SOMALI BANKERS ASSOCIATION

Financial Inclusion Assessment in Somalia

In partnership with

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Contents

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ABBREVIATIONS AND SERVICE NAMES

ATMs	Automatic Teller Machines
CBS	Central Bank of Somalia
E-banking	Electronic Banking
LDR	Loans to Deposits Ratio
USD	United States Dollar
WB	World Bank

MOBILE MONEY SERVICES

EVCplus	Mobile money services provided by Hormuud
Edahab	Mobile money services provided by Somtel

Executive Summary

Financial inclusion implies that individuals and businesses have access to accessible and affordable financial services and products that satisfy their financial needs (check clearance, payment services, assets financing, insurance, and checking and savings accounts). The Usage, quality, and accessibility of financial services and products measure financial inclusion. Successful financial inclusion increases savings and investments, economic development, and poverty reduction. Financial inclusion level can be measured by an index examining the extent of access to formal bank accounts, considering several factors such as penetration, availability, and Usage. The civil war in 1991 destroyed all banks after the collapse of the central government of Somalia, and the current commercial banks in Somalia are just a decade old. Although banking services are new in Somalia, banks have made significant progress quickly. Somalia has low levels regarding bank loans, savings, and Usage of credit cards. Banks in Somalia face a unique challenge. They invest a significant portion of customer deposits in real estate, a decision that can lead to a lack of sufficient cash flow, limiting their lending capacity. The allure of real estate as a more lucrative business than profit rates on asset financing (Murabaha) often drives this investment strategy.

The country's banks make asset financing based on the bank's equity because the accounts opened in the banks are current accounts, which means that the customer can withdraw his money from his account at any time. Further, Somalia has no deposit insurance/protection and saving rate, which impedes savings accounts. The services offered by banks are mainly asset financing (Murabaha), failing to meet the different needs of customers. Men are more likely to use banking services compared to women. Women are poorer at taking loans than men because women have no more networks and collateral assets, which are essential for acquiring financing assets from banks. The growth of the bank's equity does not grow as the customers' deposits grow because of undiversified investments. Somali banks offer the same services and invest in real estate, concentrating on one area of investment, and this has caused them to earn low income. For commercial banks to stay sustainable and competitive, they should expand their services and products to meet different needs and contribute to the country's economic development. Somali commercial banks currently focus on serving only wealthy people, which creates financial exclusion.

Somalia lacks the most critical indicators for excellent financial inclusion achievement, such as sufficient bank financing, savings at financial institutions, loans, credit cards, and enough ATMs and bank branches. Nearly half of the people surveyed in Mogadishu have no national ID Cards, and few of them receive their salaries through bank accounts. Limited financial inclusion indicates lower economic development resulting from inadequate savings, investments, financing, and economic growth. The country's economic development depends on the financial sector's development. The only element of financial inclusion indicators that Somalia can praise itself on is mobile money for achieving a good record thanks to telecommunication companies. Since banks are urban-based and require documents and some basic knowledge, mobile money services have contributed significantly to financial inclusions because of no age, literacy, and location limitations.

Introduction

Financial inclusion is making financial products and services accessible and affordable to everyone and businesses, irrespective of gender, color, group, or size. Equal accessibility to affordable financial products and services leads to self-sufficiency by empowering people and firms to meet their fundamental needs. Developing countries develop financial inclusion packages for lifting disadvantaged communities out of poverty and are considered a good vehicle for economic growth. Successful financial inclusion increases savings and investments, economic development, and poverty reduction (Raichoudhury, 2016). Comprehensive financial inclusion comprises the Usage, quality, and accessibility of financial services and products. Civil war destroyed the banking sector in 1991 after the Somali Central government collapsed, and the oldest bank in the country was launched by businesspeople in 2009. However, the financial industry has made immense progress over the last decade. Therefore, this study aims to assess the financial inclusion conditions in Somalia.

Financial inclusion, or inclusive finance, is crucial in providing sufficient access to various financial services. Sarma (2012) suggested that this phenomenon can be measured by an index that examines the extent of access to formal bank accounts, considering several factors such as penetration, availability, and Usage. The understanding of this concept exhibits variation across different countries' socioeconomic backgrounds (Akileng et al., 2018).

According to (Ozili, 2020; Omar & Inaba, 2020), financial inclusion plays a significant role in providing access to vital financial services for various population segments, promoting social inclusion, and addressing poverty and income inequality issues. Implementing this method is crucial in facilitating opportunities for social and economic advancement for marginalized and underprivileged populations. Furthermore, Laeven, Levine, and Michalopoulos (2015) use a developmental perspective in their analysis, conceptualizing financial inclusion as a dynamic element of financial development aimed at integrating unbanked people into the existing financial system.

Additionally, (Allen et al., 2016; Ozili, 2018) have provided a more precise definition of financial inclusion as a systematic approach that guarantees the availability of fundamental financial services to individuals with low income, specifically within the formal sector. Moreover, (Khan et al., 2022) emphasized the importance of financial literacy as a worldwide policy priority, indicating a link between financial literacy and enhanced decision-making abilities and overall welfare.

Access and Usage of financial services

As recent studies indicate, the concept of financial inclusion is characterized by multiple dimensions. According to the findings of (Ankrah Twumasi et al., 2023), demographic variables such as age, gender, and education substantially impact individuals' ability to use financial services. The significance of economic and social factors, such as savings and loans, in improving financial outcomes for households and businesses has been demonstrated by (Lee and Widyaningrum, 2019). Okello Candiya Bongomin and Munene (2020) highlighted the significance of account fees, deposit requirements, and service relevance as crucial determinants for promoting financial inclusion among low-income people. Demirgüç-Kunt and Klapper (2012) expand upon the notion by including risk mitigation and financial stability, which are crucial in facilitating a more comprehensive financial system. The previous findings highlight the complex nature of financial inclusion beyond simply accessibility to embrace a variety of factors and results.

The literature emphasizes the significance of having access to financial services in promoting financial inclusion and its potential to reduce poverty inequality and foster economic stability. Studies by (Matekenya et al., 2021; Park & Mercado, 2018) show the significance of reducing access costs and expanding access, particularly for marginalized populations. Other studies provide evidence of the influence of financial inclusion on alleviating poverty and income distribution (see Erlando et al., 2020; Omar & Inaba, 2020). Furthermore, Ozili (2021) suggested that financial inclusion has multidimensional concepts and may be influenced by various aspects such as financial innovation and literacy. Also, empirical evidence has supported the argument that financial inclusion has a favorable impact on economic growth and stability (Khan et al., 2022; Pazarbasioglu et al., 2020). These studies underlined the significance of policymakers implementing comprehensive measures to boost financial inclusion and foster economic growth.

On the other hand, research on financial inclusion has identified several major obstacles that hinder the accessibility of financial services. These barriers include geographical distance, costs, bureaucratic processes, and limited financial knowledge. According to the World Bank (2014), barriers to access are observed in both price-related factors, such as high fees, and non-price factors, such as documentation requirements. The research conducted by Amari and Anis (2021) and Rashdan and Eissa (2020) illustrates the importance of trust-related concerns and financial constraints as substantial barriers. Pazarbasioglu et al. (2020) classified obstacles into two main categories: demand factors, which include variable incomes and trust-related concerns, and supply factors, such as high costs and limited innovation.

In contrast, (Mossie, 2022; Wokabi & Fatoki, 2019) point out the different obstacles different demographic groups encounter, hence emphasizing the significance of implementing policies that effectively target these diverse issues to enhance financial inclusion. According to (Lakew & Azadi, 2020), the combination of high unemployment and low income and the prevalent preference for informal savings clubs in Ethiopia makes implementing successful financial inclusion programs challenging. Simatele and Maciko (2022) show that fostering the growth of mobile money can reduce proximity barriers, leading to greater financial inclusion in rural areas.

A recent study indicates that successes and challenges mark financial inclusion in Somalia. In their study, Mohamud and Mohamed (2023) highlighted that female entrepreneurs have significant bank account ownership and savings levels. However, they also note that access to credit remains restricted for these entrepreneurs, with age and education playing as influential factors in this limitation. Abdi, Hussein, and Kadir (2022) conducted a study demonstrating a correlation between electronic banking and enhanced financial inclusion. The study by Gas (2017) highlights the notable importance of mobile money, particularly in regions where conventional banking services are scarce. However, the research also acknowledges the existence of barriers, such as limited infrastructure and insufficient financial literacy.

In their study, Farah and Saleh (2023) emphasized the lack of accessibility to traditional banking services and the low levels of financial literacy in Somalia. They also demonstrated limited bank account ownership and savings within the country. Finally, (Mohamed & Nor, 2023) analyze the macroeconomic advantages of using mobile money. Specifically, they highlight its effectiveness in reducing transaction costs and increasing consumer spending. The compilation of studies presented here provides a comprehensive and complex understanding of the financial inclusion environment in Somalia. It analyzes the interplay between technological development like mobile money and ongoing obstacles of access to credit, limited infrastructure, and low financial literacy.

The Usage of Banking Services: Comparative Analysis

This section provides a comparative analysis of the financial inclusion of Somalia versus Uganda—the selection of Uganda based on the researcher's choice for use as a benchmark. The analysis applies data from the Global Findex database (WB, 2014) and gives insights into the financial inclusion level of Somalia compared to Uganda. It also provides Somalia's financial sector development since this data was captured ten years ago and helps us understand how fast it moves forward. This section has analyzed the percentage of the country's population with bank accounts, active accounts, borrowing or credit usage from financial institutions, and savings at financial institutions.

Table 1. Usage of Financial Services Comparison Between Somalia & Uganda

Description	Somalia	Uganda
Bank Account		
(% age 15+)	38.7	44.4
(% age 15-34)	39.4	42.4
(% age 35-59)	42.3	49.9
(% age 60+)	18.8	42.3
(% age 15+) Female	33.7	36.6
Borrowed From a Financial Institution or Used a Credit Card		
(% age 15+)	2.8	16.8
(% age 15-34)	2.9	15.2
(% age 35-59)	2.9	19.1
(% age 60+)	2.3	22.4
(% age 15+) Female	1.3	14.6
Active Account		
(% age 15+)	37.3	41.1
(% age 15-34)	37.9	39.6
(% age 35-59)	40.9	46.6
(% age 60+)	18.8	33.6
(% age 15+) Female	32.2	34.4
Saved At a Financial Institution		
(% age 15+)	2.8	16.8
(% age 15-34)	2.9	15.2
(% age 35-59)	2.9	19.1
(% age 60+)	2.3	22.4
(% age 15+) Female	1.3	14.6

Source: Global Findex database, 2014

1Bank account denotes the percentage of respondents, ages 15-34, who report having an account (alone or with someone else) at a bank or another financial institution or using a mobile money service in the past 12 months. Active Account denotes the percentage of respondents, ages 15+, who report either making a deposit or a withdrawal using their Account (by themselves or with someone else) at a bank or another type of financial institution or personally using a mobile money service in the past 12 months. Borrowing/ use of credit cards denotes the percentage of respondents, ages 15+, who report borrowing any money from a bank or another financial institution in the past 12 months. Saved at a financial institution denotes the percentage of respondents who report saving or setting aside any money by using an account at a bank or another financial institution in the past 12 months.

over 60, implying that Somalia can compete with other East African countries with only people below 60. The people over 60 in Somalia are few, and there is a low rate of educated people. Originally, Somalia's people were mainly nomads and farmers, where the people lived in the countryside. When the central government of Somalia collapsed in 1991, the country's banks were also destroyed, and now, no bank is over 20 years old among the banks operating in Somalia.

Measuring active accounts in Somalia is difficult because one person may have up to five accounts in five banks. The five accounts opened in the five different banks are not all in use and lack financial flows, and it happens that a person uses only one or two accounts, and the rest are idle. Bank marketers go around the city looking for new customers to open accounts in their bank. Unlike when a customer comes to the bank wanting to open an account, the marketers do not ask many conditions when meeting customers who want to open an account outside the bank office. Thirteen banks in Somalia compete for a small number of customers, because of which a person can open an account outside the bank offices; criminals can open the Account because banks are desperate for clients (undermining the recently passed Money Laundering Act). Active Account (2014) Somalia demonstrated a good record compared to Uganda, where the differences between the two countries regarding active accounts are only slight in all categories except for the population aged over 60 years old, implying the newly operated banks in Somalia fast trucked their services to catch up the rest of Africa. If recent year data were available, we would have better estimates of active accounts in Somalia, giving us better insights about this matter. Since this data is from 2014, about ten years ago, it lacks generalizability since Somali banks made significant progress in the last decade, and many new banks were inaugurated after 2014.

Saving at financial institutions is essential for the economy; it improves the balance between credit needs and bank funds availability. When people save money at the banks, they will have enough cash to give more asset financing so that the businesspeople can make more investments. The money that is not deposited in the bank is idle cash, which is unsuitable for the economy. However, if the money is deposited in the bank, that money will be loaned to people with business ideas who need more money to make investments.

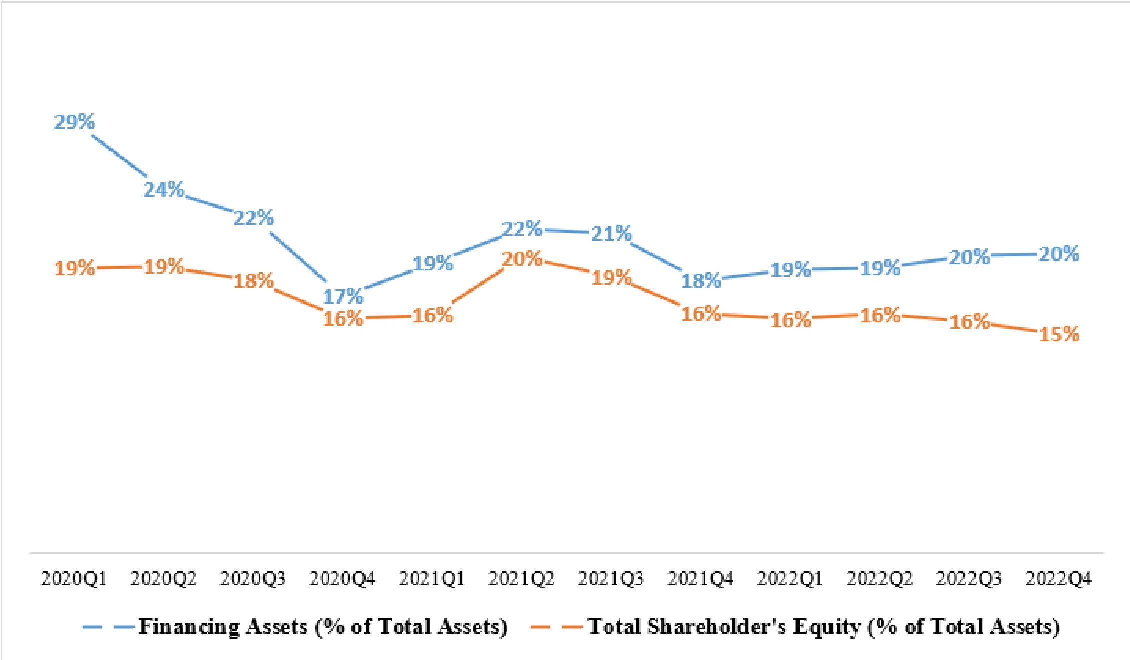
Savings at banks contribute to economic growth, job creation, and wealth accumulation. As can be seen from Table 1, Somalia needs to increase its savings, which has caused a lack of economic growth and widespread unemployment among Somali people. The reason is that people do not have money left in their lives because living is expensive in Somalia, and salaries are low. Also, there is nothing to encourage people to deposit money in banks because no interest payment or profit sharing between banks and depositors in Somalia. The financial inclusion analysis indicates that Somalia underperforms in all financial inclusion indicators, and the savings at financial institutions are the worst for Somalia compared to Uganda.

Somalia Financial sector

Somalia's banks need more assets, which limits their lending ability and development—according to aggregated data in December 2022 published by the Central Bank of Somalia (CBS), commercial banks had total assets of US$1,462.5 million, and these US$1,462.5 million is the total assets of 13 domestic commercial banks. The total liability was US$ 1247.4, and the total shareholders' equity of the banks was US$215.1, with an equity ratio of US$0.1471 ($215.1/$1,462.5). Banks provide their customers with an asset-financing scheme for an average of 21% of commercial banks' total assets each quarter over the last twelve quarters. In comparison, the shareholders' equity ratio is 17% on average of total assets over the same period, implying that banks finance more assets as loans than the shareholder's equity every time. However, financing more than shareholders' equity indicates the banks' sacrifice, which is possible because borrowers are required collateral assets worth twice as much as the borrowing amounts (no risk). Although financing assets are investments for banks because borrowers will pay back principles plus profits (conventional interests), taking moderate risk is worth it. The poor economic conditions in the country are holding the banks back, which is an obstacle to the development of the Somali economy. Caveat: Data has not explained if the financing assets are inclusive amounts (principles plus rate) or only principles.

As the figure shows, the lending amounts of banks are closely related to shareholders' equity, implying that if the banks' equity increases, the more money banks will lend. The total assets and shareholders' equity are minimal, with even banks' operations heavily dependent on customers' deposits because the debt ratio of domestic banks of Somalia is 85.3, which is highly leveraged. A high debt ratio can cause severe problems in the financial sectors and the general economy in times of economic downturn.

Figure 1.

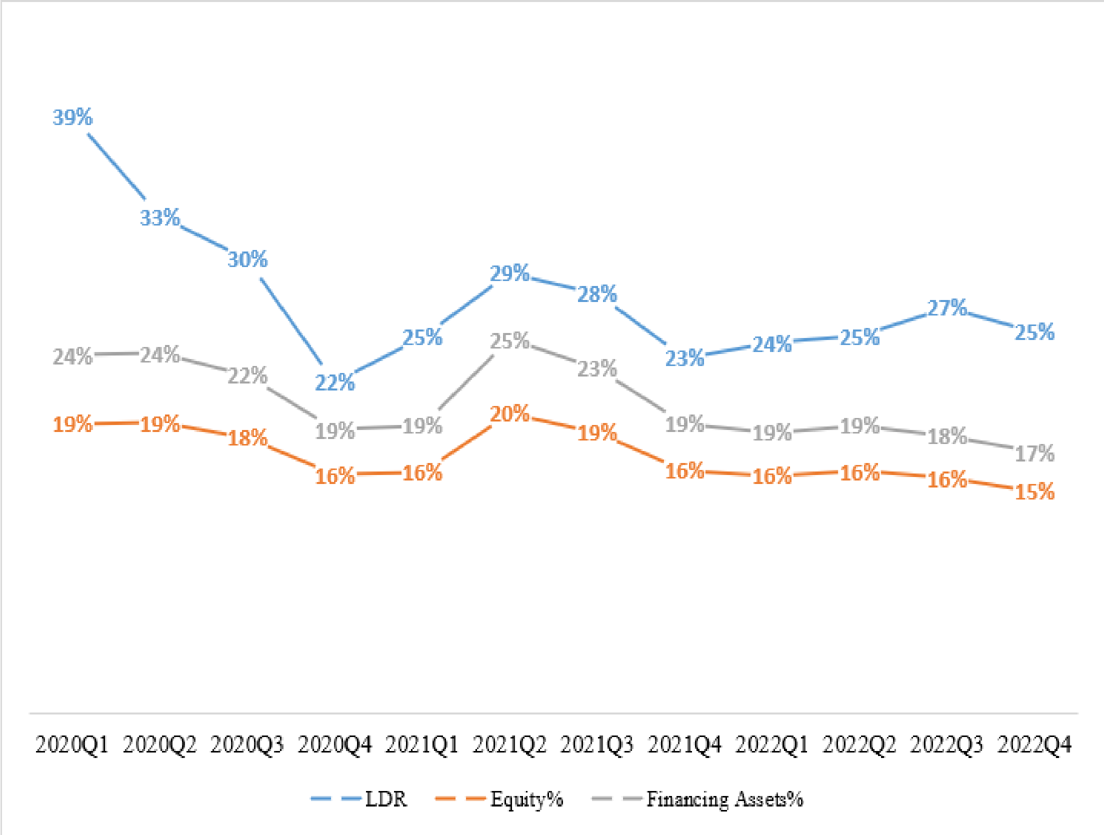


Source:CBS, 2022.

Customers lost trust and rushed to banks to withdraw their deposits during the economic crisis, disturbing the operations of banks, particularly highly leveraged banks. The good thing in Somalia is that the people use US dollars, which are more stable compared to Somali shillings, thereby reducing potential financial risks. However, the Banks' lending ratio to total assets and shareholders' equity is relatively high, according to data published by the Central Bank of Somalia.

On the contrary, the below figure shows poor financial sector development in Somalia. There are critical indicators for banking liquidity levels by comparing banks' loans to their customers' deposits called Loans to Deposits Ratio (LDR). The LDR measures how much of every dollar a customer deposits is lent to customers with money shortage.

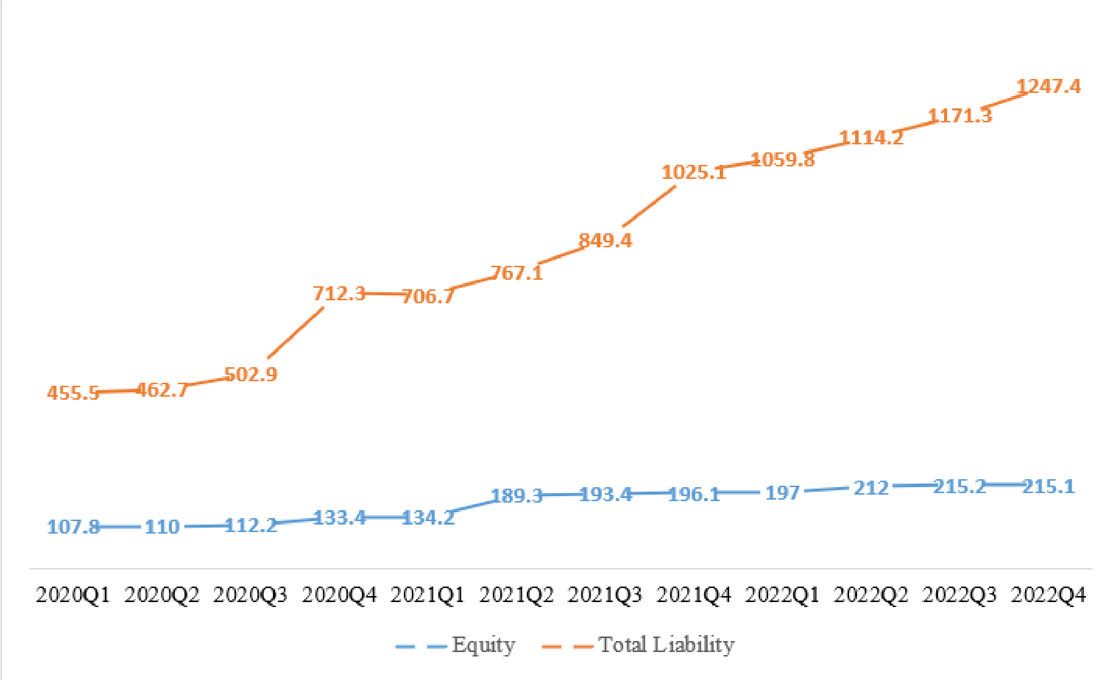
Figure 2



Source: CBS, 2022.

The average loan-to-deposit ratio in Somalia is 28 percent over twelve quarters (2020-2022). Globally, a ratio above 80 percent of LDR is considered ideal, meaning the bank lends 80 percent of every dollar a customer deposits. If the LDR is too high, it may cause liquidity risk for unexpected cash requirements, while a too-low ratio results in low earnings or charging customers high fees on loans. For this reason, banks' charges are too high in Somalia, and the lending ratio is closely related to the equity of the banks instead of customers' deposits. Banks are intermediaries of depositors (with surplus) and borrowers (with shortage), so they should effectively circulate the money supply to an optimal level. Achieving an optimal level of LDR ratio has two advantages: 1) the bank's earnings will improve, and 2) bank fees on loans will decrease, enhancing the financing assets. The economy will grow when bank fees on loans are reduced, and bank earnings are increased.

Figure 3



Source:CBS, 2022.

On the other hand, customer deposits have continuously increased due to increased accessibility and rapid adoption of banking services. Unfortunately, the banks' equity has not corresponded to the increased total assets, possibly due to poor earnings resulting from the mismanagement of loan to deposits ratio (LDR). The banks can increase their equity by increasing financing assets at a low rate of borrowing cost. The account types that most customers hold are current accounts, meaning they can withdraw their cash from the banks without restriction, hampering the bank's ability to use such money. Saving accounts in Somalia do not bear interest nor share profit with customers holding saving accounts because banks apply the Islamic system. The current rate for financing assets is unjustifiable (too high) because banks prevent credit risks by asking for a collateral asset, sometimes worth twice the borrowed money. The increased customer deposits are enough evidence for the increased number of people with bank accounts in Somalia.

Many microfinance provider institutions exist in Somalia, such as Kaah, Kaaba, Gargaara, and Maal microfinance. Most banks also provide microfinance services with the support of donors and the Somali government. As data revealed, microfinance services provided by commercial banks were UD$80.3 million during the last three years, with an annual average of UD$26.8 million for low-income people and business owners as microcredit packages. Compared to the needs of people and communities and the lack of traditional government services, the availability and accessibility of microcredit services are low.

Data Analysis

This study assesses Somalia's financial inclusion conditions and other insights into financial services. The assessment applies primary data collected in Mogadishu, the capital city of Somalia. The study applies a mixed method approach of relevant literature reviews and collects qualitative and quantitative information from primary and secondary data. The study also interviewed experts to gather information that cannot be captured in a survey or external data. The number of people observed is 1005, comprising 33 percent female and 67 percent male. The study applies some fundamental financial inclusion indicators set by the World Bank. Using the WB financial inclusion indicators enhances the comparability of Somalia with other countries, helping the reader to understand the study outcomes quickly. The most urban young generations are more educated and in digital societies, which gives them more access to financial services.

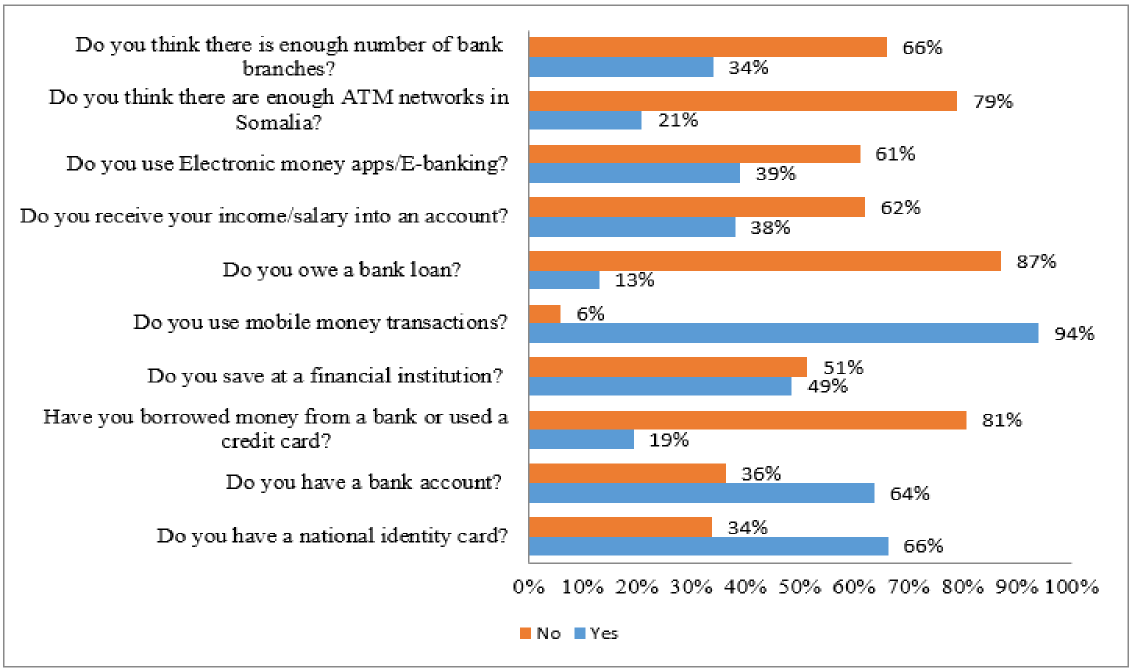
Explaining the variables in the diagram from top to bottom, banks do not have branches outside the main cities due to security issues and a shortage of clients with big money. Businesses and people with money live in main cities, so banks need not open costly branches in small towns. There are few automatic teller machines (ATMs) in Somalia because they are old-fashioned self-service banking, but now things are digital-based. The need to carry cash on hand is shrinking, which reduces the need for ATMs. The banks cannot dare to locate ATMs everywhere in post-conflict society country where financial crimes and robbery are likely to occur. Therefore, each bank has an ATM at specific locations, especially in prime locations of cities such as malls and supermarkets, and in front of the banks where there are 24/7 guards.

In Somalia, electronic banking (E-banking) apps are dramatically increasing because banking services tend to be digital-based. There are also some limitations placed on mobile money transfers for safety reasons. Then apps like Dahabplus, Waafi, and Wallet, for instance, become the best substitutes for transferring vast amounts of money that mobile money cannot. Businesspeople and whoever earns more income use electronic banking services; not all customers use them. Only 39 percent of the urban literate population use e-banking Apps for purchasing, transferring, and receiving money. Many working people receive their salary/wage through the popular mobile money transfer, which is convenient for both sides. As the diagram below depicts, 38 percent of respondents replied that they receive salary/income in a bank account, and 62 percent do not receive income via a bank account, revealing that many working populations do not use bank accounts thanks to mobile money transfers. The availability of mobile money services makes receiving income in a bank account unnecessary for many earning populations.

When it comes to taking bank loans, Somalis are culturally conservative societies, perceiving being in indebtedness as bad luck and a curse. Besides that, Somalia has an unfavorable financial service environment due to a high cost of borrowing, low returns, short time length, very selective lending procedures, and complicated requirements that create reluctance to borrow. Just 13 percent declared they owe bank loans, and 87 percent are debt-free. Economically, a bank loan is recommended if investing in assets can generate more than the cost of borrowing (interest). For instance, if one makes a lucrative investment with borrowed money that produces higher annual returns than the annual interest expense, there will be leftover profit for the borrower after repaying the annual interest (cost of borrowing). One should not take a bank loan for spending on recurrent costs and highly depreciable assets but income-generating assets. Finding a source of funding is difficult even for those with profitable business ideas, and it indicates an undeveloped financial sector, low economic growth, and a high unemployment rate in the country.

Mobile money transactions are a popular service active in Somalia for over a decade, enhancing the financial inclusion gap. According to data collected, 94 percent of the population uses mobile money, such as EVCplus and Edahab, provided by two giant companies, Hormuud and Somtel. Mobile money services play a vital role in financial services in Somalia, permitting everyone to use them, even illiterate people and rural communities. Mobile money transfer services have no discrimination against anyone based on age, literacy, or location; all requirements to use them are having a SIM card and a cellphone.

Diagram 1.



Interestingly, the savings at financial institutions dramatically improved compared to the data in 2014. Although significant progress has been made in savings at financial institutions, this information is specific to the literate people living in Mogadishu. Savings at financial institutions in Somalia do not earn interest or profit sharing; therefore, saved money at banks will lose both purchasing power and earning power. This percentage is low for the capital city, and the rate was expected to be higher than this level. Only 49 percent reported saving money at financial institutions—this rate in the country's most prosperous city indicates unfortunate facts. Mogadishu is where the wealthiest people live, the most educational institutions, the central government, international organizations, and the largest commercial companies operate.

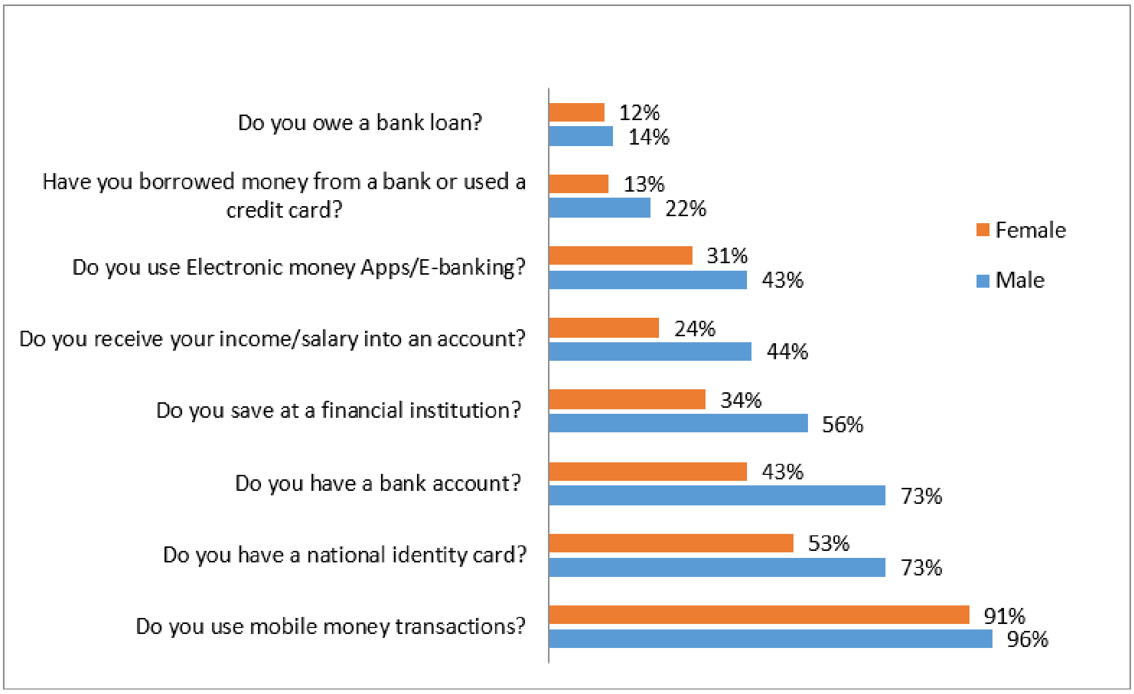
Mogadishu is the capital city where people come to work, and most people attained a certain level of education. Therefore, this information cannot be taken as general for the whole country or community, and it is specific to the literate people living in Mogadishu. This data implies that other parts of the country would be worse than at this level.

Using borrowed money from a bank or a credit card and owing a bank loan are related. As explained, people owing bank loans were just 13 percent. Similarly, only 19 percent reported they have ever used borrowed money from the bank, and there are no credit card services in Somalia. Low savings at the banks result in low lending and, as a result, low investment and job creation. When people and businesses do not deposit their money into banks, banks need more cash to lend to those with fund shortages. A nation's borrowing levels depend on its financial sector development and are often about leadership. According to data, the Usage of bank loans is negligible in Somalia, which will cause stagnated economic growth.

The percentage of the population with a bank account and national identity card is better than expected due to the scope of the research. The data was collected from people in Mogadishu, where federal government institutions are located, and people require an identity card to apply for some services, including opening bank accounts, issuance of certificates, and jobs. Besides, respondents were not asked whether they had an active account but a bank account. Banks in Mogadishu wander in the streets to find people who register with their banks, which increases the number of people with bank accounts regardless of the quality of these accounts and active accounts. Nevertheless, the percentage of the population with bank accounts is still low, according to data, which reveals that 64 percent have bank accounts. In contrast, 66 percent reported having a national identity card. These national identities include birth certificates, certificates issued by the government or local government, and passports. The Somali government launched the national identification card in September 2023.

Diagram 2 shows gender-based information about Somalia's financial inclusion. As can be inferred from the diagram, males outperform females in all categories. Based on the observation, only three categories have negligible differences between genders: borrowing, owing bank loans, and mobile money usage. Besides these three variables, males have more than 10 percent higher percentage than females in each indicator. Data collection on gender-based challenges in startup businesses in Somalia indicated that business females and males with bank accounts are the same percentage (73%) (Abdisalan, 2023). Somali females have recently made significant progress in politics, business, and education, which many African states still struggle to attain. Mobile money transfers are multi-purpose, such as savings, wallets, pocket, transfers, receiving, and purchasing around the clock, replacing many banking services for rural and urban Somali people indiscriminately age and gender.

Diagram 2.



Several factors create gender-based disparities: (1) cultural factors, (2) women's entrepreneurial intentions, and (3) responsibility and role in the family. Families and husbands advise/prefer daughters/wives to stay home and do home chores to protect the family's pride (Abdisalan, 2023). Most women penetrate the business market only when they face financial conditions at home, such as divorce, her husband dying, or the husband not being able to provide the necessities. The Female's role and responsibilities are to take care of kids and husband, and the man goes out for a living as perceived by general people.

These community-level mentalities gradually disappear as women break the abovementioned factors and progress significantly in social and economic activities.

Discussion

The financial inclusion assessment applies primary and secondary data. The study used survey data to analyze the status quo of Somalia's financial inclusion level and the secondary for comparative analysis between Uganda and Somalia as a benchmark. Any country's financial inclusion depends on several factors that influence the financial inclusion level of the country, and these factors can vary across different countries and regions. Countries with higher levels of economic development tend to have better financial inclusion. A strong economy creates more opportunities for individuals to access financial services and products. Financial inclusion itself also plays a vital role in economic development, creating jobs for locals through increased investments and business expansion. Therefore, a country's levels of economic development enhance financial inclusion because people have jobs and earn enough income to enable them to have access to financial services. Thus, the level of financial inclusion of a country equates to the economic development of that country. Individuals in countries with higher economic development have surplus money to save in banks. A simple money deposit to a bank account enables the bank to lend money to a person with a fund shortage, then the depositor earns, the bank earns, and the borrower earns. This simple deposit circulates in the economy, creating economic opportunities for others [1].

A country's regulatory framework also plays a crucial role in financial inclusion. Countries with clear and supportive regulations tend to have higher financial inclusion levels. Regulations that promote competition, consumer protection, and innovation can help improve access to financial services [2]. Adequate financial infrastructure, including banking branches, ATMs, and digital infrastructure, is crucial for financial inclusion. In Somalia, mobile money contributes too much to financial inclusion development because it does not need literacy and formal regulation. A country with less-developed infrastructure tends to have lower levels of financial inclusion [3].

Financial literacy is essential to determining financial inclusion. Somalia is a country with large populations in rural areas, and it will be challenging to compete with others with low populations in the rural areas in financial inclusion levels because of the large percentage of illiterate people in this country. This implies Somalia will remain a low financial inclusion country unless it develops policies promoting financial inclusion for rural and remote communities. Higher education and financial literacy enable individuals to understand better and use financial services. Therefore, the campaign for financial inclusion should start with increasing the education and financial literacy of marginalized, disadvantaged, and rural communities [4].

Income and equality levels are other factors that significantly affect financial inclusion levels in a country. Lower-income communities will have limited access to formal financial services like banking, credit, and investment. They may face affordability issues, lack of documentation, or limited physical access to branches in remote areas. Income and inequality levels can affect financial literacy and awareness among people. Lower-income individuals may have limited knowledge about financial products or may be skeptical due to past experiences of financial exclusion. A lack of financial knowledge can deter them from actively participating in the formal financial system, and therefore, they need to get financial knowledge to participate in the financial system. Income inequality can impact a person's ability to save and invest. Due to insufficient earnings, lower-income populations often struggle to save, which impedes their ability to access formal financial services and build assets [5]. All these factors influence a country's financial inclusion and mean that high financial inclusion indicates economic development.

Conclusion

This study assesses Somalia's current financial inclusion conditions by applying primary and secondary data. Somalia lacks the most critical indicators for excellent financial inclusion achievement, such as sufficient bank financing, savings at financial institutions, loans, credit cards, good ATMs, and branches. Nearly half of the Mogadishu people reported having no national ID cards, and few rate reports receive their income/salary from bank accounts. Banks in Somalia face a unique challenge. They invest a significant portion of customer deposits in real estate, a decision that can lead to a lack of sufficient cash flow, limiting their lending capacity. The allure of real estate as a more lucrative business than profit rates on asset financing (Murabaha) often drives this investment strategy. Somalia has no deposit insurance/protection and saving rate, which impedes savings accounts. Therefore, most accounts opened in the banks are current accounts, meaning the customer can withdraw his money from his account anytime.

Uganda outperforms Somalia across all ages and genders in terms of financial inclusion. Notably, Ugandans over 60 years old are significantly more financially included than their Somali counterparts, highlighting a substantial demographic gap. Somalia's banking sector, hindered by historical disruptions and a preference for nomadic and rural lifestyles, faces difficulties in encouraging savings and account activity. The destruction of the central government and banks in the past has resulted in fragmented and underdeveloped banking infrastructure. Measurement of active accounts in Somalia is complicated by the practice of individuals holding multiple accounts across different banks, many of which remain inactive.

Somalia's economy heavily relies on informal and mobile money services, with traditional banking services being underutilized. The absence of interest-bearing savings accounts and the lack of a profit-sharing system further discourage deposits. The high cost of living and low salaries contribute to low savings rates, negatively impacting overall economic growth and job creation. The high debt ratio poses potential risks during economic downturns. Loan-to-deposit ratios in Somalia are significantly below global standards, leading to high fees and limited lending capacity, consequently constraining economic growth. Cultural perceptions of debt and the role of women in the economy significantly influence financial inclusion rates. Despite the widespread and inclusive use of mobile money, significant gender disparities persist, with males outperforming females in most financial inclusion indicators.

Poor financial inclusion indicates low economic development resulting from inadequate savings, investments, financing, and economic growth. The country's economic development depends on the financial sector's development. The only element of financial inclusion indicators that Somalia can praise itself on is mobile money for achieving a good record thanks to telecommunication companies. Since banks are urban-based and require documents and some basic knowledge, mobile money services have contributed significantly to financial inclusions because of no age, literacy, and location limitations. This study implies that a higher level of financial inclusion implies a higher economic development, and achieving high financial inclusion is about the leadership of that country through policies and programs.

Recommendations

This study provides recommendations aimed at achieving high financial inclusion, which is linked to greater economic development, through effective leadership and strategic policies.

- The study recommends that the Somali Bankers Association and government develop highly coordinated policies and programs to enhance Somalia's financial inclusion level.
- Promote financial education and literacy programs to empower people with the required knowledge and skills to access and effectively use financial services.
- Encourage financial institutions to design and offer products and services that are affordable, accessible, and tailored to the specific needs of low-income people and marginalized communities.
- Promote digital technologies, such as mobile banking and digital payments, to overcome physical access barriers by expanding digital infrastructure and ensuring affordable internet connectivity
- Simplify regulations for opening bank accounts and accessing credit to reduce barriers for underserved populations. Improve the physical infrastructure by increasing the number of banking branches, ATMs, and other financial service providers, particularly in rural and remote areas.

- Since banking services are urban-based and require documents to open a bank account, developing mobile money services is vital for developing inclusive financial services. Therefore, the government should think carefully about mobile money services that provide rural people valuable opportunities to participate in the services provided by banks. For many people living in villages and rural communities without banking services, mobile money service is the backbone of their lives and should be given importance.

- Commercial banks should increase their equity capital and customers' deposits to expand their services and financial products. Investing in different sectors, increasing asset financing options, and creating saving accounts will increase the bank's lending ability. Saving accounts help banks optimize the loan-to-deposit ratio and can help banks improve equity and bank's ability to finance assets.

- Unlike men, females have difficulty taking loans due to a lack of collateral assets and networks. Therefore, banks should set policies that enable women and youth to access bank financing, such as soft financing (soft loans).

- Central banks of Somalia should ask commercial banks to publicize the data so that financial information users can use them. Some banks seem unsustainable and, therefore, should protect customers' deposits.

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