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The Effect of Microfinance Institutions in Growth and Development of Small Businesses

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1. Introduction

Back ground of the study

Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated growth and rapid industrialization have been achieved. Micro and Small Enterprises have been recognized as socioeconomic and political development catalysts in both developed and developing economies.

Globally, small to medium size enterprises are being hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. SMEs have become more important in the economic matrixes in recent years across the globe through increased deliberate government policies and legislation aimed at nurturing SMEs as engines of economic growth and employment creation. It is estimated that SMEs constitute over 90 percent of total enterprises in most economies with a high rate of employment growth. They are also a vehicle for increased industrial production and exports.

Available evidence indicates that SMEs played a major role in the growth and development of all leading economies in Asia. The Asian countries such as India, Indonesia, China, Malaysia, Japan, and South Korea also have thriving SMEs sectors contributing between 70−90 percent in employment and an estimated 40 percent contribution to their respective GDPs. Small and medium-sized enterprises account for over 90% of Japanese enterprises, and support the Japanese economy in the manufacturing, commerce, and service industries throughout Japan. In Africa, economic powerhouses such as South Africa, Egypt, Nigeria and Kenya, the SME sector is estimated to contribute over 70% in employment and 40% contribution to GDP, but contribute less than four percent to export earnings.

There is no doubt that most African countries depend on their Micro, Small and Medium Enterprise in driving their economies forward. However, most of these SMEs receive lukewarm support from their governments. Nevertheless, a few competitive SMEs are thriving and contributing to economic growth, employment creation and local development in combating poverty. For example, World Bank Enterprise Survey (2013), with a survey of 130,000 firms in 135 countries, found out that limited access to finance ranked at the top of the list of obstacles to growth and development of small and medium enterprises. The problem of accessing finance is much worse in the Sub-Sahara Africa Countries which constrained the development and growth of SMEs. The 1976 Economics

Nobel Prize winner Milton Friedman quoted, “The poor stay poor not because they are lazy but because they have no access to capital.”

Eritrea is one of the African countries where SMEs is important. Eritrea’s small and medium enterprises (SME) sector holds great potential for generating employment, adapting technology, and creating an export base which is grounded in the country’s true comparative advantage of its ideal Red Sea location, abundant rich natural resources and its traditional history as a trade and business corridor to the country and its hinterland-Horn of Africa with the world.

The concept of micro-financing arose out of the need to provide to the low-income earners who were left out by formal financial institutions. Microfinance is generally an umbrella term that refers to the provision of a broad range of services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises. If we ask the key factors influencing small enterprise to become medium hence large enterprises is microfinance. Microfinance is an important tool to promote business development. Development of small business is subjects to access and received adequate finance and lucrative markets. Furthermore, microfinance improves business working capital. More than 10,000 firms in 80 countries, SMEs worldwide on average named financing constraints as the second most severe obstacle to their growth, while large firms on average placed finance only fourth. The practice of micro-credit dates back to as early as 1,700 and can be traced to Irish Loan Fund System which provided small loans to rural poor with no collateral. Over the years, the concept of micro-finance spread to Latin America, then to Asia and later to Africa. More than 7,000 microfinance institutions existed in developing countries with microloans amounting to about 16 million granted to poor borrowers.

Brazil was the pioneer country in Latin America to develop microfinance in the 1970 s. Despite the difficulties, microfinance expanded throughout Latin America from 1980 s onwards, creating new organizations and ways of working to address the problems in each country.

The formal microfinance began with the establishment of a private bank, Bank Dagang Bali (BDB) in Bali, Indonesia, in 1970 and in South Asia (Bangladesh, Pakistan, India and Nepal), while the informal sector financing can be traced back to the era of Kautilya in the fourth century B.C.E. The modern microfinance took shape after passing of Cooperative Credit Societies Act in 1904.

The modern microfinance movement is closely associated with the work of Dr. Muhammad Yunus, the US-educated Bangladeshi economist and future Nobel Peace Prize recipient in 2006. It was Yunus’s work in the village of Jobra and the apparent success of the iconic Grameen Bank he established in 1983, that convinced him very early on that he had found the answer not just to Bangladesh’s endemic poverty, but to global poverty in its entirety. Importantly, Yunus took great pains to portray microfinance as a vital way of legitimizing and promoting capitalism in developing countries, essentially ‘bringing capitalism down to the poor’ (Bateman, 2013). On a regional basis, the Asian programs reported 23.6 million clients at end-2000, of whom 10.5 million were classified as ‘poorest.’ From this it appears the center of gravity of the world microfinance movement is located in Asia.

Evidence suggests the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries. However, Susu, one of the microfinance schemes in Ghana, is thought to have originated from Nigeria in the early twentieth century. In Nigeria, informal financial institutions play their role and there may be only few Nigerians who are not a member of one or more of them (Seibel, 1970). Then it spread as far as Liberia, Congo and Zaire and later all over the continent. Moreover Africa lags behind other regions of similar size and structure. Its gross domestic savings averaged 8 percent in the 1980 s, while for the same period South East Asia and especially Newly Industrialized Economies (Republic of South Korea, Taiwan, and Singapore) reached respectively 23 and 35 percent. Up to 1998, the achieved average saving rate was far from the target (Calgagovski *et al*., 1991).

Based on the realization that small business firms are good opportunities to the majority groups of the people and demanded special attention, the ultimate goal of this research was aimed at SMEs in regard with MFI in Eritrea. It is really convincing that encouraging small business firms and proper financing of these firms can set Eritrea free from market monopoly. Micro-finance in Eritrea was introduced in 1994 to solve the problems of SMEs who have no access to formal banking services. Thus, the main focus of this study was to identify MFI activities towards SMEs and their growth in Eritrea.

Research questions

1) What are the main challenges that SMEs face in starting and running their business in Eritrea?
2) Does microfinance contribute to entrepreneurial activities that can lead to sustainable growth of SMEs in Eritrea?
3) What are the challenges of SMEs in accessing credit?
4) Are credits effectively utilized by SMEs for business growth?
5) What are the main activities and the associated risks of Micro finance in Eritrea?

Research objectives of the study

This study has attempted to investigate the challenges that SMEs face in their efforts towards growth, with a particular interest in the role that micro-finance institutions play in the growth of SMEs. In addition to gaining an in-depth understanding of the challenges facing development SMEs, the study focuses on ascertaining a knowledge base on the resources needed for the development of SMEs and in what ways MFIs can contribute to ensure a sustainable growth and development of SMEs in Eritrea as well as setting up necessary model for MFIs.

The objective of this study focuses on how Savings and Microcredit influence financing Small Businesses. Therefore, the Specific Objectives are as follows:

1. To investigate the general challenges that SMEs face in starting and running their businesses.
2. To determine the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth of SMEs in Asmara.
3. To assess the challenges SMEs face in accessing credit.
4. To examine the utilization of credit by SMEs for business growth.
5. To examine the association between age, gender, nature of business, background of the owner,

Loan duration, percentage of loan granted, kind of credit, usage of loans for the right purpose, as well as effect and increase in capital gained from the loan.

Significance of the study

It is worth mentioning that most researchers have found this area of study very important to the development of the socio-economic activities in developing countries like Eritrea.

Small Business is the backbone of the economy of a country. It plays a vital role as a contributor to economic growth and as a source of employment. The government has come to recognize the importance of the small business sectors and has taken numerous steps to support it by providing information, advice, and business planning; helping entrepreneurs find sources of finance; offering ways to improve; by providing continuous training on diverse skills to the employees and the managers; promoting technological innovation and making it easier for small businesses to sell to the government and to foreign markets.

Encouraging entrepreneurs or small business owners is among one of the most treatment of business area in the world. Studying such a topic is of a great interest and some of the significances are:

1. Providing and updating the government, organizations and individuals with necessary information about the problems of launching small business firms. 'Knowing the problem is knowing the solution,' thus, possible measures may also be recommended to avoid the identified bottlenecks in establishing small business firms in Eritrea.
2. The findings of the study are going to enable micro finance institutions to better understand their role in the growth of SMEs in Eritrea in order to implement better and effective programs. And it will act as feedback to microfinance institutions that provide financial solutions to SMEs.
3. The study will assist MFIs to adopt the necessary measures and models needed to ensure the desired growth in the SME industry as well. Providing guidance model on how to manage the activities of SMEs in order to control the misappropriation made by them.
4. To make unknowledgeable SME owners and managers aware of the services and products provided by micro finance institutions.
5. The study will serve as a source of reference for other researchers and more importantly, entrepreneurs of SMEs may find it useful in the successful operation of their enterprises as the study will unveil some of the reasons why some SMEs fail. It is also significant for scholars to understand the level of SMEs development in Eritrea which plays a significant role in providing ancillary services to multi-national corporations. Finally, this study contributes to the future development of this area of research, particularly in a developing country like Eritrea.

2. Profiles of microfinance and small and medium enterprises

Over view of microfinance

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance. No collateral is required contrary to formal banking practices. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral due to distance. It is due to this that the cost to lend a dollar will be very high and also there is no tangible security for the loan. Microcredit institutions spend billions of dollars fighting poverty by making small loans primarily to female entrepreneurs. Providing banking and other financial services to the poor presents a serious challenge because of poor credit risk. This compounds the problem of being a risk sector for lending. Proponents argue that microcredit mitigates market failures, spurs microenterprise growth, and boosts borrowers' well-being.

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. There are different providers of microfinance services and some of them are: Non-Governmental Organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non-bank financial institutions. The target group of MFIs are self-employed low income entrepreneurs who are: traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans and blacksmiths.

Methods of delivering financial services by MFIs

Credit Unions: are organizations that are formed on the basis of financial relation of savings and loans between its members. They accumulate savings from its members and provide short-term credit to the needed members. The demand for loans in general exceeds the supply of savings. In most rural areas credit unions are still the solitary source of deposit and credit services, besides the informal financial market. Because credit unions have social as well as commercial objectives, they may have a key role to play in offering pro-poor financial services.

Group Lending (Grameen Model): is one of the most novel approaches of group based lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. The group self-selects its members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members. Most MFIs require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other's loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the MFI.

Individual Lending: is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups or generating peer pressures to ensure repayment. The individual model is a part of a larger credit plus program where other socio-economic services such as skill development, education, and other outreach services are provided.

Self-help groups (SHG): this is common among women in the rural areas who are involved in one income generating activity or another. Making credit available to women through SHGs is a means to empower them. This group is an institution that helps its members sustainably with the necessary inputs to foster their lives. SHG provides its members with not only the financial intermediation services like the creating of awareness of health hazards, environmental problems, educating them etc. These SHGs are provided with support, whether financial, technical or other wise to enable them to engage in income generating activities such as; tailoring, bee keeping, hairdressing, weaving etc.

Village Banking: are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings. The members are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000). The loans are baked by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005).

Over view of small business

In an economic view Small Business is defined as a firm that has relatively small share of their market place and is managed by owners in a personalized way and not through the medium of a formalized management structure and is independent in the sense of not forming part of a large enterprise.

In a statistical view SMEs is defined as: the size of the small firm sector and its contribution to GDP, employment, exports, the extent to which the small firm sector's economic contribution has changed over time.

A business is small in an industrial country with less than 500 employees and less than 100 employees in developing countries. SMEs in Eritrea are generally defined as firms which have minimum 5 and maximum 25 numbers of employees. This definition is established with the agreement of Ministry of Trade and Industry of Eritrea and United Nations Industrial Development Organization to fit the situation of least developed countries (Ogubazghi and Muturi, 2014).

Challenges of small business

Most small business owners don't have enough money saved up. Small business owners are needed to save up at least six months worth of living expenses along with six months worth of expenses for their business too. Poor record keeping is also a cause for start-up business failure. In most cases, this is not only due to the low priority attached by new and fresh entrepreneurs, but also a lack of the basic business management and skills. Business interest if not accompanied with business management skills in the end is an obvious business failure. Another common problem during the start-up period is that negative cash flows have been a common characteristic, mostly due to lack of sales, pricing problems, high competition, and most often, operation on a small scale combined with soaring costs of operation. After establishment, a firm faces problems in its operations. Poor market is one of the main problems that a firm faces. Power costs are high in East Africa. It has the most expensive electricity on the continent. Therefore, challenges faced by small businesses striving to survive are very high compared to large firms. And last but not least, the lack of accessing credit from formal financial institutions like commercial banks poses a serious bottleneck.

Relationship between microfinance and growth and development of SMEs

The purpose of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or frame work may expand in time with the accumulation of physical resources or tangible that are human in nature. The term growth can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements. The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state. The growth of a firm can be determined by supply of capital, labor and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm. Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augments income levels, increases employment and thereby alleviates poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production.

Microcredit and small and medium enterprise (SME) finance are often pitched as alternative strategies to create employment opportunities in low-income communities. The main objective of microcredit is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. Insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SME's risk-bearing abilities; improve risk coping strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor. MFIs that are financially sustainable with high outreach have a greater livelihood and also a positive impact on SME development because they guarantee sustainable access to credit by the poor.

The factors that affect SME's access to credit

The type of population to be served and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFIs. SMEs differ in the level in which they are and the products and services offered to them by the MFIs are towards meeting the demands of the market. SMEs are financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. The type of activities that the business is involved in is also a determinant and this can be: production, commercial or services activities.

Start-up or existing SMEs: In identifying the market, MFIs consider whether to focus on already existing entrepreneurs or on potential entrepreneurs seeking for funds to start up a business venture. Working capital is the main hindrance in the development of already existing SMEs and to meet up, they borrow finance mostly from informal financial sources such as: families, friends, suppliers or moneylenders. The finances obtained from these informal financial services have high interest rates and services offered by the formal sector are not offered by these informal financial sources. MFIs see it less risky to work with existing microenterprises because they have a history of success.

Businesses that are financed by MFIs from scratch consider that they will create an impact in the society by alleviating poverty by increasing their level of income. An integrated approach lays down the foundation for start-up businesses to pick up since financial services alone will not help them. They need other services such as skills training and to equip them with all the necessary tools that can hinder them from obtaining loans. Existing businesses with part of their capital being equity is preferred by most MFIs to work with since the level of involvement is high and consequently lower risk.

Statement of the problem

Small business financing (also referred to as start-up financing) refers to the means by which an aspiring or current business owner obtains money to start a new small business, purchase an existing small business or bring money into an existing small business to finance current or future business activity. One of the main problems in small business is a matter of finance. There are many ways to finance a new or existing business, each of which features its own benefits and limitations. In the wake of the recent financial crisis, the availability of traditional types of small business financing has dramatically decreased. There has been a big problem in financing small business and in recent years even the biggest firms are not exceptions because of the world's financial crises.

In Eritrea, the history of small business has a continuous track of financial affliction resulting from different problems like all small businesses throughout the world. In addition to this, the political instability of Eritrea (i.e. colonialism) had a lion's share in suppressing Eritrean small business firms. Since the Eritrean economy was at its lowest level, there was no availability of financial sources especially for small firms. Owing to this problem and other external factors many individuals were hindered from starting their own business. Over the past 25 years of independence, however, the state of small businesses has not been as bad as the previous decades. Small businesses have been gearing forward as a development vehicle in providing job opportunities to the underprivileged such as women and the poor. Moreover, the government also encourages and provides funds to orphanages and post-war victim children and teenagers who are financially and economically bereft. Yet, there are many problems that have to be addressed. Challenges faced by SMEs from many studies may emanate from financial challenges, management or marketing limits in which many SMEs find themselves in. Small Businesses fail either from being started or at their early stage of operation. On the other hand, Ubom (2003) claims that Micro Finance Institutions offer business solutions to small and medium enterprises by providing savings and credit, payment services, social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Studies indicate that SMEs fail as a result of challenges such as inability to provide quality services, lack of adequate finances and poor management skills. This would sound ironical owing to the view that it is the same problems that microfinance institutions are strategically focused on addressing. A gap in the reviewed literature exists as far as addressing the effect of micro finance institutions and growth and development of SMEs is concerned.

An informal discussion with entrepreneurs in the SME industry revealed that there is great reliance on credit as a tool for business growth and development. However, most entrepreneurs asserted to the fact that they are faced with the challenge of inadequate capital and this inhibits their growth. Some MFI institutions also believe that credit obtained by entrepreneurs are misappropriated. Another constraint of most SMEs is the lack managerial and business skills. There is the need to build these capacities in addition to financial resources in order to achieve growth.

The study has attempted to establish the effect of microfinance institutions on growth and development of SMEs with focus on Asmara, the capital city of Eritrea.

Current condition of the country

Across the globe, economic wellbeing of the people is the priority of any government of any developed nation in general and of any developing country in particular. So is true with the Government of Eritrea. The Government of Eritrea is exerting its full effort to help improve the well-being of the entire population. One way of doing it is through encouraging in launching and running of small business, and financing them to cope with the market through the Savings and Micro Credit Program (SMCP). Besides this, nowadays, the government is paying more attention to small business. A good example of this is the conference recently held in January 2013, in Asmara, regarding the enhancement of small business in Eritrea (i.e. to encourage national private investors).

As part of the continuation of such national initiative in fostering small business, it was decided to conduct a study on how microfinance works in Eritrea and their contributions to SMEs during their launching, running and financing their business. The study is highly expected to contribute to and to guide Eritrean business innovators and initiatives: in having the right insight of the government's economic regulation control; in selecting projects that increase the value of the firm; and to have the awareness of the economic environment of a country to enhance their financial position of small firms.

Eritrea is not only geographically small but also economically not advanced. It got its independence in 1991, and is still one of the youngest nations in Africa with a population of approximately 6,000,000 people highly scattered in small towns and semi-cities. The majority of the people living in these places deals mostly in business area are small business undertakers.

There are only few fairly big business organizations owned either by the government or finger-counted individuals and/or organizations yet relatively many small business firms cover up the majority of the business activities of the country. So, no wonder that securing the wellbeing of these small business firms and financing them is a matter of great interest. These days, considerable numbers of small business firms are run by women which is another good side of the area of study. In the country, almost all the formal and informal economies are dominantly driven by women. If there were no small business firms many of these inspiring females would remain unemployed. Besides that, it can be said that several families are managing their daily life relying solely on these firms; nonetheless, the expectation has not been met so far. One notable example is the continuous financial support and encouragement being endowed to the orphanages and war-victims' families in rural and urban places of the country to help them be self-reliant by rehabilitating them through launching and running different small firms such as movable-kiosks, dressmaking, beauty salons, and small distribution depots etc.

Small businesses are mostly owned and operated by individuals who are socially and economically disadvantaged. Assistance and support are available from the government of Eritrea through micro credit companies for community development through loans to businesses for local development, construction, or modernization of buildings; for project servicing in low income areas with unemployment or areas that were stricken by natural disasters; or, for projects serving disadvantaged individuals. The only shelter for those small business financing is the Microfinance company. The smallness of loans and savings, the absence of asset-based collateral and the simplicity of operations are the three distinctive characteristics of the financial services provided by MFIs.

The Savings and Micro Credit Program (SMCP) is an MFI operating throughout the State of Eritrea. The majority of the Eritrean population does not have access to the conventional financial institutions basically due to lack of collateral and financial records. Moreover, the Eritrean financial sector is small and underdeveloped offering only a limited range of financial services. SMCP was, therefore, established in 1996 as part of the Eritrean Community Development Fund and it provides savings and micro credit services to the poor section of the population where the conventional financial institutions have failed to serve. The institution enables its beneficiaries to successfully deal with environmental hazards, economic failures as well as personal and family problems.

In Eritrea, there are two microfinance institutions; The Saving and Credit Program (SCP) 1996 and the Southern Zone Saving and Credit Scheme (SZSCS) 1994.

The saving and credit program (SCP): the government of Eritrea, the World Bank (IDA) and loans and grants from donors are the main sources of funds for SCP. The aim of the SCP is to provide financial services to the vulnerable group in the rural and urban areas who have no access to formal banking services. Grassroots-based solidarity groups owning and operating "Village Banks" will form the backbone of the program and charges 16% as a rate of interest. While its immediate objective is to provide access to credit and savings to people who are outside the orbit of the formal banking network, its long term objective is to strengthen its institutional setting and together with SZSCS, establish the legal, regulatory and judicial framework for the microfinance sector of Eritrea.

The Southern Zone Saving and Credit Scheme (SZSCS) has been launched by the Agency for Cooperation and Research in Development. The main objective of the Scheme is to provide underprivileged people access to credit. In addition, it has the objective of strengthening the institutional capacity of the scheme. The scheme charges an interest rate of 14% (Lensink *et al*., 2003).

3. Literature review

The idea of creating Micro Finance Institution (MFIs) is to provide an easy accessibility of SMEs to finance/fund particularly those which cannot access formal bank loans. Microfinance banks serve as a means to empower the poor and provide valuable tools to assist the economic development process. The promotion of micro enterprises in developing countries is justified because of their abilities to foster economic development. Microfinance institutions target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998). The main objective of micro credit is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions. Access to finance is only key to SMEs growth globally. But provision of micro-credit without follow-up on the use of credit is like giving a child wheat flour to bake when he/she does not know how to bake. The literature chosen are those that are related with the area of this study, i.e. the role of Microfinance towards small business.

Impact of microfinance in Asia

A lesson to be learnt from the emerging economies by Kaburi *et al*. (2013) an overview of the impact of microfinance in Bangladesh and Malaysia is as follows:

Grameen Bank, a brain child of professor Mohammed Yunus, was started by the Bangladesh government in 1983 as a formal bank specializing in micro-credit where lending is done without the requirement of collateral. The studies done so far in Bangladesh show that living standards of the people has greatly improved through diversification and strengthening of their salaries, improved their security, increased their self-respect and given them independence. The poor have been able to undertake diversified economic activities which generate flow of income throughout the year. Micro-credit borrowers can now depend substantially on their own property to meet their financial obligations without depending on borrowing from expensive money lenders with unfriendly borrowing conditions like high interest rates and the requirement for the collateral. Micro-credit in Bangladesh has raised self-respect and empowered borrowers as well as raised their social standing and participation in activities like building community roads, running health programs and community schools. A study conducted by World Bank in 1999 showed that income of the poor had increased by 97−93% of the borrowers.

In 2006 the Malaysian government gave a colossal sum of money to local financial institutions offering micro-credit to carry out micro-credit programs. The aim of microfinance institutions is giving loans to finance income generating activities to the poor households and eventually move out from the poverty group. A big percentage of the microfinance comes from the government with no interest for borrowers to undertake income generating projects. The advancing of loans follows Grameen Bank model where borrowers form groups who guarantee themselves. Malaysia has reached 80% of the targeted poor households. The government carries out screening of the poor before the loans are advanced. The loans are advanced through a special delivery system, no collateral, no legal action and no guarantors other than members of the group. What is striking is that the loans are delivered to the poor in the village. Besides, loans being given to the poor for income generating activities, there is close supervision by fields' staff at designated centers and business premises.

Impact of microfinance in Africa

Akoto-Sampong (2011) in Ghana finds that access to microcredit has an impact on the growth of small businesses and that people who had access to credit were able to increase their sales. However, beneficiaries of micro credit did not use it only for the business but on other things such as payment of school fees, wages and salaries of workers etc. The impulse of this is that, the beneficiary will have difficulty in paying back the loan; and it was established that gender was a factor that determined access to credit because the numbers were skewed towards women. The study also confirmed that most of the people who had access to credit were sole proprietors whose economic activities were that of trading but age was not a factor in considering one for credit. Quaye (2011) also reveals MFIs in Ghana have contributed enormously to the growth of SME sector through several activities like Greater access to credit, enhanced saving habit, Business, Financial and Managerial Training, and General effects i.e. Positive effect. SMEs face challenges in accessing credit like Inability to provide collateral and high interest rates as well as MFIs have challenges they face in granting credit like: Problem of repayment of loans, Lack of collateral security, Poor records keeping, Lack of transparency in the business accounts and related business information and Lack of proper documentation of business registration and a permanent business address from the side of SMEs. Sometimes SME owners misuse the loan they got from MFI, at this time of misappropriation of the loans. Proper monitoring of client's business, thorough analysis of clients business information and strict assessment of clients creditworthiness before granting loan facilities should be provided by MFI.

Kenya witnessed emergence of NGOs, microfinance agencies in the 1990 s using Grameen Bank group lending model and Savings of the members become security. Initially the pioneer microfinance was concerned with lending to existing enterprises and not starters just because of lack of capacity to train and provide technical assistance. A study by Mbithe (2010) shows among the financing offered by MFIs in Kenya, provision of suitable loan products to SMEs, follow up programs for the loans provided and favourable interest to open gates of opportunity for them to grow and expand. In all the assertions gauging the level of financial literacy of SMEs and the provision of the skills by MFIs, poor financial management skills among SMEs is a major obstacle towards their growth and development. Majority of them are unable to document their business operations and perform basic accounting. From the response given by SMEs the provision of the skills by MFIs has helped them manage their finances but not provided to the satisfactory to help most of the SMEs grow and develop. Based on the findings, the study concludes that the growth in sales is due to changes in Microcredit, Micro insurance and Training provided by MFIs.

Nahamya *et al*. (2013) shows as all developing countries a considerable amount of multi and bilateral aid has been channeled into microfinance programs in Uganda with varying degrees of success. The SMEs sub-sector has realized tremendous growth in terms of employment, income and business stock size. The sub-sector has therefore attracted great attention of financial service providers to extend a range of financial offer to the poor. The findings indicate that although the MFIs have performed below a set standard on average due to some industry wide challenges, they have had a significant impact in linking SMEs and the poor to sources of credit and contributed to their growth in terms of growth of business capital and stock accumulation.

All the review agrees with the findings of Cooper (2012) that microfinance services had a strong positive impact on the growth of SMEs.

4. Methodology

Study area

The study area selected for the research work was Asmara the Capital of the Central Region in Eritrea. In Eritrea there are six district Regions.

A brief introduction about Asmara

Asmara is located in the Maekel Region near the centre of Eritrea. The population of Asmara is approximately 650,000 and is the largest city in Eritrea. Eritrea's three official languages are Tigrinya, Arabic, and English. Tigre, Kunama, Afar, and other Cushitic languages are spoken in smaller populations throughout the country. Asmara is the capital city and largest settlement in Eritrea with a population of around 649,000 inhabitants making it the largest city in Eritrea. Although all ethnic groups are represented in the capital, the largest groups are the Tigrinya people (77%) and the Tigre people (15%). In Asmara, the main language is Tigrinya. However, Arabic, Italian and English are also widely spoken and understood.

The city lies at an elevation of 2,325 metres (7,628 feet) above sea level. It lies on north-south trending highlands known as the Eritrean Highlands, an extension of the Ethiopian Highlands. The temperate central portion, where Asmara lies, is situated on a rocky highland plateau, which separates the western lowlands from the eastern coastal plains. The lands that surround Asmara are very fertile, especially those to the south towards the Debub Region of Eritrea. The highlands that Asmara is located in fall away to reveal the eastern lowlands, characterised by the searing heat and humidity of the Eritrean salt pans, lapped by the Red Sea. To the west of the plateau stretches a vast semi-arid hilly terrain continuing all the way towards the border with Sudan through the Gash-Barka Region.

Asmara experiences warm summers and mild winters with subtle temperature changes between the two seasons. July and August are the rainiest months in which it rains a large portion of the annual rainfall within the two-month timeframe. Asmara is praised for its peaceful, crime-free environment, and for being one of the cleanest cities of Africa.

As the capital city and largest settlement of Eritrea, most Eritrean businesses have their headquarters in Asmara. The city was once a factory town. During the colonial period, it was an administrative and commercial centre of Italian East Africa. When the British entered the country in 1941, many businesses were closed down or relocated outside of the city. This trend continued under Ethiopian occupation. Textile clothing, footwear, processed meat, beer, soft drinks, and ceramics are Asmara's major industrial products. The city is a marketplace for agricultural products, and a centre for tanning hides.

The Eritrean economy is largely based on agriculture, which employs 80 percent of the population but contributes little percent to gross domestic product. Agricultural exports include cotton, fruits and vegetables, hides, and meat, but farmers are largely dependent on rain-fed agriculture, and growth in this and other sectors is hampered by lack of a dependable water supply.

Asmara is known for its well-preserved colonial Italian modernist architecture. The city is divided into thirteen districts or administrative areas: Acria, Abbashaul, Edaga Hamus, Arbaete Asmara, Mai Temenai, Paradizo, Sembel, Godaif, Maekel Ketema or Downtown, Tiravolo, Gejeret, Tsetserat and Gheza Banda. The official currency of Eritrea is the Nakfa. In the city of Asmara there are many SMEs of all kind the poor and rich alike, compared to other cities and they can be a look to the SMEs in other cities.

Study population

According to Cooper and Schindler (2003), a population is the total collection of elements about which we wish to make some inferences. Mugenda & Mugenda also define a population as the entire group of individuals, events or objects having a common observable characteristic.

The target population for the study comprised all registered small and Medium Scale Enterprises in Asmara. All formal SMEs from the 13 administrative zones of Asmara were selected to be the actual population of the study. According to the Canadian Federation of Independent Business (CFIB) SME is defined as "a firm that is independently owned and operated and not dominant in its field of endeavour." In developing countries, a small firm is a firm that owns five to nineteen employees. A firm that owns three to nine workers is called a small business according to the Eritrea Department of Macro Policy and International Economic Cooperation.

Inclusion Criteria: Private formal companies have been included in the study.

Exclusion Criteria: Governmental companies were not taken in the study.

Study design

A cross-sectional quantitative design was conducted from July 2016 to August 2016, at Asmara, the capital city of Eritrea.

Sample size

The number of SMEs included in the study was calculated statistically as follows:

$$\boldsymbol{n = \frac{Z^2 pq}{E^2} * Non\ responses},$$

where n is the sample size, Z is the standardized score for 95% confidence level (1.96), p is the expected proportion of the factor under investigation (q=1 - p), E is the maximum error allowed (0.05), **Non responses** is 5%.

In this study, p was taken as 0.1 from past studies that had loans from MFI. The sample size using the above prescribed parameters and formula was 138. Increasing sample size when there is non-response and missing data helped to compensate for the resulting loss in precision. To address the unavoidable non-response, only 5% rate is suggested. Therefore, the final non-response compensated sample size calculated was 145.

Data collection tools and sampling technique

In order to draw the samples randomly, stratified random sampling technique have been used. The two strata are beneficiaries and non-beneficiaries of loans from MFIs. The sampling frame for SMEs was taken from the Ministry of Trade and Industry and SMCP in Asmara Eritrea. The number of businesses samples were taken proportionally according to the number of SMEs.

Measures

Dependent Variable: The increase in capital as a result of the loan from the MFI was used as a dependent variable.

Independent Variables: The main independent variables which were used in the study are age, gender, educational level, nature of business, background of the owner, loan duration, percentage of loan granted, kind of credit and usage of loans for the right purpose.

Data collection tools

A pre-designed questionnaire was developed, pretested and distributed to these samples (small firms) that were eligible in the study. To avoid any bias, questionnaires were self-administered by each and every selected candidate to fill the questions themselves.

Data analysis

Most of the survey variables were categorical and frequency distributions were used to describe variables of interest. Mean and standard deviation were also used to describe the continuous ones. Specifically, two-way tables with a Chi-square distribution was used to assess the associations between socio-economic and other independent variables with the increase in capital as a result of the loans. Fisher's exact tests was employed where table cells had expected counts of less than five. In order to find out the direction and magnitude of relationship, logistic regression was employed taking increase in capital as a result of the loans as dependent variable and various other independent variables. Data wase entered and analyzed using PASW (SPSS statistical software version 22). All p-values were 2-tailed, and a p-value < 0.05 will be considered statistically significant.

5. Data Analysis

Findings and discussions

The data collected for this study indicates that the majority of beneficiaries of Microfinance Institutions (MFIs) are male (55%) as compared to females (45%). This seems contrary to the paradigm underpinning MFIs, which posits the idea of fighting poverty by making small loans primarily to fe-

Table 1: Socio-economic characteristics of the SME Beneficiaries in Asmara, Eritrea (2016)

Socio-economic variable		n (%)
Gender	Male	22(55.0)
	Female	18(45.0)
Age Category	18－30	1(2.5)
	31－45	14(35.0)
	46－60	21(52.5)
	Above 60	4(10.0)
Level of Education	Illiterate	1(2.5)
	Elementary	8(20.0)
	Junior and High School	26(65.0)
	Diploma Level	4(10.0)
	Degree Level	1(2.5)
	Above Masters	－
Subject's Background	Farmer	14(35.0)
	Orphanage	1(2.5)
	Post-war victim	6(15.0)
	Ordinary	19(47.5)
Nature of Business	Manufacturing	3(7.5)
	Commerce	13(32.5)
	Service	17(42.5)
	Others	7(17.5)

male entrepreneurs. The study also found that the age of greater majority of beneficiaries was in the range of 46－60 (55%) followed by those in the age group 31－45 (35%). Meanwhile, young adults aged 18－30 were very few comprising 2.5%. This may be attributed to the fact that most of the eligible adults in Eritrea are enlisted in the national service for a prolonged period of time, especially, due to the prolonged military standoff with neighboring Ethiopia.

The study found that 15% of beneficiaries were post-war victims and 2.5% were orphanages, which may be commensurate with the policy behind the establishment of the Small Credit Program in Eritrea (1994). Another 35% of beneficiaries were farmers, while the rest 47.5% were ordinary citizens.

Glancing at the business activities, we find that the majority of beneficiaries were involved in commerce (33%) and services (43%). Manufacturing, which has a high potential to create more employment opportunities was lower in proportion at 7%.

On the contrary, the majority of non-beneficiaries of MFI were female (58.4%) as compared to males (41.6%), which indicates that more needs to be done to make credit available to female entrepreneurs for equitable development. When compared with the beneficiaries, the non-beneficiaries were also mostly between the age of 46 and 60 (41.6%), followed by the 31－45 age group (27.7%). The reasons for this phenomenon, of course, do not merit reiteration.

The study also found that the number of SMEs not benefiting from MFI and active in farming was very low at 4%. This is indicative of the need to focus more on increasing SMEs related to the agricultural sector. In that line, the study also found that the majority of non-beneficiaries were active in commerce (64.4%) and services (25.7%). The prevalence of SMEs active in commerce and services, notwithstanding whether they are beneficiaries or non-beneficiaries of MFI, indicates the

Table 2: Socio-economic characteristics of the SME Non-beneficiaries in Asmara, Eritrea (2016)

Socio-economic variable		n (%)
Gender	Male	42(41.6)
	Female	59(58.4)
Age Category	18–30	14(13.9)
	31–45	28(27.7)
	46–60	42(41.6)
	Above 60	17(16.8)
Level of Education	Illiterate	2(2.0)
	Elementary	22(21.8)
	Junior and High School	60(59.4)
	Diploma Level	9(8.9)
	Degree Level	6(5.9)
	Above Masters	2(2.0)
Subject's Background	Farmer	4(4.0)
	Orphanage	–
	Post-war victim	13(12.9)
	Ordinary	84(83.2)
Nature of Business	Manufacturing	9(8.9)
	Commerce	65(64.4)
	Service	26(25.7)
	Others	1(1.0)

need for action to make diversity of the types of business activities a criterion for access to credit.

In order to determine the efficacy of MFI in the business operations of SMEs, it is imperative to identify the main challenges that confront these enterprises from the start. All SME owners participating in the study, who constitute beneficiaries and non-beneficiaries of MFI, were queried on the challenges they faced in starting and running their business.

The data collected indicates that 72% of beneficiaries had faced financial challenges in starting or running their business. Meanwhile, 11% of the beneficiaries of MFI faced social challenges, 6% faced business location challenges, while 11% faced challenges related to rules and regulations. It is clear that the challenges faced by SMEs are mainly financial in nature. This corroborates the existing literature on the challenges to SMEs. For example, World Bank Enterprise Survey (2013), with a survey of 130,000 firms in 135 countries, found out that limited access to finance ranked at the top of the list of obstacles to growth and development of small and medium enterprises.

Also, 37.5% of SMEs benefiting from MFI indicated that they started business through self-finance compared to 31.3% who commenced with credit from MFI. But, when queried on their means of acquiring capital, 75.5% of the beneficiaries stated that they obtained it from SMCP. This seems like sound evidence on the indispensability of MFI in helping small and micro businesses.

Similarly, non-beneficiaries of MFI were also faced with financial challenges-a majority of 45% stated that the main challenge to starting and running an SME was financial. Social, business location, regulatory challenges accounted for 5%, 16% and 4% respectively. Another 13% of the respondents stated that they faced no challenges at all.

The corpus of literature surveyed in this study has indicated that MFI has had significantly positive impact on SMEs in different parts of the world. The data collected for this study seems to be

Table 3: Case-studies of the SME in Asmara, Eritrea (2016)

Variables		Statistic, n (%)
Challenges to Starting Business	Social	4(11.1)
	Financial	26(72.2)
	Location	2(5.6)
	Rules and regulations	4(11.1)
Objectives for establishing	Generate income	25(65.8)
	Create employment opportunities	1(2.6)
	Self-employment	6(15.0)
	Serve Community	1(2.6)
	Growth in Economy	5(12.5)
Source of Finance at start	Self-finance	12(37.5)
	Friends and relatives	7(21.9)
	Partnership	2(6.3)
	Loans from banks and finance institutions	1(3.1)
	MFI	10(31.3)
Requirements of getting loans from Bank	Collateral Security	21(52.5)
	Good will	3(7.5)
	License	10(25.0)
	Others	6(15.0)
Possession of Adequate Capital	Yes	14(35.0)
	No	26(65.0)
Means of acquiring capital	Bank	1(2.5)
	Credit	3(7.5)
	Family and Friends	1(2.5)
	No where	1(2.5)
	Self	3(7.5)
	SMCP	32(75.5)

commensurate with the aforementioned fact. Out of all the beneficiaries queried, 90% had a positive view of the contribution of MFI to the operation of SME's, while 10% indicated a negative view. At the time of the study, 60% of beneficiaries had been granted 100% or the full amount of the loan they requested, while 20% of the beneficiaries had been granted between 75% and 99% of their loans. Thus, the majority of beneficiaries participating in this study had been granted the greater part of their loans.

Moreover, 70% of beneficiaries stated that they got access to credit in less than two weeks (38% in two weeks; 32% in one week). 18% of beneficiaries took three weeks to access credit, while 13% took four weeks. The data illustrates that the MFI credit was ready for utilization by the SMEs in less than two weeks for a majority of the beneficiaries.

Also, an overwhelming 95% of all beneficiaries stated that MFI fulfilled their expectations, while the rest (5%) found that the MFI did not meet their expectations. Similarly, 88% of respondents had a positive view on the influence of MFI in the operation of their businesses as compared to 13% who had a negative view.

In terms of the challenges faced by SMEs in accessing credit, 45% of beneficiaries were of the view that the interest rates of MFI were high. To the contrary, 55% of beneficiaries did not think that the interest rates were high. At the same time, 13% of all beneficiaries stated that they had to provide collateral security for credit, while the majority 87% did not provide any collateral. Only

Table 4. The Contribution of MFIs in the operations of SMEs in Asmara, Eritrea (2016)

Variable		n (%)
Contribution of MFI	Yes	36(90.0)
	No	4(10.0)
Percentage of loan granted	10 to 19	2(5.0)
	20 to 49	4(10.0)
	50 to 74	2(5.0)
	75 to 99	8(20.0)
	100	24(60.0)
Time to access credit (Weeks)	One	13(32.5)
	Two	15(37.5)
	Three	7(17.5)
	Four	5(12.5)
Expectation fulfillment	Yes	38(95.0)
	No	2(5.0)
Influence of MFI	Positive	35(87.5)
	Negative	–
	Don't know	–
	Unchanged	5(12.5)

25% of beneficiaries stated that the credit process was cumbersome and had bulky documentations as compared to 75% who had no negative views about the bureaucracy. At the same time, 73% of beneficiaries stated that they always got the required collateral, while the remaining 27% stated otherwise.

In contrast, 70% of non-beneficiaries had no knowledge about MFI operations at all when compared to 30% who stated otherwise. Also, 99% of non-beneficiaries stated that they never applied for credit. When queried about the contribution of MFI to their enterprises, 77% of non-beneficiaries had negative views while 23% had positive views.

As mentioned above, 99% of non-beneficiaries had never applied for credit; therefore, it is safe to assume that the data is precise as 99% of non-beneficiaries stated that they did not need collateral. However, when asked if they thought that MFI had the potential to improve their business, 55% of non-beneficiaries had a positive view, while 45% were disinclined to believe that MFI could have an impact on their operations.

When asked if the existence of MFI had an influence on their business, 5% of non-beneficiaries had negative views, 16% had positive views, 14% had no idea about the influence MFI may have in any form, while a majority of 65% stated that the existence of MFI effected no change in their businesses.

This study attempted to determine whether the credits are effectively utilized by SMEs for business growth, beneficiaries were queried if they saw an increase in their capital as a result of the loans. A large majority of beneficiaries (93%) stated that they saw an increase in their capital as a result of the loans compared to a meager 7% who observed no increase in capital. However, statistical analysis of the associations between increase in capital from loan and the selected socio-economic variables has been found to be non-significant (p-value>0.05).

Meanwhile, when asked if they used the loans for other purposes, 83% of the beneficiaries re-

Table 5: Challenges faced in accessing the credit from MFIs in Asmara, Eritrea (2016)

Variable		Statistic, n (%)
Credit kind requested	Short term	10(25.0)
	Medium term	29(72.5)
	Long term	1(2.5)
High interest rate	Yes	18(45.0)
	No	22(55.0)
Collateral Security	Yes	5(12.5)
	No	35(87.5)
Cumbersome and bulky documentations	Yes	10(25.0)
	No	30(75.0)
Always get collateral requested	Yes	29(72.5)
	No	11(27.5)

Table 6. The Contribution of MFIs in the operations of SMEs in Asmara, Eritrea (2016)

Variable		n (%)
Knowledge of MFI operation	Yes	30(29.7)
	No	71(70.3)
Ever applied for credit	Yes	1(1.0)
	No	100(99.0)
Products of MFI benefited	Financial and Management training	2(2.0)
	Others	99(98.0)
Contribution of MFI	Yes	23(22.8)
	No	78(77.2)

sponded negatively while 17% responded affirmatively admitting that they had used loans for other purposes. Of those who admitted to diverting loans for other purposes, 71.4% of the beneficiaries stated that they used loans to repay other loans while 28.6% either failed to answer or pointed to 'other' purposes.

It has already been discussed in an earlier chapter that businesses that are financed by MFIs should not only be given access to collateral-free credit. Instead, an integrated approach that offers other services such as skills training and better administration practices. Ubom (2003) claims that Micro Finance Institutions offer business solutions to small and medium enterprises by providing savings and credit, payment services, social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group.

Thus, in order to avoid the detrimental diversion of loans for other purposes, more focus needs to be done by MFI on skills and management training.

Documents obtained from the small and micro credit program (SMCP) of eritrea shed abundant light on the main activities and risks of microfinance in Eritrea.

Core objectives of SMCP: The core objective is to promote the private sector in Eritrea by encouraging the development and expansion of micro and small enterprises by assisting individuals to increase their income generating ability and helping them contribute their part in the food security strategy and overall economic development of Eritrea. The clients are the economically active poor

Table 7. Rate of utilization of the credit by SMEs in Asmara, Eritrea (2016)

Variable		n (%)
Loan used for other purpose	Yes	7(17.5)
	No	33(82.5)
Loans used for other purposes	Repay for other loans	5(71.4)
	Others	2(28.6)
Increase in capital from loan	Yes	37(92.5)
	No	3(7.5)

who currently have no access to formal financial service provider. Special efforts, however, will be made to embrace the neediest strata, including returnees, deportees, demobilized combatants, vulnerable women groups, women headed households. SMCP provides five types of loans in three categories.

Group Loan: Group loan component, after the potential clients become organized by joining the SMCP sponsored solidarity groups to form their village banks. Each village bank should have between 35 to 105 members. The first loan cycle starts at ERN **6,000** while the ceiling is set at ERN **20,000** which is spread out in to five different loan cycles. The solidarity group configuration substitute for loan guarantee. Hence no need of collateral.

Individual Loan: Individual loan category will assist individuals engaged in any productive activities which generate profit and can cover the expected credit repayments. Any person in rural and semi-urban and small towns who agrees to comply with the requirements or the terms of credit is eligible to apply for loans. The first loan cycle starts at ERN **30,000** while the ceiling is set at ERN **150,000** which is spread out in to different loan cycles and the minimum loan size should not be below ERN **7,000**. There is a special individual loan product targeting to purchase oxen for farming. The loan size ranges from **ERN 7,000 up to 15,000**.

Unrestricted Employees Loan (UEL): The loan category was introduced in 2006 for governmental and private organizations employees. It is unrestricted on the subject of expending the money borrowed. The repayment is on monthly basis from their salary. The Loan term is for one or two years. Maximum loan size is employee's six months salaries but should not exceed 20,000 **Nakfa**.

Savings: Also, SMCP collects mandatory savings.

Group Loan Savings: 10% of approved loan with initial deposit followed by **6%** to be deposited in installments over the agreed loan term.

Individual Loan Savings: To become eligible for borrowing, Individual borrowers will be first asked to deposit **5%** of the loan amount in advance and **6%** on-going savings. When clients need to withdraw from SMCP after repaying the entire loan amount, they get their savings with its interest earned.

Interest: The Interest rate has been set at **16%** for both Group and Individual loan categories. The Declining Balance Method is applied when calculating interest so as to have uniform installments (repayments). Due to declining balance method of interest calculation, at the end real interest does not exceed **10%** for clients who pay their loan regularly.

For Instant loan: SMCP charges **7%** per annum at a flat rate interest, from which **1%** apply for loan risk coverage while the clients pass away.

Outreach: SMCP started its activities with 10 staff members with loan disbursements amounting 1.37 million in the year 1996.As of the end of 2015, there were 241 staffs at SMCP who served 53,832 active clients from of which, women clients comprised 52% (which is 28,025). During the same period there were 538 village banks in all six regions of the country spread over 56 out of 58 sub regions. Out of 2606 villages in the country, 1247(which is 47%) get SMCP service. In the past 20 years, SMCP disbursed more than 2.75 Billion and loan outstanding balance remaining with clients is 241 million Nakfa at the end of year 2015. SMCP has been showing improvements in its financial efficiency and sustainability from year to year. And, in the year 2015 Operational as well as Financial self-sufficiency were 312.5% and 170.6% respectively. **"No one to be idle from productive activity due to lack of access to credit."**

6. Conclusion

This study has validated the globally prevailing tried and tested precept that Microfinance Institutions help to alleviate poverty, stimulate growth and create employment by increasing SMEs' growth and size through the provision of dearly needed resources. Indeed, the figures presented in this study leave no room for doubt as to this fact: 93% of SMEs benefiting from access to MFI credit have seen an increase in their capital. A proportionate number of SME owners are also satisfied with MFI and their expectations have been met.

Yet, it has been found that the number of female beneficiaries remains low when compared to males. Moreover, the types of businesses that are benefiting from the MFI in Asmara, Eritrea seem to be concentrated in the commerce and service sectors.

Financial challenges remain the foremost challenge in the starting of business, followed by problems related to rules and regulations. This is a compelling reason for the expansion of MFI services in Eritrea, not only by making credit available to SMEs but also the provision of training in skills, administration and management. The need for training services by MFI is also consolidated by the findings which indicate that a considerable proportion of SMEs have been diverting the loans for other purposes. A worrying revelation is the fact that many SMEs (70%) had no prior knowledge about MFI prior to this study.

This study has found evidence to consolidate on the merits of MFI while at the same time making certain interesting new findings. Thus, to make MFI in Eritrea more effective the following recommendations should be taken into consideration:

1. Increasing the number of SMEs benefiting from MFI to bring about more robust economic progress
2. In line with the above, streamlining the process of loan acquisition as well as increasing the number of SMCP branches in Asmara and other parts of the country
3. Increasing the amount of loans and decreasing the interest rate to achieve greater increases in SME capital
4. Conducting awareness programs to inform SMEs about the benefits of MFI
5. Offering training services in skills and management to help SMEs operate their businesses

smoothly and to maintain liquidity

6. Diversifying the types of business activities that are getting access to credit; particular focus may be given to agriculture as it is critical to food security
7. Increasing the number of female beneficiaries of SMEs

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