

# The Role of Financial Institutions on Employment in Mogadishu Somalia

Abdirahman Jimale Adan\*, Abdiaziz Ahmed Ibrahim, Mohamed Hussein Abdi, Maryan Abdullahi Abdi and Bile Abdi Siyad

Department of Economics, College of Economics and Management Science, Abrar University, PO Box 25, km 6 Hodan district, Mogadishu, Somalia

## Abstract

Financial institutions become much more effective, play a vital character in the Somali economy, which led to become a big part of the employment sector. So, in this study, we will aim to investigate the role of financial institutions on employment in Mogadishu Somalia. And the research design was descriptive research design and a questionnaire was used to collect research data from a sample size of 123 respondents from the target population and that data we collected from the respondents shows that in terms of occupation, 46 (37.4%) of our respondents were Financial Institution Clients, while 37 (30.1%) were Financial Institution staff, and, 40 (32.5%) were Financial Institution managers and reason we targeted those was to get valid data from someone who is involved or somehow linked to financial institution. And for data analysis we used the statistical package for social scientists (SPSS) version 23, and most of the respondents agreed that financial institutions have a significant and encouraging role on employment in Mogadishu.

**Keywords:** Financial institutions • Banks • Employment sector • Microfinance- performance • Mogadishu

## Introduction

Financial Institutions (FIs) are companies whose main assets are financial assets such as claims, stocks, bonds, and loans rather than physical assets like real estate, machinery, and raw materials [1]. Given the numerous varieties of unemployment and the fact that some are inevitable or even required for a healthy labor market, full employment is not the same as zero unemployment. Jobs are constantly being created and destroyed as industries change, and the transition from one employment to another is not smooth. For instance, frictional unemployment develops when workers leave their jobs or get fired and often do not take the first new position that comes their way. Most people take the time to look for a job that fits their skills well unless they are under intense pressure to replace lost money. Due to this lag, a portion of the workforce is perpetually looking for work and is labeled as unemployed.

The employment-to-population ratio presents the percentage of a country's or region's working-age population that is employed. It gives information about an economy's ability to produce jobs. A low ratio indicates that a large proportion of a country's population is not participating in market-related activities due to unemployment or inactivity, whereas a high ratio indicates that a large proportion of the working-age population is employed. High employment to population ratios in developing regions/countries, such as Somalia, may not be predictive of a better outcome because many employed people may be engaged in informal or low-quality occupations. About 25.5 percent of the Federal Republic of Somalia's total population of 3.7 million people aged 15 and above were employed [2]. Financial institutions, in general, play an important part in Somali economic progress; hence it is one of the top goals. The phrase "financial institution" refers to the combination of

banks, remittances "Hawala," and microfinance organizations, each of which plays a key role in the economic growth process [3].

Following the union of Italian Somaliland and British Somaliland, the Somali National Bank became the first financial institution in the nation on July 1, 1960. The National Bank initially had one office in Mogadishu and employed fourteen people, but by 1965, the Bank had succeeded in establishing nine branches. With 67 percent of Somali youth unemployed, high youth unemployment is one of the country's biggest problems. The plan was for the bank to replace two foreign banks (Somalica and the Bank d'Italia) operating in the country at the time [4].

Since the end of the civil war in 1991, the private sector has formed the backbone of Somalia's economy. Private financial investment by individuals and members of the diaspora is now more practical than relying on the government for assistance. The private sector employs a wide range of people in industries including telecommunications, finance and banking, hotels and restaurants, education and health services, manufacturing and construction, transportation, and small and medium-sized businesses [5].

In the past ten years, numerous financial organizations have formed and are now offering financial services including ATMs, debit cards, and savings accounts. Examples of these banks are Premier Bank and International Bank of Somalia (IBS). These new financial institutions have between 50 and 150 staff. In these two banks, individuals under the age of 35 hold more than 90% of the posts. Young individuals are more likely to be financially savvy and conversant with current banking technology, thus banks seek to recruit them. Women make up around 45% of employees and have the most opportunities at IBS. Interviews with stakeholders suggest that rising financial institutions provide direct loans to create jobs for young people in addition to formal employment.

So financial institutions become much more effective, play a vital character in the Somali economy, and become a big part of the employment sector. So, in this study, we aim to investigate the role of financial institutions on employment in Mogadishu Somalia and there is a literature gap in the study area. Therefore, this study is designed to bridge this knowledge gap, the objective of the study is to identify the role of banks on employment in Mogadishu Somalia, and data was conducted from February to April 2022.

## Materials and Methods

### Research instruments

This study has used a questionnaire, a research instrument consisting of

**\*Address for Correspondence:** Abdirahman Jimale Adan, Department of Economics, College of Economics and Management Science, Abrar University, PO Box 25, km 6 Hodan district, Mogadishu, Somalia, Tel: +252616327110; E-mail: somanejumble09@gmail.com

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a series of questions to gather information from respondents. Questionnaires can be thought of as a kind of written interview. They can be carried out face to face, by telephone, by computer, or by post.

## Data collection procedure

The questionnaire was used to collect research data from the target population. Study a participant will be briefed about the study and its objectives. They will also be requested to answer the questions as honestly as possible.

## Data analysis

After data is rationally studied, scrutinized, edited, and summarized qualitatively and quantitatively, Data will analyze and process electronically using a statistical package for social scientists (SPSS) version 23, to analyze the effect of the service sector on economic growth in Somalia. Descriptive analysis will be done and then frequency tables and charts will be used to present the study results.

## Population of the study

The study's target population will be the managers, workers, and clients of Financial Institutions in Mogadishu in Somalia.

According to the Somalia National Bureau of Statistics Labour Force Survey Report in 2019, they find out that the Financial and insurance activities sector Employed 7,5280.8% compared to the overall branches of economic activity sectors.

According to the nature of the target population where the number of the target population is many, to determine the required sample size  $n$  will use the Slovenes' formula for sample size determination.

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

Where:

$n$  = sample size

$N$  = population and  $e^2$  = standard error.

$e^2$  = standard error.

$$n = \frac{N}{1 + N(e)^2} \quad n = \frac{7528}{1 + 7528(0.9)^2} = 123$$

Therefore, the sample size is 123 respondents.

## Data analyses

The above table shows that 88 (71.5%) of the respondents are male while 35 (28.5%) of the respondents are female. And in terms of age, most of the respondents 53 (43.1%) were aged between 15- 25 years old, 23 (18.7%) were aged between 25-34 years old, 44 (35.8%) were the aged between 35-44 years old, 3 (2.4%) were in the age 45 and above years old. While all of our respondents were University/tertiary in terms of Educational level. And in terms of occupation, 46 (37.4%) of our respondents were financial Institution Clients, while 37 (30.1%) were Financial Institution staff, and, 40 (32.5%) were Financial Institution managers (Table 1-2).

The first question we asked respondents about the role of Financial Institutions on Employment in Mogadishu was "Financial institutions participate in employment opportunities in Mogadishu" the majority of the respondents 44 (35.8%) Strongly Agreed, and 34 (27.6%) agreed, and 17 (13.8%) where responded Neutral and 7 (5.7%) where disagree while 21 (17.1%) Strongly Disagree. And the second question was "Financial institutions facilitate business transactions in Mogadishu" the majority of the respondents 51 (41.5%) Agreed, 43 (35.0%) where strongly agreed, and 13 (10.6%) where responded Neutral and 2 (1.6%) were disagree while 14 (11.4%) Strongly Disagree, and the third question was "Some of My colleagues work at financial institutions" the majority of the respondents 54 (43.6%) were Agreed and 30 (24.4%) where strongly Agreed and 13 (10.6%) where responded Neutral and 5 (4.1%) where disagree while 21 (17.1%) Strongly Disagree,

**Table 1.** Demographic profile.

	Variable	Frequency	Percentage
Gender	Male	88	71.5
	Female	35	28.5
	Total	123	100
Age	15-24	53	43.1
	25-34	23	18.7
	35-44	44	35.8
	Above 45	3	2.4
	Total	123	100
Educational level	Primary	0	0
	Secondary	0	0
	University/ tertiary	123	100
	No formal education	0	0
	Total	123	100
occupation	Financial institution managers	40	32.5
	Financial institution staff	37	30.1
	Financial Institution Client	46	37.4
	Total	123	100

**Table 2.** Data analysis of the variables.

Question		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Financial institutions participate in employment opportunities in Mogadishu	Frequency	21	7	17	34	44	123
	Percentage	17.1%	5.7%	13.8%	27.6%	35.8%	100%
Financial institutions facilitate business transactions in Mogadishu.	Frequency	14	2	13	51	43	123
	Percentage	11.4%	1.6%	10.6%	41.5%	35.0%	100%
Some of My colleagues work at financial institutions	Frequency	21	5	13	54	30	123
	Percentage	17.1%	4.1%	10.6%	43.6%	24.4%	100%
Most financial institutions offer fair employment opportunities	Frequency	20	21	13	33	36	123
	Percentage	16.3%	17.1%	10.6%	26.8%	29.3%	100%
Financial institutions are the main source of income for many households in Mogadishu	Frequency	15	34	18	31	25	123
	Percentage	12.2%	27.6%	14.6%	25.2%	20.3%	100%
Bankers have a better standard of living compared to other jobs	Frequency	16	23	28	41	15	123
	Percentage	13.0%	18.7%	22.8%	33.3%	12.2%	100%
I prefer to work for local banks	Frequency	16	10	17	53	27	100
	Percentage	13.0%	8.1%	13.8%	43.1%	22.0%	100%
Microfinance performance is determined by the number of running backs.	Frequency	25	15	24	37	22	123
	Percentage	20.3%	12.2%	19.5%	30.1%	17.9%	100%

and the fourth question was "Most financial institutions offer fair employment opportunities" the majority of the respondents 36 (29.3%) were Strongly Agreed, and 33 (26.8%) where agreed and 13 (10.6%) where responded Neutral and 21 (17.1%) where disagree while 20 (16.3%) Strongly Disagree, and the 5th question was "Financial institutions are the main source of income for many households in Mogadishu" the majority of the respondents 34 (27.6%) where disagree and 31 (25.2%) were agreed and 25 (20.3%) strongly agreed and 18 (14.6%) were neutral and 15 (12.2%) where responded strongly disagreed, and the sixth question we asked the respondents was "Bankers have a better standard of living compared to other jobs" the majority of the respondents 41 (33.3%) agreed and 28 (22.8%) were neutral and 23 (18.7%) where disagreed and 16 (13.0%) strongly disagreed and 15 (12.2%).

Where responded strongly agreed, and the 7th question was "I prefer to work for local banks" the majority of the respondents 53 (43.6%) Agreed, 27 (22.0%) where strongly agreed, and 17 (13.8%) were responded Neutral and 10 (8.1%) where disagree while 13 (10.6%) where responded Strongly Disagree, and the final question we asked respondents was "Microfinance performance is determined by the number of running backs." the majority of

**Table 3.** Data reliability.

Variables	Cronbach's Alpha
Financial Institutions	0.656*
Employment	0.774

the respondents 37 (30.1%) where agreed and 25(20.3%) where responded strongly disagreed while 24 (19.5%) where responded Neutral and 22 (17.9) where responded strongly agreed and 15(12.2%) where responded disagreed (Table 3).

## Conclusion and Recommendation

The study attempted to build mainly primary data to identify The Role of Financial Institutions on Employment in Mogadishu. It employs cross-sectional data from 2022 and used SPSS as an analysis tool since it is the most informative and reliable estimated data one can get. And questionnaire was used for data collection. It presents the research method adopted to achieve the stated research objectives. And most of the respondents agreed that financial institutions have a significant and encouraging role in employment in Mogadishu.

And based on the findings and conclusions of this study, the following recommendations were made: financial institutions should increase microfinance programs, and to establish and implement legal financial systems and strategies for foreign investors and international financial institutions.

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