R is 0.5598, the value of R square is 0.8152, the value of adjusted R square is 0.7860 and the value of standard error of the estimate is 0.0125. These findings show that the factors studied in this study affect credit accessibility in Mogadishu up to 78.60% as indicated by the adjusted R Square.

Table 4. 23: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	10710138.3	58	3570046.09	10.04	.0702 ^a
Residual	2428653.02	11	127823.84		
Total	13138791.3	69			

a. Predictors: (Constant), credit accessibility, collateral, business size and gender (female).

b. Dependent Variable: Access to credit.

The above table depicts ANOVA (Analysis of Variance) of regression analysis between three independent variables including collateral, business size and gender and a dependent variable is credit accessibility. The value of sum of squares is 13138791.3, the value of df is 69, the value of mean square is 3570046.09, the value of F is 10.04, and the significance value is 0.0702. Positivity

and significance of all values shows that model summary was significant and therefore gives a logical support to the study model.

Table 4. 24: Result of regression analysis on Access to credit

Access to credit	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	59.5286	0.1451		0.41	0.686
Gender _(females)	-0.8272	0.2092	0.7619	- 0.395	0.001
Collateral	0.654	0.0654	0.1470	0.111	0.041
Business size	2.703	0.1081	0.112	0.250	0.022

a. Dependent Variable: Access to credit by SME

The regression drawn from the Table above was presented as follows:

$$Y_a = 59.5286 - 0.8272X_1 + 0.654X_2 + 2.703X_3 + E$$

The findings from the study showed that all the variables Gender, collateral security business size were statistically significant as their significance values were less than 0.05. From the model, taking all factors (credit accessibility, collateral, business size and gender (female)) constant at zero, return on assets had an autonomous of 59.5286. The data findings analyzed also showed that taking all other independent variables at zero, a decrease in loans obtained by female SME owners affects credit accessibility by - 0.8272, a unit increase in business size lead to an increase in credit accessed by 2.703. A unit increase in collateral leads to a 0.654 increase in credit accessibility. This indicated that factors which affect credit access had great impact on the amount loans/credit

granted. Gender had a negative impact while collateral and business size had a positive effect on accessibility to credit by SME owners.

The second test:

The regression was conducted using the following regression model:

$$Y_a = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where: Y_a = SME performance (Amount of loan/funds obtained)

X_1 = Savings (bank deposits)

X_2 = Acquired assets owned by the business

X_3 = Number of employees

X_4 = Access to credit

β_0 = Y- intercept

The findings are presented below:

Table 4. 25: Model Summary

Model	R	R Square	Adjusted Squared	Std. Error of the Estimate
1	0.7186 ^a	0.9411	0.9280	0.1041

a. Predictors: (Constant), performance, Savings, acquired assets, number of employees and access to credit.

The above inserted table depicts model summary of regression analysis between three independent variables including, Savings, assets acquired and Entrepreneurial development and a dependent

variable namely SME performance. The table shows that value of R is 0.7186, the value of R square is 0.9411, the value of adjusted R square is 0.9280 and the value of standard error of the estimate is 0.1041. These findings show that the factors studied in this study affect performance of SMEs in Mogadishu up to 92.80% as indicated by the adjusted R Square.

Table 4. 26: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3116400.3	61	779100.075	10.56	.02752 ^a
Residual	195123.525	7	10840.1958		
Total	3311523.83	68			

a. Predictors: (Constant), Savings, Assets acquired.

b. Dependent Variable: Return on assets (SME performance).

The above table depicts ANOVA (Analysis of Variance) of regression analysis between three independent variables including Accessibility, Savings, Entrepreneurial development and a dependent variable namely return on assets. The value of sum of squares is 3116400.3, the value of df is 61, the value of mean square is 779100.075, the value of F is 10.56, and the significance value is 0.02752. Positivity and significance of all values shows that model summary was significant and therefore gives a logical support to the study model.

Table 4. 27: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	56.55	0.3029		1.260	0.223
Assets acquired	2.34	0.049	0.654	1.451	0.0163
Savings	0.542	0.1591	0.1470	0.301	0.0036
Number of employees	1.554	0.291	0.342	0.513	0.000
Access to credit	1.287	0.0488	0.404	2.041	0.050

a. Dependent Variable: Return on Assets

The regression drawn from the Table above was presented as follows:

$$Y_a = 56.55 + 2.34X_1 + 0.542 X_2 + 1.554X_3 + 1.287X_4 + E$$

The findings from the study showed that all the variables were significant as their significance values were less than 0.05. Accessibility was positively correlated while savings and entrepreneurial development were positively correlated with return on assets. From the model, taking all factors (Accessibility, Savings, Assets acquired, number of employees) constant at zero, return on assets had an autonomous of 56.55. The data findings analyzed also showed that taking all other independent variables at zero, a unit increase in accessibility lead to an increase in return on assets by 2.34. A unit increase in savings lead to a 0.542 increase in return on assets. Access to credit and number of employees had a strong effect on return on assets, a unit increase in credit accessed and number of workers employed increased the returns/performance of SMEs by 1.554

and 1.287 respectively. This indicated that accessibility contributed more to the return on assets while savings had a positive effect on return on assets.

4.15. Discussion of Research Findings

The study established that the entrepreneurs in the study area accessed different amounts of loan ranging from \$140 to a maximum of \$ 3500. The mean of the value of assets for the SMEs was \$ 4067.391 while the mean for the savings was \$3366.522 and generated mean profits were \$ 507.087. These findings are consistent with some of the findings by Lin (2007) in an empirical study of SMEs in Taiwan. Lin (2007) established that microfinance advanced loans by innovatively determining the applicant's ability and capabilities. As opposed to conventional way used by large financial institutions in assessing the ability of customers to repay, the MFIs used innovative ways to establish this. This leads to their award of even smaller loans compared to main stream financial institutions. These findings are also in line with those of Sakwa (2013) who revealed that the roles of micro finance institutions are very important for development of SMEs. At least two main goals of giving access for SMEs through development of micro finance institutions, namely: increasing business activity of micro enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship.

The study also established that accessibility to microfinance affected the performance of SMEs to a great extent. This finding is supported by Chowdhury (2002) also emphasized that favorable credit terms such as adequate loan amounts, affordable interest rates and flexible repayment schedules help SMEs keep enough finances to run their working capital activities, it helps them improve their performance because they always had an opportunity cost of reinvesting their

proceeds in order to generate more revenues something that increases on their return on capital employed.

On the influence of savings and deposits to financial performance of SMEs, the study established that savings allowed the entrepreneurs a chance to borrow from the banks and also measured their revenue generation capacity. This in turn led into building of a strong relationship which saw the entrepreneurs“ access more and more credit facilities as their relationship period increased. These findings contradict those presented by Katto (2008) that MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). This coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because they (SMEs) do not have adequate or no collateral as indicated by their performance ends up being affected.

The study also established that entrepreneurial development played a key role in the performance of SMEs. The entrepreneurs were trained on financial management, record keeping business management and investment monitoring. These findings are consistent with those proposed by Kumar and Jeyanth (2007) that through frequent interactions between MFIs staff and entrepreneurs, they notice skills deficiency which can be improved through training and due to large economies of scale, MFIs can easily achieve this.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The chapter presents the summary of findings, the discussion and conclusion drawn from the data findings. In addition, it presents the recommendations of the study. All this had been geared toward achieving the objectives of the study.

5.1 Summary of Findings

The study established that the respondents had access to loans from the MFIs though with difficulties. Access to credit had a positive impact on SMEs in Mogadishu, which was evident through increased profits, increased employment and increased income levels. The main reason for this increase in profits was due to the fact that SMEs were able to invest some of their profit in new machinery and equipment which increased their productivity as well as increased their capacity to generate income. In his study, Copestake (2002) cited that the poor were discriminated against when they wanted to Access credit from the financial institution. He further argued that Micro financing may not be the best alternative in financing poor households since priority was given to the rich. The study also established that there were respondents who had not been able to access the credits. Strong (2008) highlighted that microfinance was a key approach alleviation of poverty among households.

The findings revealed that the respondents had savings in their respective financial institutions. Though there were some that had not saved anything others had saved large sums of money. Ogujiuba Ohuche & Adenuga (2004) listed Savings as one of the financial services offered by MFIs offer that contribute to the sustenance and survival of SMEs. The study established that

savings had allowed the entrepreneurs to borrow from the banks, enabled the bank to measure their sales capacity and improved their relationship with the Bank. Demircuc-Kunt & Levine (2005) cited that availing financial services to SMEs determines how they conduct their businesses and the utilization of the available resources.

The study revealed that entrepreneurial development had been offered to the SMEs through training of the entrepreneurs by the financial institutions. Majority of the respondents had received some form of training to improve their management skills. According to Njanja and Pelissier (2010) concluded that management factors had a significant effect on performance of micro, small and medium enterprises. The study established that the entrepreneurs' skills in financial management, record keeping and business management had improved. However the study established that the skill of investment monitoring had not been improved significantly among the entrepreneurs.

5.2 Conclusion

The study made the following conclusions:

The respondents accessed credit from financial institutions but with difficulty, majority obtained loans from family and relatives and some did not access it at all. The study concludes that the accessibility of credit from credit facilities affects the performance of the SMEs to a very great extent.

On savings, the study concludes that the some of the SMEs owners at Mogadishu have been able to make savings while others have not through their respective MFIs. The study also concludes that saving has allowed the entrepreneurs to borrow from the banks, has enabled the bank to measure their sales capacity and improved relationship between the entrepreneur and the Bank.

The study also concludes that the entrepreneurs have benefited from management training offered by some of MFIs. The study also concludes that the training has improved the management skills of the entrepreneurs in Mogadishu in financial management, record keeping and business management.

The main challenge that needs to be overcome in order to make these opportunities possible is the lack of awareness that the government and private sector have about what SMEs can contribute towards economic development. However, there are actions that the government and the private sector can take in order to overcome this challenge. These actions include clear guidelines and policies regarding small business development, provision of basic services to small business operators by both the public and private sectors and creating effective partnerships with SMs in Somalia.

5.3 Recommendations

The study makes the following recommendations:

From the responses it was established that some of the respondents were not able to access credit from the MFIs and majority of those who did, accessed it with difficulty. This study therefore recommends that the management of MFIs revise their lending policies and requirements so as to ensure that most of the traders can be able to access credit more easily. This would be effective in attracting more customers to the MFIs as well as enabling the traders to sustain their businesses.

The study also recommends the MFIs carry out sensitization campaigns on the need to save among the traders. This would be important in ensuring that the customers share of savings is higher thus

making it easier to access loans. The study also recommends that the MFIs use that traders savings as part of collateral since most may not have large tracts of land or the physical collateral needed.

The study also recommends that the MFIs offer training and other skills such as marketing, customer service, purchasing and supplies. This would be the key in enabling the traders market their businesses better, offer great customer service and be able to acquire the best produce to supply to their customers. The study also recommends that the training on investment monitoring be offered more hours since it was established that the traders had not improved their skills in the area. This would be the key in enabling them make informed investment decisions. ,

I suggest that the government to help SMEs develop in order to achieve a higher level of performance and expansion in financial capacity: i) Introduce an incentive package to encourage banks to provide affordable credit with low interest rate on small businesses; ii) Extend loan schemes with low interest rates on SMEs

5.4 Limitations of the Study

Most SMEs in Mogadishu do not maintain proper financial records. This raised a challenge of measuring their performance and particularly the financial aspect and some respondents provided estimates that were relied on. In some cases, the entrepreneurs could not compute properly to give accurate figures for the study. This may have affected the reliability of data collected.

Because most of the SME operators have low education levels, the researcher faced a challenge of explaining technical terms to the respondents. However, to overcome this challenge, the researcher explained most of the terms in Somali which most of the entrepreneurs could easily relate with.

Due to existence of other tax collecting party in Mogadishu Somalia majority of the respondents feared to give out some important information concerning their business operation in fear to be charged taxes by the so called “Arsenal” group on top of what SMEs pay to the government, this greatly hindered the data collection process.

5.5 Suggestions for Further Research

The purpose of this study was to determine the effect of access to micro financing on financial performance of small medium enterprises in Mogadishu, Somalia. The study was only limited to the SMEs at four trading districts of Wadajir, Hodan, Howl wadaag and waberi and thus the findings cannot be generalized. The study therefore recommends that in the future a similar study be conducted across traders in the country so as to be able to generalize the findings.

This study also recommends that in the future a study be conducted on the strategies adopted by small scale traders so as to ensure customer satisfaction. This study would be important in determining the measures the traders have taken so as to ensure the customers are satisfied with the services offered. This will be important in determining ways in which the traders can increase and retain their customers and thus increasing the profitability of their business.

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APENDEX A

BUDGET

<i>NO</i>	<i>Item</i>	<i>QTY</i>	<i>Price</i>	<i>Amount</i>
1	Stationary			
	Pens	2	0.25	\$ 0.5
	A4 papers	1 ream	5	\$ 5
	Total stationary			\$5.5
2	Computer facility & printing			
	Printer facility	----	---	\$20.00
	Internet facility	2 month rent	\$ 30	\$ 60
	Total facilities			\$80
3	Miscellaneous			
	Telephone service			\$10
	Electric	3 month	5	\$15
	Transportation fee	-----	-----	\$30
	Total Miscellaneous			\$55
	Total Budgets			\$140.5

APPENDIX B

TIME FRAME

SN	Activities	Time
1	Writing research proposal	December 2021 to Jan 2022
2	Collection data	January 2022
3	Data analysis and interpreting	January 2022
4	Report writing	February 2022
5	Submission of the report	March 2022
6	Defense thesis	-----

APENDEX C

QUESTIONNAIRE

Access to micro financing on performance of SMEs in Mogadishu -2022

Introduction

“Greetings. My name is **LUBEGA ANTONNY**

Am a master’s student at ACCORD UNIVERSITY. At the moment conducting a survey to **Analyze the effects credit accessibility on small and medium sized enterprises (SMEs) in Mogadishu – Somalia**

Ultimately, the information gathered here will help to develop new policies and programs that enhance employment and economic growth. The information obtained here will be held in the strictest confidentiality.

Neither your name nor the name of this establishment will be used in any document based on this survey

That’s why I want to know your opinions.

Do you want to ask me anything about this survey before you decide to participate?

The interview will take around **5 to 10 minutes**.

SECTION A: Interviewee’s Personal details (Please tick as appropriate)

Entrepreneur Gender	Male []		Female []	
Marital status	Single []		Married []	
What is your age?	20 to 35 []	36 to 59 []	60 to 75 []	Above 75 []
What is the highest level of education completed? (owner)	Primary school	Mid or High School (A level)	Vocational or Technical Training (Professional Training)	University education <i>Other</i>
Are you employed?	Yes []		No []	
If yes, which sector?	Public []	NGO []	Private []	Others []
Which sector are you working in?	Retail	Wholesale	Transport	Education Financial and insurance

				activities
--	--	--	--	------------

SECTION B: Enterprise Details (SME) (Please tick as appropriate)

Location of the business	Banadir Hodan Garowe Beledweyne
What's the origin of your business?	Established [] Inherited [] Other specify
What is the form of your business?	Sole Proprietorship [] Partnership [] Others Please specify.....
If partnership, What percentage of this establishment does the largest owner or owners own?	[____] % Don't know
What percentage of this establishment is owned by each of the following?	A. [____%] Private domestic individuals, Companies or organizations. B. [____%] Private foreign individuals, Companies or organizations. C. [____ %] Government/State. D. [____ %] Other:

	Don't know
Number of employees when established?	Less than 5 5 to 20 20 to 50 50 or more
Number of employees currently?	Less than 5 5 to 20 20 to 50 50 or more
Source of starting capital	Savings [] Bank loan [] Borrowing from Family [] Borrowing from informal lenders [] Others
Type of enterprise and sector	Transport [] Grocery Boutiques/clothes shop/ tailoring / Supermarket [] Electronics [] Retail shop [] Service (shoeshine/barbershop/salon) []

How long has your business been operating?	Less than 1 year [] 2 - 3 years [] 4- 7 years [] 8-10 years [] over 10 years []
Have you had any other business prior to the current one?	Yes [] No []
If yes, for how long did you run the previous enterprise?	Less than 3 years [] 3 to 5 years [] Over 5 years []
Does this establishment have a bank account (checking or savings)?	Yes [] No []
If yes, What is the main bank that you bank with?	Amal bank Dahabshil bank Premier bank My bank
How satisfied are you with the service your bank provides?	Very satisfied Quite satisfied Quite dissatisfied Very dissatisfied

Which banking services do you currently use?	Deposit ATM card Credit card Payment services Other
Is your business registered?	Yes [] No []
How much do you get per month? (dollar)	Below 100 [] 100-500 [] 500-1000 [] over 1000 []

SECTION C: Accessibility to Loans and Financial Performance

1. Loan information

Does this establishment have a line of credit or loan from a financial institution?	Yes [] No []
If yes, what type of financial institution granted this loan?	a. Private commercial banks [] b. State-owned banks or government agency [] c. Non-bank financial institutions which include microfinance institutions, credit cooperatives, credit unions, or finance companies [] d. Trade credit, local lending market [] e. Relatives, friends, family [] f. Others
How easy was it to access this loan from the Bank?	Very easy [] moderately easy [] With some difficulties [] Very difficult []

If very difficult, what was the problem? Difficulty in loan processing and attainment	Gender [] Collateral [] SME size [] Period of processing [] Others.....
What security was required?	a. Land, buildings under ownership of the establishment [] b. Machinery and equipment [] c. Personal assets of owner (house, etc.) [] d. others
If no, why this establishment did not apply for any line of credit or loan	a. No need for a loan [] b. Application procedures for loans or lines of credit are complex [] c. Interest rates are not favorable [] d. Collateral requirements are too high [] e. Did not think it would be approved [] others.....

1. Please indicate the amount you have accessed as a loan over the last four years

Year/ Amount of loan (\$ dollars)	2017	2018	2019	2020	2021
0- 250					
251 – 500					
501 – 750					
751 - 1000					
Above 1, 000					

From:

- a. Private commercial banks
- b. State-owned banks or government agency
- c. Non-bank financial institutions
- d. Trade credit, local lending market
- e. Relatives, friends, family
- f. Others

1. To what extent do you think the accessibility to credit has influenced financial

performance of your business?

Very great extent [] Great extent []

Moderate extent [] Little extent []

Negligible extent []

SECTION D: SAVINGS AND FINANCIAL PERFORMANCE OF SMES

Please indicate the average amount you have been able to save/deposit over the last five years

Year/ Amount saved (US. \$)	2014	2013	2012	2011	2010
0- 10					
11 – 20					
21 – 50					
51 – 100,					
Above 100					

1. How have these savings helped your business performance? Please select all ways in which you think the savings have helped your business.

Improved my relationship with the Bank []

Enabled the bank to measure my sales capacity []

Allowed me to borrow from the banks []

Other (Please clarify) []

SECTION E: Entrepreneurial Development and financial performance of SMEs.

1. Have you received any form of training from financial institutions? Yes [] No []

2. If yes, rate the extent to which you are conversant on the following skills as a result of the training. 1= Very conversant 2= conversant, 3= moderately conversant 4= a little conversant, 5= Not conversant at all.

	1	2	3	4	5
Financial management					
Record keeping					
Business management					
Investment monitoring					

Other Please specify:

SECTION D: FINANCIAL PERFORMANCE OF SMES

1. Please indicate the profits generated in your business over the last five years

Year/	Profits generated (US. \$)
2017	
2018	
2019	
2020	
2021	

1. Please indicate the total value of assets for your business

Year	Total Asset Value (US.\$)
2017	
2018	
2019	
2020	
2021	

THANK YOU FOR ATTENDING TO MY QUESTION