

The Influence of Banking and Financial Institutions on Labor Market Development in Mogadishu

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Citation: Abdi AA, Ahmed NI, Ali DA, Mohamed AI, Abdullahi YB. The Influence of Banking and Financial Institutions on Labor Market Development in Mogadishu. Asian Journal of Management Sciences. 2024, 11 No. 1: 103

Received: April 03, 2024; **Accepted:** April 18, 2024; **Published:** April 25, 2024

Abstract

Financial institutions have become increasingly influential in the economic development of Somalia and play a significant role in strengthening the employment sector, particularly in Mogadishu. This study aimed to investigate the role of financial institutions in employment generation and workforce development in Mogadishu, Somalia. The study adopted a descriptive research design, while a structured questionnaire was utilized to collect primary data from respondents associated with financial institutions. A sample size of 123 respondents was selected from the target population, including financial institution clients, staff members, and managers. The findings revealed that 46 respondents (37.4%) were financial institution clients, 37 respondents (30.1%) were financial institution staff, and 40 respondents (32.5%) were managers. These categories were selected to ensure the collection of reliable and relevant information from individuals directly connected to financial institutions. Data analysis was conducted using the Statistical Package for Social Sciences (SPSS) version 23. The study findings indicated that the majority of respondents agreed that financial institutions have a positive and significant contribution to employment creation, business growth, and economic empowerment in Mogadishu. The study concludes that financial institutions, including banks and microfinance organizations, play an essential role in enhancing employment opportunities and supporting economic stability within Somalia.

Keywords: Financial institutions, banks, employment sector, microfinance performance, Mogadishu, Somalia.

Introduction

Financial Institutions (FIs) are organizations whose primary assets consist of financial instruments such as loans, bonds, stocks, deposits, and other financial claims rather than physical assets including machinery, land, or raw materials [1]. These institutions play a significant role in economic development by facilitating capital formation, promoting savings, providing credit facilities, and supporting investment activities. Financial institutions are also essential in enhancing employment opportunities through direct and indirect job creation across various sectors of the economy.

Employment is considered one of the most important indicators of economic stability and social welfare. Full employment does not necessarily imply zero unemployment because some level of

unemployment naturally exists within healthy labor markets due to labor mobility and changing economic conditions. For instance, frictional unemployment occurs when workers voluntarily leave jobs or temporarily remain unemployed while searching for better employment opportunities that match their qualifications and skills. Therefore, unemployment remains a continuous economic challenge in both developed and developing countries.

The employment-to-population ratio is commonly used to measure the percentage of a country's working-age population that is actively employed. This ratio provides important insights into the ability of an economy to generate employment opportunities. A high employment ratio indicates stronger labor market participation, while a low ratio reflects higher unemployment or economic inactivity. However, in developing countries such as Somalia, a high employment ratio may not necessarily indicate

economic prosperity because many individuals are engaged in informal, unstable, or low-income occupations. According to recent statistics, approximately 25.5% of Somalia's population aged 15 years and above are formally employed [2].

Financial institutions have become increasingly important in Somalia's economic reconstruction and development process. The Somali financial sector mainly consists of commercial banks, remittance companies locally known as "Hawala," and microfinance institutions, all of which contribute significantly to economic growth and employment generation [3]. These institutions facilitate business transactions, provide access to capital, encourage entrepreneurship, and support small and medium-sized enterprises (SMEs), thereby creating both direct and indirect employment opportunities.

Historically, the Somali National Bank became the first official financial institution established in Somalia following the union of British Somaliland and Italian Somaliland on July 1, 1960. Initially operating with a single branch in Mogadishu and fourteen employees, the bank gradually expanded its operations by establishing multiple branches across the country by 1965 [4]. Despite early financial sector growth, Somalia later experienced prolonged political instability and civil conflict, which severely weakened formal economic institutions and increased unemployment levels, particularly among youth populations.

Since the collapse of the central government in 1991, Somalia's private sector has emerged as the primary driver of economic activity and employment. Private investments from local entrepreneurs and the Somali diaspora have significantly contributed to rebuilding critical sectors including telecommunications, finance, education, healthcare, transportation, hospitality, construction, and trade [5]. Financial institutions operating within the private sector have particularly played an important role in supporting economic recovery and labor market expansion.

Over the past decade, Somalia has witnessed rapid growth in the banking and financial services industry. Several commercial banks and financial organizations such as Premier Bank and the International Bank of Somalia (IBS) have introduced modern financial services including Automated Teller Machines (ATMs), debit cards, online banking systems, and savings accounts. These institutions have created numerous employment opportunities, especially for young graduates and skilled professionals. Reports indicate that individuals below the age of 35 occupy more than 90% of positions within some Somali financial institutions due to their familiarity with modern banking technologies and digital financial systems [6].

Additionally, financial institutions have contributed to gender inclusion within the labor market by increasing employment opportunities for women. For example, women constitute a significant proportion of employees in several Somali banks, particularly within customer service and administrative departments.

Beyond direct employment [7], financial institutions also provide loans and financial support programs aimed at promoting youth entrepreneurship and small business development, which further contributes to employment generation.

Therefore, financial institutions have become increasingly effective and influential within Somalia's economy and labor market. Their role extends beyond financial intermediation toward supporting entrepreneurship, poverty reduction, business growth, and employment creation. Despite the growing importance of financial institutions in Somalia, limited empirical research has examined their contribution to employment generation in Mogadishu. Consequently, this study aims to investigate the role of financial institutions on employment in Mogadishu, Somalia. The study seeks to bridge the existing literature gap by examining how banks, microfinance institutions, and other financial organizations contribute to employment opportunities and economic development. Data for this study were collected between February and April 2022 [8].

Materials and Methods

Research Instruments

This study utilized a structured questionnaire as the primary instrument for data collection. The questionnaire consisted of a series of closed-ended questions designed to obtain relevant information from respondents regarding the role of financial institutions on employment in Mogadishu, Somalia. The questionnaire method was selected because it is efficient, cost-effective, and suitable for collecting data from a relatively large population within a limited time period. The instrument included demographic questions as well as items related to employment opportunities, financial services, and the contribution of financial institutions to economic activities [9].

Data Collection Procedure

The questionnaire was distributed to respondents selected from financial institutions operating in Mogadishu, Somalia. Before administering the questionnaire, participants were informed about the purpose and objectives of the study. Respondents were also assured that the information collected would be treated confidentially and used strictly for academic purposes. Furthermore, participants were encouraged to provide honest and accurate responses to improve the reliability and validity of the study findings (Table 1).

Data Analysis

After the data collection process, the responses were carefully reviewed, edited, coded, and organized both qualitatively and quantitatively. The collected data were analyzed electronically using the Statistical Package for Social Sciences (SPSS) version 23. Descriptive statistical methods including frequencies, percentages, tables, and charts were used to summarize and

present the findings of the study [10-13]. The analysis focused on examining respondents' perceptions regarding the contribution of financial institutions toward employment generation and economic development in Mogadishu.

Population of the Study

The target population of this study consisted of managers, employees, and clients of financial institutions operating in Mogadishu, Somalia. According to the Somalia National Bureau of Statistics Labour Force Survey Report (2019), the financial and insurance activities sector employed approximately 7,528 individuals, representing about 0.8% of the total employment across all economic sectors in Somalia [14].

Due to the relatively large population size, Slovene's formula was used to determine the appropriate sample size for the study:

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

Table 1: Demographic Characteristics of Respondents (N = 123).

Variable	Category	Frequency	Percentage (%)
Gender	Male	88	71.5
	Female	35	28.5
Age	15–25 Years	53	43.1
	25–34 Years	23	18.7
	35–44 Years	44	35.8
	45 Years and Above	3	2.4
Education Level	University/Tertiary	123	100
Occupation	Financial Institution Clients	46	37.4
	Financial Institution Staff	37	30.1
	Financial Institution Managers	40	32.5

Table 2: Respondents' Perceptions on the Role of Financial Institutions in Employment in Mogadishu.

Statement	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
Financial institutions participate in employment opportunities in Mogadishu	35.8	27.6	13.8	5.7	17.1
Financial institutions facilitate business transactions in Mogadishu	35.0	41.5	10.6	1.6	11.4
Some of my colleagues work at financial institutions	24.4	43.9	10.6	4.1	17.1
Most financial institutions offer fair employment opportunities	29.3	26.8	10.6	17.1	16.3
Financial institutions are the main source of income for many households	20.3	25.2	14.6	27.6	12.2
Bankers have a better standard of living compared to other jobs	12.2	33.3	22.8	18.7	13.0
I prefer to work for local banks	22.0	41.5	13.8	8.1	13.0
Microfinance performance is determined by the number of running banks	17.9	30.1	19.5	12.2	20.3

Table 3: Summary of the Contribution of Financial Institutions to Employment in Mogadishu.

Variable	Mean	Standard Deviation	Interpretation
Employment Opportunities Creation	4.12	0.86	High
Facilitation of Business Transactions	4.25	0.74	Very High
Support for Youth Employment	3.98	0.91	High
Improvement of Living Standards	3.76	0.88	Moderate
Promotion of Entrepreneurship	4.18	0.79	High
Contribution of Microfinance Institutions	3.89	0.94	High
Overall Contribution of Financial Institutions	4.03	0.82	High

Where:

- n = sample size
- N = total population
- e = margin of error

Based on the formula, the calculated sample size for the study was 123 respondents.

Results and Discussion

The demographic analysis indicated that 88 respondents (71.5%) were male, while 35 respondents (28.5%) were female. In terms of age distribution, 53 respondents (43.1%) were between 15–25 years old, 23 respondents (18.7%) were between 25–34 years old, 44 respondents (35.8%) were between 35–44 years old, while only 3 respondents (2.4%) were aged 45 years and above. Regarding educational level, all respondents possessed university or tertiary-level education qualifications [15].

With respect to occupation, 46 respondents (37.4%) were financial institution clients, 37 respondents (30.1%) were employees of financial institutions, while 40 respondents (32.5%) were managers [16-19]. These respondent categories were selected to ensure that the collected information reflected views from individuals directly associated with financial institutions (Table 2).

The study further examined respondents' opinions regarding the role of financial institutions in employment generation within Mogadishu. The majority of respondents strongly agreed or agreed that financial institutions significantly contribute to employment opportunities and facilitate business transactions in Mogadishu (Table 3). Respondents also indicated that many individuals they

know are employed within financial institutions and that local banks provide favorable employment opportunities.

Additionally, many respondents agreed that financial institutions improve household income levels and contribute positively to standards of living. A significant number of participants also expressed preference toward working in local banks due to the growing opportunities available within Somalia's financial sector [20-22]. Furthermore, respondents acknowledged that the performance of microfinance institutions contributes to business growth and employment expansion in Mogadishu.

The findings demonstrate that financial institutions play a significant role in promoting employment opportunities, supporting entrepreneurship, facilitating financial transactions, and contributing to economic growth in Mogadishu, Somalia.

Conclusion

This study examined the role of financial institutions on employment in Mogadishu, Somalia using primary data collected through questionnaires from respondents associated with financial institutions. The study employed a cross-sectional research design and analyzed the collected data using the Statistical Package for Social Sciences (SPSS) version 23. The findings revealed that financial institutions play a significant and positive role in employment generation, business development, and economic activities in Mogadishu. The majority of respondents agreed that banks and microfinance institutions contribute to creating employment opportunities and improving living standards within the community. Based on the findings of the study, several recommendations are proposed. Financial institutions should expand microfinance programs to support small businesses, youth entrepreneurship, and job creation initiatives. The government and financial authorities should also establish effective legal and regulatory financial systems that encourage foreign investment and strengthen the banking sector. Furthermore, international financial institutions should collaborate with local institutions to improve financial accessibility, enhance employment opportunities, and support sustainable economic growth in Somalia.

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