

Factors Affecting Financial Inclusion in Garowe, Puntland Somalia

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Abstract: According to the World Bank declaration of that in 2020 all the world population is needed to have a bank account as to alleviate the poverty and socioeconomically developed. During the last decade, most of the Sub-Sahara countries has made great progress of accessing and using financial services, e.g. According to European Investment Bank, Kenya as one the closest neighboring country of Somalia; around 40% of the adult population have accounts in the financial institution and 58% of the total population are using mobile money service, while Somali less than 10% of adults have only accounts in financial institutions and 35% the total population are using mobile money service. Therefore, this study was intended to examine and identify factors affecting financial inclusion such as the effect of income level, Saving level, transaction cost and distance of the bank on the financial inclusion in Garowe Puntland Somalia. And finally the study has found that in general higher income level, encouraging the savings, lowering transaction cost and reducing the distance between the banks and their users are significant factors ($p < 0.01$) in predicting financial inclusion in the Garowe, Puntland area.

1. Introduction

The expansion of banks has globally continued to grow and became one the main economic pillars of In Somalia, since 1991 after the collapse of the Siyad Barre regime, Somalia has experienced cycles of conflict and fragility that fragmented the country, undermined legitimate institutions, and created widespread vulnerability. However, financial sector development in conflict-affected country is not something easy and seems to be a miracle. During the last decades, a Somalia opportunistic nature entrepreneur has invested different informal and formal financial services that became an example of

that the financial sector has ability to provide a life-line to a people afflicted by sustained conflict.

Although, there is no strong Government financial system and regulation, since the onset of the Somalia Civil war, the traditional spirit entrepreneurship of Somalis remains strong, the private sector resilient and robust. Indeed, the private sector has managed to grow impressively in the decade since the onset of the civil war, particularly in the areas of trade, commerce, transport, remittance services and telecommunications, as well as in the primary sectors, notably in livestock, agriculture and fisheries (KPMG, 2004). The Somali remittance system and diaspora money transfers to the afflicted people in the Country has emerged the economy of the country and allowed it to continue without support of state government. Remittances are estimated at \$1.2—\$2.0 billion, equivalent to 23–38 percent of GDP. Remittances have been important in cushioning household economies, creating a buffer against shocks (drought, trade bans, and inter-clan warfare). They fund direct consumption, including education and health, and some investment, mostly in residential construction, allowing Somalia to sustain its high consumption rates and to finance a large trade deficit (WorldBank, 2015).

Despite the Ineffectiveness of the central Bank of Somalia, since it has been re-opened its doors, it strived to provide financial system regulation as secure the citizen's rights as well as to safe guide the financial system of the country. According to (MOF, 2015) There is only six recognized and licensed Banks including Dahabshiil Bank International, Salam Somali Bank, International Bank of Somalia, Trust Africa Bank, Premier Bank and Amal Bank and These banks have been given the license and work under the passed Financial Institution Act in 2012. They run different branches and center around the Country especially the major towns (MOF, 2015). Though that large-scale expansion of the private

banks exists in Somalia, from 2011 to 2014 unbanked individual has dropped down globally, while more than 10% of Somali adult are using a mobile money account than an account at a financial institution (WorldBank, 2015). Resulting from since the private Telecommunication Companies have provide digital mobile money banks such as Sahal for Golis Telecom that hugely operates in Puntland (Northeast Region of Somalia, Zaad for Telesom that operates in Somaliland (Northwest Region Somalia) and EVC Plus for Hormuud Telecom that operates in South and Central Regions of Somalia, the users of the mobile money has increased. The developed and developing countries. Moreover, there has been a continuous developing of financial product and service menu towards the engagement of the customer demand and attraction backed by the competition among the banks both local and international or foreign banks (Álvarez, García, & Gouveia, 2016). Financial services are considered the key fundamentals of the global economic growth; banking (deposit and withdrawal), saving, investing and debt business financing helps all the classes of the citizens to save money, guard against the uncertainty and the business to start up, expand and facilitate extraordinary business activities and connecting the local businesses to the global customer or businesses (World-Bank, World Development Report 2000/2001: Attacking the poverty, 2001).

According to (WorldBank, 2015), a press release stated that from 2011 and 2014, 700 million people became account holders at banks, other financial institutions, or mobile money service providers, and the number of “unbanked” individuals dropped 20 percent of 2 billion adults.

The African middle class income has emerged and tripled over during the last 30yrs to 355 million or more than 34% of the continents population and this has stimulated the growth in the demand of retail banking services and this has led to turn the eyes of the domestic, regional and international banking groups to focus their efforts to expand the menu of services to meet the growing needs of this wealthy class (AFDB, 2013). Retail Banking in Sub-Saharan Africa is projected to grow by 15% per annum by 2020 which will then bring the sectors contribution to GDP to about 19% from 11% in 2009 (AFDB, 2013).

Thus, during the last decade, most of the Sub-Saharan countries has made great progress of accessing and using financial services, e.g. According to European Investment Bank, Kenya as one the closest neighboring country of Somalia; around 40% of the adult population have accounts in the financial institution and 58% of the total population are using mobile money service, while Somali less than 10% of adults have only accounts in financial institutions and 35% the total population are sing mobile money service. Therefore, this study is intended to examine and identify factors affecting financial inclusion such

as the effect of income level, saving level, transaction cost and distance of the bank on the financial inclusion in Garowe Puntland Somalia since the most common thread of all the studies remains the same factors affecting financial inclusion such as income and saving level (Demirguc-Kunt & Klapper, 2012), the transaction cost and Bank branch availability (Allen, 2013).

1.1. Research Objectives

This Study is to determine factors affecting financial inclusion in Garowe Puntland Somalia.

Specific Objectives

1. To find out the effect of the income level on financial inclusion in Garowe Puntland Somalia.
2. To examine the effect of the saving level on financial inclusion in Garowe Puntland Somalia.
3. To identify the effect of the transaction cost on financial inclusion in Garowe Puntland Somalia.
4. To find out the effect of the Bank distance on financial inclusion in Garowe Puntland Somalia.

2. Literature Review

2.1 Theoretical Framework

2.1.1 Keynesian Economic Theory

Keynes (1930) in his treatise on money argued for the importance of the banking sector in economic growth. He argues that financial deepening or inclusion occurs due to an expansion in government expenditure. In order to reach full employment; the government should inject money into the economy by increasing government expenditure. The financial sectors in developing countries are not only regulated, but heavily repressed. Efficiency and equity lead to government intervention in credit allocation in developing countries. Well-functioning financial institutions and markets provide opportunities for all to make investments by channeling funds to their most productive uses, hence boosting growth, improving income distribution, and reducing poverty.

Therefore, developing the financial sector and improving access to finance accelerate economic growth and reduce income inequality and poverty. Financial deepening occurs due to an expansion in government expenditure. An increase in government expenditure increases aggregate demand and income, thereby raising demand for using financial services such as credit and loans. This means that an increase of the government expenditure for injecting money to the economy will increase that employment opportunities which affect and increment the income of the household individuals and this will result the need or demand for financial services. Financial

Inclusion seeks to overcome the frictions that hinder the functioning of the market mechanism to operate in favor of the poor and underprivileged.

2.1.1 Theory of Life Cycle Saving

According to (Ando & Modigliani, 1963), the theory of the life cycle model predicts that individuals should smooth consumption, in the sense of holding marginal utility constant, across stages of life. The model predicts borrowing prior to labor market entry, wealth accumulation during the working life, and dissaving in retirement. This simple theory leads to important and non-obvious predictions about the economy as a whole, that national saving depends on the rate of growth of national income, not its level, and that the level of wealth in the economy bears a simple relation to the length of the retirement span. The Modigliani had noted that one of the most important motives for putting money aside was the need to provide for retirement. Young people will save so that when they are old and either cannot or do not wish to work, they will have money to spend. Therefore, the person will work and make accumulation of money by saving from its income as to dis-save later in retirement. However, when the saving level is high, the people consider saving portion of their income in the financial institution that will result more inclusive financial system. On other hand, people don't for only for their future retirement expenses but also for their children to life better in future. Therefore, saving is being considered as gateway of financial inclusion which helps the poor people specially women to enable them to earn more and to reduce the inequality of income (Women'sWorldBanking, 2013). On, other hand, some other study conduct in Latin America is showing that women use to work or employed as part-time and temporary, they earn and save, but they rather prefer to save their money in safe place which encourage them to go the financial institution or banks (Women'sWorldBanking, 2013).

2.1.1 Transaction Costs Theory

According to (Williamson, 1989), Transaction Cost Economics emphasizes on the organization of transactions that occur whenever a good or service exchanged from a one person or firm to and other using different technological exchange means. Therefore, transaction cost has an effect on the both internal and external environment of the firm such as; consumer decision to buy such goods or service. In general, many of the poor individuals in developing and under developing countries are face significant transaction costs in opening a simple bank account or participating in the formal financial sector. These transaction costs can be divided into pecuniary such as opening fees, deposit charges, withdrawal charges, and other administrative costs, while non-

pecuniary costs are traveling cost, information searching cost and opportunity cost (Karlan, Ratan, & Zinman, 2013). Moreover, the financial institution they provide service that their users may incur cost upon their usage e.g. they give loans with interest charge that the users pay for it. Therefore, the higher this interest rate the higher it discourages the users.

2.1.1 Bid rent Theory

According to (Alonso, 1964), the bid rent theory is a geographical economic theory that refers to how the price and demand for real estate change as the distance from the central business district (CBD) increases. It states that different land users will compete with one another for land close to the city Centre. therefore, as the distance between the users and providers increase the demand for that service goes down since there will top up extra costs such as travel costs. Same with that the distance affects the service provided by the financial service and will indirectly encourage the unbanked population as reported in (WorldBank I. B., 2014) that the most significant reason cited by the unbanked individual in the developing and under developing countries is excessive distance between the bank branch and its users. Therefore, this obviously declares that as the distance gap between the service provider and its users increase the higher it dissatisfies the users of that service.

2.2 Conceptual framework

The conceptual framework illustrates the relationship between the independent variables which include Income level, Saving Level, Transactions costs, Bank Branch Distance and the Financial Inclusion which is the dependent variable as shown figure below;

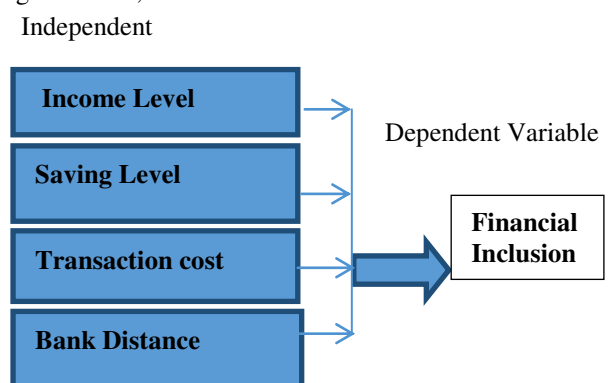


Figure 2.1 Conceptual Framework

2.3 Income Level

Income can be defined as the amount of money received in an exchange for labor or selling of goods or services (Abreu & Greenstein, 2011). Income levels are being considered and observed as the intimate factor to financial sector development and

increase of the demand for financial services in both developed and developing countries. This is explained thus; that the volume and sophistication of the financial services demanded is much greater in the higher income economies than in the lower income economies and as such developed countries are better able to achieve economies of scale in banking (Allen, 2013). Being financially excluded is linked to income level: The richest 20% of adults in developing countries are more than twice as likely to have a formal account as the poorest 20% (World-Bank, Financial Inclusion, 2016).

The level of income is a significant determinant on the nature of financial services demanded from the bank. Thus, the higher the income the higher the ability to access more and better financial services, and being financially included (Inganga, Njeru, Ombui, & Tirimba, 2014).

According to Global Findex Report in 2014, due their level of income women in developing countries are 20% less likely than men to have an account and 17% less likely to have borrowed from a formal financial institution. In some cases, the lack of access to Financial Services is because of banking outlets are too few, too far or unwilling to serve the poor, but more often it's because many with meager incomes think they're too poor to be able to benefit from financial services (World-Bank, UFA2020 Overview: Universal Financial Access by 2020, 2016). It is most often assumed in economic theory that higher incomes strongly relation with a higher demand for financial services (Ando, 1963), therefore, it's clear that income implies the demand to have an account, barrow and being part of the users of service provided by the formal financial institutions.

2.4 Saving Level

Saving level as culture of people is often associated as strong demand trigger for financial services. According to (Demirguc-Kunt & Klapper, 2012) states that to cover future expenses—education, a wedding, a big purchase—or to provide against possible emergencies around 36 percent of global adult's report having saved or set aside money in the past 12 months by using financial institution. The Keynesian theory the life cycle hypothesis sticks to the definition of savings as differed consumption. Sticking to this theme, the share of consumption in income tends to be much lower in higher income groups than in lower income groups. This is probably because their transitional income is much higher than in lower income groups who because of such factors as limited employment options precipitated by possibly limited levels of education and skill which results a situation whereby there is little avenue for any additional income streams (Dick, 2002). Therefore, Savings practices have also grown as new technologies and new methods of engagement expand

the ability of poor people to access financial services (Martin, 2013).

Among the economic factors those affect the saving level of the people the interest rate is considered as an important stimulus for demanding saving services provided by the commercial banks (Frączek, 2011). There are a number of determinants of saving. The level of savings depends on various factors such as income, interest rates, fiscal factors, demographics factors as well as psychological, cultural and social factors. Therefore, a strong positive correlation is being experienced as high as the income rise the saving level increases (Ahmed, Atiq, Alam, & Butt, 2006).

2.5 Transaction Cost

Transaction costs can be defined as the costs of transferring resources between markets or between participants in the same market. In the finance field, transaction costs refer to the resources required to transfer (lend) one unit (e.g. dollar, peso) of currency from a saver to a borrower, and recover that unit of currency at a later date plus some agreed interest charge (Meyer & Cuevas, 1990). During exchange, both parts pay transaction costs each and every time they decide to buy or sell any goods or services, e.g. financial Assets or Services. For banks, the cost of dealing with poor people is high because they have to maintain a high number of accounts with a low volume of financial transactions.

This generally makes having an outlet in poor areas unviable. Instead banks have tended to focus on servicing middle- to high- income earners, and international banks in particular are viewed as 'the rich man's' bank (Alice Allan, 2013). According to (Ndung'u, Morales, & Ndirangu, 2016) High transaction cost (high ledger fees costs for maintaining micro accounts) and other expenses such travelling expense adds to the overall transaction cost is considered as barrier to poor people to access the financial services. Therefore, around Two billion people -- or 38% of adults in the world -- do not use formal financial services¹, and 73% poor people are unbanked because of costs, travel distances and the often-burdensome requirements involved in opening a financial account (World-Bank, Financial Inclusion, 2016).

Moreover, Transaction costs such as transport costs to financial institutions, transaction charges such as deposit charges, withdrawal and ATM charges, Interest rates on credit cards, interest rates on loans, account operating costs such as the costs for various services such as mobile banking charges, account inquiries charges, internet banking charges as well as operating balance charges incurred on opening a bank account impact the demand for financial services for instance; due to the small volume nature of deposits in Kenya and in Sub Saharan Africa in general, such costs can frequently

erode the convenience of banking services (Inganga, Njeru, Ombui, & Tirimba, 2014). Therefore, some of the developing countries have encouraged digital financial access to provide high quality, affordable financial services, and to lower the transaction cost incurred during selling or buying the financial services.

2.6 Distance of Bank Branch

According to (World-Bank, Financial Inclusion, 2016), Around Two billion people or 38% of adults in the world do not use formal financial services and those barriers of 73% of poor people to have a bank account are because of costs, travel distances and the often-burdensome requirements involved in opening a financial account. However, more than 25% of the non-account holders in Africa consider that distance between their residence and the bank branch is barrier to them to use the financial services of the financial institution and it is third biggest barrier to them from cost of transaction and other requirements. Often the main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch (AFDB, 2013).

This obstacle is common throughout the world, but more specifically to developing and under developing countries. Around 27.5 million of Pakistani adults cite distance to a financial institution as a barrier to opening a financial account (World-Banks, 2016).

Therefore, to tackle this problem, today there is strong appetite for reducing the distance between the user and financial service globally, and for the sake of that a lot of banks and countries has started to digitalize their banking services, for example Somalia, Kenya and more others of Sub-Sahara African Countries. Hence, Digital financial services present an enormous opportunity to bring more women into formal financial system by bridging the distance and service gaps from formal banking services. The use of mobile phones and retail agents reduces risk, distance, and cost of women's financial transactions (Blum, 2016).

(Shankar, 2013) states that distance of the bank branch to reach the rural people is a common barrier of the supply driven factors. The greatest barrier of financial inclusion to reach rural areas is the distance from the bank (World-Bank, 2012). Distance continues to be a major issue since Business Correspondent provides doorstep financial services to the outreach areas. A reasonable distance from the bank branch should be 3-4 kilometers (Acharya, 2013). For opening a bank account to the rural people distance and travelling from the bank branch to the remote areas is considered as a greatest challenge for the financial institutions (Samundengu, 2014).

Defined broadly, financial inclusion is the proportion of individuals and firms with access to formal financial services such as having an account in the Financial Institution. At the global level, 2.5

billion people – or half the world population – remain without a bank account, but differences are marked across countries. Access to financial services varies widely by a country's level of development as well as an individual's income, education and gender (World-Bank, Financial Inclusion, 2016). Around 90% of adults in high-income countries have an account at a financial institution compared to only 41% in developing countries (Huefner & Bykere, 2015).

However, banking system has strong role on the financial Inclusion. Commercial banks as one of the widely known financial institution may be described as institutions that engage in the following services; processing of payments through e-money transfers, issuing of bank drafts and bank charges, accepting money on term deposits and lending by overdrafts, installments, provision of documents such as standby letter of credit, guarantees, performance bonds, securities underwriting, commitments and other forms of sheet exposures, safe keeping of documents and other documents in safety deposit boxes, sales, distribution of brokerage with or without advice, cash management and treasury, merchant banking and private equity financing, etc. In general, there are three broad categories of financial services/ banking services i.e. loans (credit services), savings services such as deposit accounts and insurance services that retail banking consumers may demand which are demanded for various reasons such as financial smoothing (Whitley, 2011) or for portfolio services such as the income life cycle hypothesis explains (Ando A. M., 1963). As previously discussed, the level income has great impact on the demand for financial Services for example; different income groups demand different financial services from commercial banks. For lower income group where cash flow management and consumption smoothing/ financial smoothing is a concern, it is typical that their major utility in using commercial banking services would be for the sake of credit/ loan facilities. For higher income groups interested in capital gains and equity banks offer a variety of agency services such as advisory services to cater to that niche, thus the demand for banking services may be perceived as a multivariate type of demand. Therefore, it can be said that the demand for being financially included depend on income status of the users of financial services.

2.7 Empirical Review

Over the years of 80s up to 90s a great shift has been seen on the factors of household demand for Bank service from the distinctive perspective on loans to the forgotten half i.e. demand for savings services and later the emergence of demand for finance in the 90's. Consensus has however been reached that consumers stand to benefit from a wider range of financial services than just credit services

(Armendiaz, 2005). Demand for banking services is being considered as where of income generation and financial smoothing such as investment, savings and deposits that earn interest to deposit demand, insurance demand and short-term credits demand (Zeller, 2005). Studies made have interrogated that the most demanded banking services developing countries with low income household are the savings account and the current accounts, which are the most demanded from the banks. Moreover, Income created a need for financial services. Further, the level of income is a significant determinant on the nature of financial services demanded from the bank. Thus, the higher the income the higher the ability to access more and better financial services offered by the financial institution (Inganga, Njeru, Ombui, & Tirimba, 2014).

Other study has presented that there is strong correlation between financial literacy and behavior of financial service consumers or users. However, a financial education program has modest effects, increasing demand for bank accounts only for those with low levels of education or financial literacy. The limited financial literacy serves as a more significant barrier to consumer demand for formal financial services such that if an individual is unfamiliar with a product/ service they will have no cause to demand for it. Therefore, Households with low financial literacy tend to have the following financial habits; low pension/retirement savings, they borrow at high interests, and participate less in the financial system relative to the actions of their more financially literate counterparts (Lustradi, 2006).

In Indonesia, a ratio of Educational expenditure to GDP has been used in a prior survey of the phenomena by the Micro-Finance Innovation Centre for Resources and Alternatives (MICRA) as an indicator of financial literacy through population literacy. At the time of the study, the ratio of educational expenditure to GDP in Indonesia was one of the lowest in the world however; contrary to theoretical assumption the banking industry in the country was of significant geographical reach. Moreover, at the time Indonesian banks offered savings accounts with minimal deposit requirements the equivalent of \$0.53 and a return on deposits (interest earning capability) for deposits exceeding \$1.06. This compared to a per capita income of \$1,306 the banking penetration at the time of the study in the country was at 41% of the total population and 32% of the rural households in Indonesia that have a bank account (Cole S. , 2013)Therefore, some studies suggests that financial literacy may have additional value if it promotes asset accumulation; a buffer stock of savings may be far more important than simply having a bank Account, but disagree that low financial literacy is a severe impediment to demand for formal financial services. (Cole, Sampson, & Zia, 2010).

As presented by other study, observation has shown that countervailing affects such as the level of education, number of dependents, asset holdings, credit history, and secure land rights impact the demand for either one of both formal and informal financial services with the exception of asset holdings which affect the demand for both formal and informal financial services. According to (Bensako, 2010) Variables such as connections to financial institutions exhibit a positive and significant demand impact on the demand for both formal and informal loans. Others on the other hand are of the opinion that land holdings affect the probability of using banking services such as credit services more often than labor increase and that this difference in probability effect is significant (Beck T. D., 2008).

2.8 Research Gap

There is a lot of study focused the comparison of informal and formal financial services (Aliber, 2002), while some others have focused on the price and the knowledge as drivers of demand of financial service users and financial literacy as key demand injector for financial inclusion (Cole, Sampson, & Zia, 2010), However, there is no single study focused factors affect financial inclusion in Somalia, particularly in Garowe Puntland.

3. RESEARCH METHODOLOGY

3.1 Research Design

The researcher used quantitative research technique and used a survey research design to acquiring enough information from the target respondents by the using questionnaire as research instrument that makes easier for research to capture as much as data needed.

3.2 Target Population

This study was limited in Puntland with focus on Garowe district within the context of financial inclusion. According to (MOPIC, 2014) estimated Garowe City population about 70,000 and around 43% of them are at the age of work. Therefore, the respondents of this study were based on a sample of the total target population those are at age of work which are in numbers 29,890 individuals; consisting of different age groups as shown in the sample fame of this study.

3.3 Sample size

In this study, the sample size was drawn from the total population those are at age of work in Garowe City Puntland Somalia. Therefore, the total target population of this study was 29,890 while the sample is drawn by using the following Slovin's formula,

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

Where n = the total desired sample size

$$N = \text{Target population}$$

$$e = \text{the desired marginal error}$$

$$= \frac{29,890}{(1 + (29,890 \times (0.05^2)))} = 396$$

Therefore, the sample size of this study was 396 individuals.

3.4 Research Instruments

The research instrument was questionnaire as a tool of collecting data. A structured Questionnaire which is carefully designed instrument written, typed or printed for collecting data direct from the respondents. Most of it Close ended questions were used while open ended question is used as need arises as to collect the required data for this Study.

4. Findings

The aim of conducting this study was to determine factors affecting financial inclusion in Garowe population. The main respondents for the study were Garowe city residents. The data was collected from open and close-ended questions. The data collected was analyzed by use of descriptive analysis method. Demographic data results showed that equal participation of both men and women in the study area. In terms of their age bracket, most of them were below 39 years and had secondary education level and above. This showed that literacy rate among Garowe population is very good.

4.1 Financial Inclusion

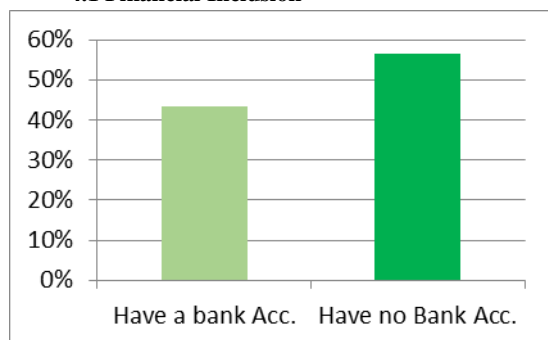


Figure 4.1: Respondent's Bank Account Ownership

The results of the research revealed that the level of financial inclusion at average for 43% of residents in the study area. This showed that there are sections of the population who do not have bank accounts. This could affect development as they are hindered in making savings or receiving money for their business ventures. Moreover, 71% of those 43% of the respondent that have the bank account in the financial institution in Garowe had a current account, 23% of them also have saving account while the rest 6% present of the respondent had investment account.

However, 90% of respondents are using SAHAL, while the rest 10% are not using. This result is

presenting that the majority of the population are using this service which is easier and more accessible than having bank account in the financial institution.

Hence, the level of the financial exclusion of the resident is very high which may in turn affect the individual and general economic development. Since, the unbanked population is lacking the accessibility of the financial product provided by the financial Institution.

4.2 Income level

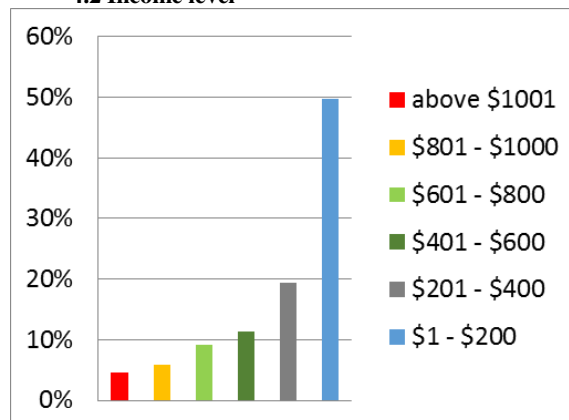


Figure 4.2: Respondents' level of Income per month

The majority (69%) of the population in Garowe their monthly income is between \$1 - \$400, this result is showing that income level of the majority of Garowe population is very low which may in turn affect they choice towards having a bank account in the financial institution. On other hand, the study has revealed that the most challenging factor that the unbanked population is attributing for their situation is that they do not have anything to deposit and this means that the level of income is one of the major factors that affect the financial inclusion of the study area.

Table 4.1: Correlation between income level and financial inclusion

Therefore, there is a strong relation between the income level and the financial inclusion of the study area and for that, the study has found that there is a strong positive degree of association while $r = 0.795$

		Income level	Financial Inclusion
Income level	Pearson Correlation	1	.795**
	Sig. (1-tailed)		.000
	N	396	396
	Coefficient of Determination (R ²)	1	0.631

** . Correlation is significant at the 0.01 level (1-tailed).

with p-value less than 0.001 between the level of income and being unbanked person in Garowe Puntland Somalia. The correlation between the two

variables appears to be significant at the 0.01 level (1-tailed).

This therefore implies that an increase of people's income will lead decrease of unbanked population and the financial inclusion in the study area. This therefore shows that Income is an important predictor to financial inclusion in Garowe City.

4.3 Saving level

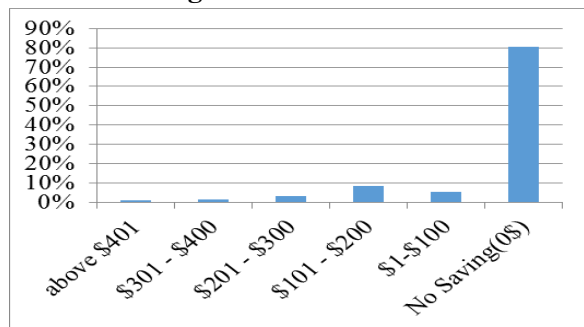


Figure 4.3: the level of savings in Garowe City

Saving is also one of the key important factors that may increase the financial inclusiveness and decrease the unbanked population. Moreover, it can be considered as essential for future human consumption. The study has found that around 95% of the respondents see that saving is very important to them. However, saving and income level is two correlating factors that when one comes that other may arise, thus, due to their low income, 81% of the Garowe population do not save for the future consumption because they spend all of their income, while 19% of the people make saving for their future consumption and those who make savings for the future consumption purpose majority of them has saving level below \$200 and this means that the population consume majority of their income.

However, the good news is that 52% of those who make savings are using their bank account for saving place and this means that as the saving level increase the majority of the Garowe population will use the financial institution for their savings.

Table 4.2: Correlation between Saving level and financial inclusion

		Saving level	Financial Inclusion
Saving level	Pearson Correlation	1	.491**
	Sig. (1-tailed)		.000
	N	396	396
	Coefficient of Determination (R ²)	1	0.242

** Correlation is significant at the 0.01 level (1-tailed).

Moreover, the study has discovered that there is average positive degree of association while $r = 0.491$ (p-value less than 0.001) between the saving level and being financially included person in Garowe

Puntland Somalia. The correlation between the two variables appears to be significant at the 0.01 level (1-tailed).

This therefore implies that the saving level has an effect on the financial inclusion and an increase of the population saving level will lead decrease of unbanked population and the financial inclusion in the study area. This therefore shows that the saving level can be considered as an important predictor to financial inclusion in Garowe City.

4.4 Transaction Cost

Normally, every business transaction has a cost sacrificed by the customers for the use of the business offerings, therefore, having a bank account in the financial institution may generally expect pay fee at the beginning of opening a bank account.

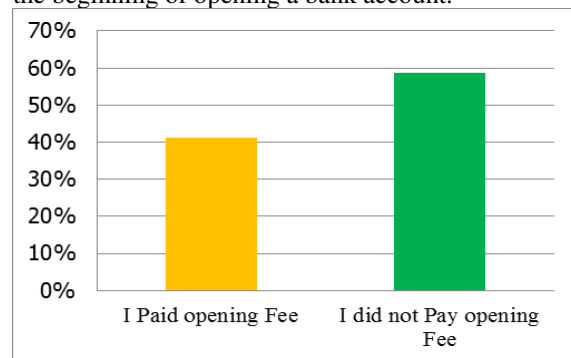


Figure 4.4 Opening Fee

The study has identified that the opening fee is no longer obstacle for opening a bank account and around 60% of the bank account owners did not paid any opening fee, while 40% of them paid opening fee in the study area. This means that there are part financial institutions that do not charge fees for opening a bank account as to encourage to more customers. On the other hand, the study has discovered that 53% of users of the bank account do not face other cost what so ever, 38% of them are paying transfer charging when they are transferring money from their account to another account or person, while the 9% are paying check book fee.

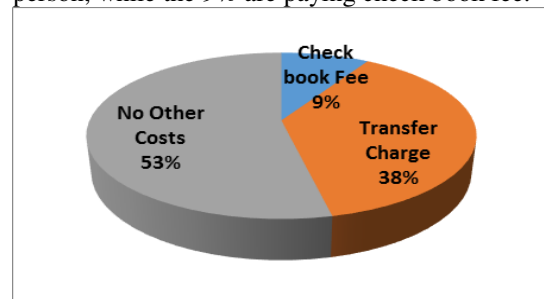


Figure 4.5: Other Cost related the bank account usage

Therefore, the research has found that the transaction cost there is no obstacle for having a bank account in study area.

Table 4.3: Correlation between Bank Transaction cost and financial inclusion

		Transaction Cost	Financial Inclusion
Transaction Cost	Pearson Correlation	1	.508**
	Sig. (1-tailed)		.000
	N	396	396
	Coefficient of Determination (R ²)	of 1	0.256

** Correlation is significant at the 0.01 level (1-tailed).

Though, 95% of the perceive that the lower the transaction cost, the higher it discourages to be unbanked or financially excluded and this show that there is average positive degree of association while $r = 0.508$ (p-value less than 0.001) between the Bank Transaction Cost and being banked or financial included person in Garowe Puntland Somalia. The correlation between the two variables appears to be significant at the 0.01 level (1-tailed).

This therefore implies that the lower the transaction cost for the bank service whether opening fee or other cost such as withdrawal charge, transfer charge will lead decrease of unbanked population and the financial inclusion in the study area. This therefore shows that it cannot be ignored the effect of the transaction and it is an important predictor to financial inclusion in Garowe City.

4.5 Distance of the Bank Branch

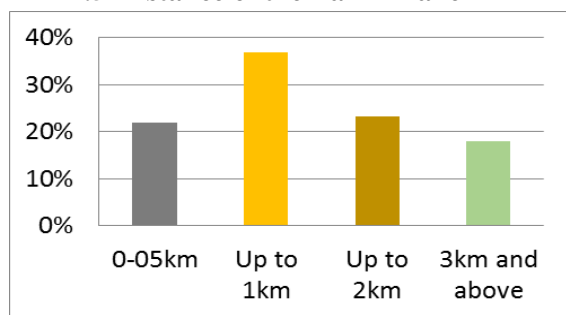


Figure 4.6: Bank Distance from users

In the study area, the distance is no longer obstacle since the distance between the bank branch and majority of the population is up to 2 km.

		Bank Distance	Financial Inclusion
Bank Distance	Pearson Correlation	1	.757**
	Sig. (1-tailed)		.000
	N	396	396
	Coefficient of Determination (R ²)	of 1	0.573

** Correlation is significant at the 0.01 level (1-tailed).

however, this study also shows that there is Strong positive degree of association while $r = 0.757$ (p-value

less than 0.001) between the Bank distance and being financially included person in Garowe Puntland Somalia. The correlation between the two variables appears to be significant at the 0.01 level (1-tailed).

This therefore implies that the lower the distance between the bank users and the bank, the higher it will lead decrease of unbanked population and the financial inclusion in the study area. Moreover, reducing and filling this distance will increase the accessibility to bank service and that will encourage the people to users the bank offers. Moreover, this indicates that the larger that distance between the user and their bank account, the large the gap and the unbanked population and this can be seen in the rural areas.

4.6 Conclusion

This study has established that in general higher level of income, encouraging the savings, lowering transaction cost and reducing the distance between that banks and their users are significant factors ($p < 0.01$) in predicting financial inclusion development in the study area. The study has found that increasing the level of income will directly increase the financial inclusion of the study area. Moreover, lowering transaction cost will highly discourage being unbanked, besides that, the study also identified that filling the distance gap between that users and the bank by providing mobile banking system for all, since SAHAL cannot be used for the other banks such Dahabshil and Amal and this will help the banks to have more customers and will increase the financial inclusion of study area.

4.7 Recommendations

Generally, the findings of this study have raised a range of issues which should be considered by further studies as a baseline data for future projects for development through ensuring the unbanked population are banked. This may not specifically apply to Garowe city but also throughout the other parts of Somalia. However, according to the findings of this study, the following points are recommended;

1. According to Income level, by considering as one of the key factors that affect the financial inclusion in Garowe Puntland Somalia. I would recommend providing for the poor people or lower income population microfinance or granting injections as to avail their entrepreneurial skills and in return to increase their income, which may indirectly decrease the unbanked population and the financial inclusion of Garowe population.
2. Though, the saving level is co-partner with level income, but at the same time, banks can encourage people to save money, by letting those who saving to have creditworthiness.
3. As this study found the lower the transaction cost, higher it encourages for having or using the bank

services, therefore, I would recommend that the banks to lower the price of their products as much as possible such as the cost-plus rate of Murabaha product, which is wide known in the Islamic banks.

4. The distance between the Bank and its users, can be another key obstacle since it will increase transaction by adding the travel cost, and others. Therefore, I would recommend to bank to provide more accessible Mobile Money Transfer that will allow the user to use only one single SIM Card for access his/her account in any financial institution.

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