

THE NATURE AND OPERATIONS OF THE INFORMAL FINANCIAL INSTITUTIONS IN SOMALIA: AN EMPIRICAL SURVEY

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ABSTRACT

Access to sustainable, affordable and relevant financial services is considered to be a good indicator for the growth and development of all nations globally. Lack of accessibility to these important services is very glaringly among the low-income households in developing nations. Provision of these services is highly needed by this category of people. For them the services could be rendered to them formally or informally. The informal financial institutions in Somalia are considered as one of the best booming small businesses remitting millions of dollars annually. Most of these remittances go to households for consumption purposes. The remittances are vital source of livelihood for many poor households and it supports a wide variety of development purposes. At least a third of the country's population benefits from the operations of these small financial institutions. The objective of this study is twofold: first, is to examine whether the informal financial institutions in Somalia are successful by assessing the indicators of business success named turnover and profitability and the second, to investigate the factors contributed to the success of these institutions. The study used an empirical survey in which data have been collected from both the operators and clients of informal financial institutions in Somalia. The study found that revenues of informal financial institutions in Somalia are growing and they contribute to the social responsibility. Likewise, the study found that mutual trust, less administrative cost, increased remittances, good ethical behavior of operators and using Islamic commercial dealings are considered to be contributing significantly to the success of informal financial institutions in Somalia.

Keyword: Somalia, Informal financial institutions, Remittance

INTRODUCTION

The current monetary system has been creating a devastating disparity of the income distribution among the people. In addition to that the gap between the rich and the poor has been getting wider exponentially. A profound understanding of how the current monetary system operates is vital to identify the reasons behind the recurring inflationary and business cycle phenomenon (Kameel, 2002). The growth rate of money supply in most countries is much higher than the growth rate of real economy and this creates continuous price increase and unstable market. Therefore those people whose income growth rate is lower than the real economic growth rate would observe continuous eroding of their purchasing power (Kameel, 2002).

In worldwide, for instance, the richest 358 people in the world are wealthier than the poorest 2.5 billion people (Kameel, 2002). In order to solve the imbalance among the people and assist the poor household and low-income families, it is necessary to have financial

institutions that provide cheap, rapid, and sustainable financial service. Therefore, world leaders have pledged to achieve absolutely the Millennium Development Goals, including the overarching goal of cutting poverty in half by 2015 (UNCDF 2007). In order for the poor households to help them survive and fight against the devastating poverty, they need to be provided saving, credit and remittance services. It was stated that when poor people have access to sustainable financial services, they can earn more, build their assets, and mitigate themselves against external shocks (UNCDF, UNDESA, 2006). Despite the fact that the nature of the current monetary system remains the root cause of the economic and financial crisis in the world generally but its effect on the small and developing nations such as Somalia is extremely noteworthy.

The informal financial industry in Somalia is considered as one of the best booming small businesses remitting millions of dollars annually. The amount was estimated at \$1 billion in 2004 (UNCDF, 2007). Most of these remittances go to households for consumption purposes. The remittances are vital source of livelihood for many poor households and it supports a wide variety of development purposes. Informal financial industry is the country's driving socio-economic force (UNCDF, 2007). At least a third of the country's population benefits from the operations of these small financial institutions (UNCDF, 2007). Remittance, so far, is the only strong financial service of the small financial institutions in Somalia.

It seems rather impossible to those who live in a stable place in which the financial system is heavily regulated, that a financial institution can operate in a volatile place, where there is no financial regulations or the financial regulations are very weak. More surprisingly, how these informal financial institutions can sustain in a place, where there is no space for forecasting and projections. However, the experience shows that there is always a way to reinvent the wheel. Human beings are very creative; they try to find some ways to get out of the crisis. In poor communities, the informal financial institutions play an important role in providing financial services to the poor people and low-income households who otherwise suffered more.

Access to sustainable financial services is one of the severe troubles, which most of the poor people in developing economies still lacking. Many economists argue that the current monetary system is the main reason of this misfortune because it keeps the rich richer and the poor poorer (Greco, 2001). In order for the poor people to have financial services which are compatible to their lifestyles, they keep on dealing with the informal financial institutions and this contributes the growth of informal financial institutions.

The need of the poor and low-income households is to get access to satisfying financial services. For them, no matter who is providing the services; formal or informal. In Somalia, two-third of the population depends on informal financial institutions for their financial services needs (UNCDF, 2007). There are some arguments that Somali's Informal financial institutions are successful and they are the country's driving socio-economic force (UNCDF, 2007).

This study focuses on the success of informal financial institutions in Somalia and factors behind their success. The purpose of the study is to understand the indicators of the success of IFIs and the factors contributed to the success.

LITERATURE REVIEW

Somalis used to rely on a nomadic life-style for centuries; they relied on their livestock for subsistence and luxuries. The camel (*a large animal that lives in the desert and has one or*

two humps) was playing a central role in the life of Somalis in early days. Camel was recognized as a symbol of wealth, therefore it was a reliable source of wealth. In addition, it was used as a medium of exchange in the important issues of the social transactions; it was used as compensation, dowry in marriage (Robert Rinehart IK, Donald P. Whitaker, Jean R. Tartter, and Frederick Ehrenreich. Somalia: A Country Study. 1982).

Early in the fifteenth century, a business practice was active in the coastal cities. In the Northeast of the country, the ports of Sylac and Berbera had strong international business relations with Arab economy. In the South, the coasts of Banadir, Marka and Barawa had direct international business relations with China, India and Arabia (Robert Rinehart IK, Donald P. Whitaker, Jean R. Tartter, and Frederick Ehrenreich. Somalia: A Country Study. 1982).

The competition of the three major European powers in the area of present-day Somalia was the only foreign involvement. In the early twentieth century, the Italian projects aimed at using Somalia as a settlement for Italians but failed. In the Northern part of the country, the investment was very poor and Indians had administered it. The Somali coast's strategic location on the Gulf of Aden made the territory deserved a strategic value to British colonial to secure trade to Aden and India (US country studies).

In the south, the Italians established a profitable business based on export-oriented agriculture, primarily in bananas. In 1919, the plantation system started in Southern Somalia where by Shabelle valley was chosen the site of these plantations. Shabelle River has sufficient water for irrigation in most of the year. Shortage of labor was the biggest barrier to the development of the agriculture industry in that time (US country studies). During the presence of the colonial power, a stable middle class emerged in both Italian and British Somalia and people started working in the various professions of the economy, primarily in cities. The creation of the salaried official class was an economic developments achieved (US country studies).

In 1960, Somalia achieved to have its own civil government; nevertheless, the economy was at a subsistence level because the state lacked the administrative capacity to collect the taxes, which was an important source of fund. The state relied on the British and Italian subsidies, which was around 31% of the infant state budget in the first years of the freedom (US country studies). Somali National Bank was the first financial institution in the country and it was established on July 1, 1960 following the unification of Italian Somaliland and British Somaliland. The plan was that the bank replaces two foreign banks (Somalcassa and the Bank d'Italia) operating in the country at that time (Little, 2003). The National Bank at first had one office in Mogadishu, employed fourteen people, but by 1965, the Bank had succeeded to initiate nine branches (Little, 2003).

In 1969, a military coup led by General Barre overtook the control of Somalia and declared a socialist state (Somali Country Studies). General Barre emphasized the great economic success of the socialist experiment, a claim that had some truth in the first five years of the revolution (Somali Country Studies). After the regime lost its alliance with the Soviet Union in late 1970s, Somalia returned another time to the west. Like most countries devastated by debt in late 1970s, Somalia could rely only on the plan of the IMF and its program of structural adjustment. With the pressure of the IMF, the government terminated many socialist programs (Helen Chapin Metz, 1992). Many Somalis may get the impression that this was the beginning of the monetary system collapse which finally ended the collapse of the government in 1991.

The absence of government policies, regulations and control encouraged competition and entrepreneurship, which established basic markets. It was also stated that private sector have moved further to provide basic infrastructure and institutions (Tatiana Nenova, 2004). On the other hand, market failures such as monopolies, externalities, coordination failures, and public goods provision are the results in the absence of regulations. State involvement may correct efficiency failures, but it has its flaws (Tatiana Nenova, 2004). With these difficulties in the country, the private sector has been surprisingly innovative. Competition flourished in market where transactions are simple. The effect of statelessness can be realized deeply when it comes to public goods or private goods with strong spillover effects such as roads, monetary stability, a legal system, primary education, a cross-border financial system and etc. But even in this sector, the private sector has developed creative approaches that partially substitute for effective state (Tim Harford, 2004).

Since 1960, significant number of Somalis started to work in the oil-rich Gulf. In the late 1980s between 150,000 and 175,000 Somalis worked in the Gulf, primarily Saudi Arabia. Most of them were mainly young people whose parents and/or relatives were waited for their help (Jamal, 1988). In 1980s, most of middle- and upper-income urban Somalis had a close relative working in oil-rich Gulf (Menkhaus, 2001 and Simons, 1995).

The failure of the Somali commercial and savings bank in providing adequate financial service to households and business people stimulated the establishment of Informal financial system pushing the creation of private money brokers in 1980s (Peter Symes).

In order for them to save their money and get a channel to help their relatives in Somalia, these young workers started affiliating with Somali traders that have trade connections with oil-rich Gulf. Because of the strong trust among Somali communities-particularly, those who belonged to same clan- and the poor banking services in the country, Somali workers in Gulf relied strongly on Somali traders as a bank to save their money and a channel to send their money back home. It was mutually beneficial to both parties, because the traders were getting interest-free or charge-free funds which help them simply manage their liquidity, while free remitting service was the benefit of the other party. Traders started offering informal financial services on a promissory system based on mutual trust that let them carry out a large volume of trade transactions without dealing with the government financial institutions (Barrow, 2006).

The experiments of those Somali traders in transferring money from Gulf to Somalia-by using merchandise as a medium of bringing the money into the country- and their model of providing service to households were the basis for contemporary Informal financial institutions in Somalia. Informal financial institutions have been in operation in Eastern and Southern Africa since 1960s but it was very niche market and the customers were very limited (Barrow, 2006). All the functions of the central bank stopped in 1991 due to the collapse of the central government whereby the complete formal financial system ceased. Due to the combination of the above mentioned factors, the significance of Informal financial services increased and the need for it became inevitable. Since that time, Informal financial institutions are playing a key role in Somali economy.

At the beginning, the service of the informal financial institutions was either free or charged very cheap because the informal deposits to Somali traders were a crucial source of fund for their trade. Further, providing informal financial services to households had protected traders to carry bundles of cash notes or use the poor banking service. Therefore, the target of their business was not to gain any profits from remitting services.

The Informal financial institutions in Somalia are considered as one of the best booming small businesses remitting millions of dollars annually. The amount was estimated at \$1 billion in 2004 (UNCDF, 2007). Most of these remittances go to households for consumption purposes. The remittances are vital source of livelihood for many poor households and it supports a wide variety of development purposes. An informal financial industry is the country's driving socio-economic force (UNCDF 2007). At least a third of the country's population benefits from the operations of these small financial institutions (UNCDF 2007). Remittance, so far, is the only strong financial service of the small financial institutions in Somalia.

There is no reliable academic study that was conducted in this field. Because of the negative perception of the operators in giving information to a researcher, it was very difficult to conduct an academic research. Consequently, this study has conducted to examine and looked for whether informal financial institutions in Somalia are successful by assessing two indicators of success, namely, turnover and social contribution, and the factors contributed to this success.

METHODOLOGY

Research Design

An empirical survey was employed because it was the appropriate method to collect the data from the field. A survey was employed using questionnaire with close ended questions. After having received comments from those who filled up the pilot test questionnaire, the questionnaire was improved and sent it to the target population.

Target Population

The target population of the study was operators and clients of Informal Financial Institutions in Somalia. There were two questionnaires; one for operators and another for clients. The operators' questionnaire was distributed to all remittance institutions in Somalia. There are approximately 10 remittance institutions working in Somalia and the study will cover all of these institutions. Only one questionnaire was filled up by each of the institutions. The questionnaires were distributed to their Headquarters in Mogadishu, the capital city of Somalia. In order to get information from the clients, a questionnaire was distributed to 150 clients who use the services regularly.

Sample design

The headquarters of all informal financial institutions in Somalia were the target population of the study and all of them were studied as the number was small. One of the top management staff filled up the questionnaire. For the clients, it is difficult to determine the number of clients who use the service of remittance institutions. Some studies indicate that one third of Somali population use the service but this is an approximation; therefore, it was difficult to come up with an exact sample size. However, it is assumed that 150 clients were a very good representative to the users of remittance institutions.

Instrumentation

Primary data was collected employing questionnaire with close-ended questions. The questionnaire was designed in such a way that enables to collect the relevant data. The operators' questionnaire consists of three sections: the first section is demographic data, the second is about the operations of the institutions and the third section covers various

hypothesized variables. The clients' questionnaire also consists of the same three sections but different questions.

Data collection procedures

The target respondents consisted of two categories; the first category was those who have no problem with English Language and the second category was those who cannot use English language. A questionnaire written in English Language was distributed to the first category whereas the same questionnaire was distributed to the second category but an assistant assisted them fill up the questionnaire by translating the questions and they can put the answers in Somali language.

Data analysis techniques

For the purpose of data analysis, the data was divided into three main sections. The first section was about demographic data, the second section was the analysis of the outcome of the study of each of the two samples, and the last part is testing the outcome of the study. The first and second section was analyzed by using univariate descriptive analysis while the third section was analyzed by using correlation analysis and Analysis of Variance (ANOVA). Preparing to answer the research questions, pre-testing of items was done using the reliability test. Item-to-total correlation and Cronbach's Alpha tests were carried out. SPSS version 13.0 was used to run the data.

FINDINGS

The purpose of the study was twofold. The first objective is to examine whether the informal financial institutions in Somalia are successful by assessing the indicators of business success which are turnover and social responsibility. The second objective is to examine the factors contributed to the success of these institutions by assessing several variables. A questionnaire with different scales and items were developed and used to collect data from 150 remittance clients and 10 remittance operators. Six questionnaires out of 10 from informal financial institutions and 107 questionnaires out of 150 from clients were received.

Reliability Analysis

Reliability test was conducted on scale measures using Cronbach's Alpha. Cronbach's Alpha test was employed to determine variable reliability. Cronbach's Alpha values of more than 0.6 indicate high reliability. This is the most commonly used test for scale reliability. Reliability is the capacity of a measure to produce consistent results. The value of the Alpha coefficient ranges between 0 and 1. The more the value closes to 1, the high the level of consistency among the items. As it's shown in the table, the Alpha for all items is around 0.616 which indicates a significant level of consistency.

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.616	.618	35

Discussion and Analysis

This section provides the results of the study which is divided into sections in accordance with the objectives of the study. For significant correlation coefficient, the following ranges were determined: 0.00 to 0.25 = weak; 0.251 to 0.60 = moderate and, 0.601 to 1.00 = strong. During the analysis of the data, 90% was set as the confidence interval of the study. One way

ANOVA (Analysis of Variance) was used to capture if there is any difference among the respondents on the questions. In addition, LSD (Least Significant Difference) was used to test which groups are different if ANOVA portrays that there is a difference.

Turnover (Revenue) of the Informal Financial Institutions

Average amount of money remitted or transferred to a client and the number of clients served per day was used as a proxy to calculate the revenue of the institutions. Of the three variables used to determine whether there is positive relationship between turnover of IFIs and number of years in operation, both average turnover from business and total average turnover show a strong positive relationship, while average turnover from households shows moderate positive relationship. Results are shown in table (2). Average turnover from business correlates positively with the number of years that an institution has been in operation at the $p < 0.1$ level ($r = 0.612$) suggesting that business people deal more with those institutions that have been in operation for longer time. It can be argued that as long as the number of years that an institution has been in operation is larger, the mutual trust of the business people with these institutions increases.

On the other hand, the relationship between average turnover from households and the number of years an institution has been in operation is not significant at the $p > 0.1$ ($r = 0.331$) signifying that household clients do not care about the experience (number of years in operation) of the institutions. Because of the consumers' transaction volume which is very small compared to business clients, they consider some other factors such as friendship and service charges rather than the experience of the institution. Total average turnover is positively correlated with the experiences of the IFIs at the $p < 0.1$ ($r = .610$). This implies that institutions that have been in operation for longer period have more turnover than those institutions which were established shortly.

Table 2. Correlation Coefficients

Variable		1	2	3
1. Number of years in operation	R			
	Sig.			
2. Average Turnover from Households	R	0.33		
	Sig.	0.26		
3. Average Turnover from Business	R	0.61	0.554	
	Sig.	0.09	0.127	
4. Total Turnover	R	0.61	0.606	0.998
	Sig.	0.09	0.101	0.000

Social contribution (welfare) of Informal Financial Institutions

Of the four variables (Number of years in operation, average turnover from households, average turnover from business, and total average turnover) used to determine whether the amount of money contributed by IFIs correlates with the turnover of the IFIs and their experience (number of years in operation), neither of the variables have shown a significant association. Lack of relationship between the amount of money contributed by IFIs with their turnover and experience may imply that generosity of the owners of IFIs and competition

among the IFIs are the two factors that determine the amount of money contributed to the community. In addition, as it's common in the country, corporations donate when there is a crisis such floods, droughts and diseases.

Table 3. Correlation Coefficients

Variables		1	2	3	4
1. Social Contribution	R				
	Sig.				
2. Number of years in operators	R	0.32			
	Sig.	0.53			
3. Average Turnover from Households	R	-0.15	0.331		
	Sig.	0.76	0.521		
4. Average Turnover from Business	R	0.19	0.612	0.554	
	Sig.	0.71	0.196	0.254	
5. Total Turnover	R	0.17	0.610	0.606	0.998
	Sig.	0.744	0.198	0.202	0.000

Mutual Trust

Mutual trust is perceived as the most important contributor to the success of informal financial institutions in Somalia. The study categorized the basis of trust into five categories based on the field observation. The results illustrates that there is no significant difference among clients on the existence of strong mutual trust between clients and operators. It can be argued that this mutual trust contributed so much to the success of IFIs because the nature of this business is about gaining the confidence of clients and this is the best way to create confidence into the clients. The basis for trust can vary from a place to another and from time to time. For a community like Somalia whereby all people share similar culture and religion, a number of factors, which can establish trust, are available. Religion, clan-relation, experience, referrals and advertisement are the common factors that can be used as basis for establishing mutual trust between clients and operators. According to the findings of this study, religion and experience were the two factors that most of the clients entrusted operators of IFIs. On the other hand, the majority of the respondents refused that they entrusted operators of IFIs because of the clan-relations. Advertisement and referrals were given less consideration compared to religion and experience.

Religion-based Trust

ANOVA test illustrates that all respondents (segmented on occupation, age and experience) have the same point of view and there is no significant difference among them that they entrusted operators because of their religion at $p > 0.1$ with (sig. = 0.199; sig. = 0.0237; and sig. = 0.581); sig. = 0.313; sig. = 0.159) respectively. This indicates that the factor of religion played an important role in trusting IFIs in Somalia.

Clan-based Trust

In the table below, the ANOVA test illustrates that there is significant difference among respondents (segmented on their experience to IFIs) that they entrusted operators because of their clan relation at $p < 0.1$ with (sig. = 0.008), therefore, H_0 cannot be rejected. This indicates that clan relations have not played any role in trusting IFIs in Somalia. In the beginning of the IFIs, clan relations played an important role in trusting operators but because

of the increased negative perception that have most of the people on tribalism, the issue of dealing with IFIs because of clan relations disappeared.

Experience-based Trust

ANOVA test illustrates that all respondents (segmented on occupation and experience) have the same point of view and there is no significant difference among them that they entrusted operators because of their experience with the operators. It is evident from the ANOVA table that the difference is not statistically significant at $p > 0.1$ with (sig. = 0.106; and sig. = 0.0.332) respectively, therefore, H_0 is rejected. This indicates that clients entrust operators on the basis of their experience.

Referral-based trust

It is evident from the ANOVA table there is no significant difference among the respondents regarding their trust to the operators on the basis of referrals. The table below illustrates that the difference is not statistically significant at $p > 0.1$ with (sig. = 0.313; and sig. = 0.605) respectively, therefore, H_0 is rejected. This indicates that referrals are also create trust between clients and operators.

Advertisement-based trust

ANOVA test illustrates that all respondents (segmented on occupation, age and experience) have the same opinion regarding advertisement based trust and there is no significant difference among them that they entrusted operators because of their religion at $p > 0.1$ with (sig. = 0.159; sig. = 0.116; sig. = 0.198; and sig. = 0.198) respectively, therefore, H_0 is rejected. This explains that advertisement is also another factor that creates mutual trust.

Transaction Costs

A transaction cost is another important factor for the IFIs in Somalia. Informal Financial Institutions in Somalia created a system that reduces the transaction costs to a minimal level.

Identity Verification Tool

ANOVA test illustrates that all respondents (segmented on occupation, age and experience) have the same opinion regarding using oral questions as an identity verification tool and there is no significant difference among them at $p > 0.1$ with (sig. = 0.0.952; sig. = 0.692; and sig. = 0.775) respectively, therefore, H_0 is rejected. This indicates that IFIs ask their clients few questions orally to verify their identity.

Application Form

ANOVA test illustrates that all respondents (segmented on occupation, age and experience) have the same opinion regarding the application and there is no significant difference among them that there is no application forms to be filled up when dealing with IFIs at $p > 0.1$ with (sig. = 0.597; sig. = 0.372; and sig. = 0.76) respectively, therefore, H_0 is rejected. This explains that clients do not fill up application forms when dealing with operators.

Providing formal Documents

ANOVA test illustrates that all respondents (segmented on occupation, age and experience) have the same opinion regarding providing formal documents and there is no significant difference among them that there is no official documents to be provided when dealing with IFIs at $p > 0.1$ with (sig. = 0.891; sig. = 0.812; and sig. = 0.277) respectively, therefore, H_0 is

rejected. IFIs in Somalia do not ask clients to fill up application forms and provide official documents such as letter of contract, IDs and approval or recommendation letter. Despite the possibility that this might involve a certain level of exposure to financial risks, the informal way that is used by IFIs to deal with clients assists them to increase the number of clients continuously because most of the clients are households who might perceive disadvantageously the long process which is used by the banking institutions.

The culture of Somali people originates from the nomadic culture and the nomadic people communicate orally and, thus, they do not write to communicate, they talk to communicate instead. The effect of this culture can be observed in urban areas, therefore, it would be difficult for IFIs to apply the practices of banking institutions when dealing with their clients. This concludes that IFIs' growth is partially contributed by dealing with the clients via informal mechanism instead of using the practices of banking institutions which requires providing documents and, thus, this reduced the transactions costs associated with the practices of banking institutions.

Remittances

Strong ties among the Somalis in general and among the family members in particular is hoped to be one of the factors contributing the success of IFIs. The following are the details:

Remittances from Parents

In order to know whether clients receive remittances from their parents, ANOVA test was conducted and it illustrates that there is difference among the respondents (segmented on age and experience) at $p < 0.00$ with (sig. = 0.032; and sig. = 0.000), therefore, H_0 is not rejected. This indicates that most of the people who send remittances to the country are young people who either live or work in abroad mostly in Europe and North America.

Remittances from Siblings (Sisters and Brothers)

To know whether there is difference among clients that they receive remittances from their siblings, ANOVA test was utilized and it illustrates that there is no difference among the respondents (segmented on age and experience) at $p > 0.10$ with (sig. = 0.128; and sig. = 0.138), therefore, H_0 is rejected. This implies that those young people who either live or work in overseas not only help their immediate responsible members such as their spouses and parents but also help their brothers and sisters. This increases the volume of remittance and the flow of money which contributes significantly to the growth of IFIs in Somalia because it is the only channel facilitates this services.

Remittances from friends

To identify whether there is difference among clients that they receive remittances from their friends, a statistical technique named ANOVA was used to test the significance. The test illustrates that there is no significant difference among the respondents (segmented on occupation, age and experience) at $p > 0.10$ with (sig. = 0.882; sig. = 0.568 and sig. = 0.265), therefore, H_0 is rejected. The implication of this is that people help each other regardless of any clan or tribal relations. As it is mentioned above, most of those who live or work in overseas are young men and women and, as it is common for Somali young people, they give special consideration to their friends. Consequently, this increases the volume of remittance and the money transfer services which indicates the growth of the IFIs in Somalia.

Ethical behavior of the operators and their commercial dealings

To examine if the operators have a similar opinion on what contributed to the success of IFIs in Somalia. There are three questions which are related to the personality of the operators (i.e. good personality, financial frauds and drug abuse) and five questions related to the commercial dealings of the operators (i.e. dealing with CBs, Dealing with IBs, interest received or paid, interest prohibition, and Shari'ah advisor). One way ANOVA was employed to examine whether there is a difference among the operators on these questions. IFIs were grouped into three groups; institutions that have been in operations for less than five years (Beginners), institutions that have been in operations for more than five years but less than 15 years (medium), and institutions that have been in operation for more than 15 years (mature).

Behavior of the Operators

One of the challenge that face financial institutions in most of the time is the issue of fraud and accounting scandals. As far as IFIs in Somalia concern, this kind of attitude is not common. To test whether there is a difference among the operators, ANOVA test was used. The test indicates that there is no significant difference among the respondents on all the questions. Operators have the same opinion regarding to good personality of their colleagues, absence of financial frauds and the non-existence of drug abuse at $p > 0.1$ with (sig. = 0.650; sig. = 0.722; and sig. = 0.465) respectively, therefore, H_0 is rejected.

This indicates that most of the operators are people whose behavior and attitude are according to the Islamic ethics and these traits encouraged the clients to deal with IFIs and entrust their money to be transferred by these operators and saved with them.

Commercial Dealings of the Operators

Shari'ah compliance is another factor which is assumed to be contributed to the success of IFIs. Riba-free financial institutions are an institution that does not receive and/or pay interest in its financial operations. Dealing with current commercial banks may involve paying or receiving some kind of interest. Most of IFIs in Somalia have networks in overseas and in some cases these networks do not operate as a financial institution rather they operate as a money exchanger or some other businesses, therefore, the need to deal with banks might be necessary in some situations, but the question is what kind of banks do these networks deal with. The formation of Shari'ah advisory board is perceived as an important factor for the modern Islamic financial institutions. The main task of the advisory board is to do constant supervision to make sure that the operations of the business are in accordance with the Shari'ah principles. As far as IFIs in Somalia concern, 67% of the operators indicated that they have Shari'ah advisory board, while 33% pointed out that they do not have Shari'ah advisory board.

One of the products offered by Somali IFIs is AMANA (savings) services. There is saving account in which clients save their money and the operators keep the money safe because the security problem of the country. As it is normal in deposit systems, banks pay interest on deposits but the case is different in Somalia. Although it might be free in some cases, but IFIs charge rental fees on the deposit accounts because of the AMANA services they provide.

One way ANOVA test was utilized to know whether there is no significant difference among the operators on their commercial dealings both in the country and overseas. The test indicates that there is no significant difference among the respondents on all the questions except one

question which relates to dealing with conventional banks. Operators have the same opinion regarding to dealing with Islamic banks, interest-free operations, prohibition of interest and the existence of Shari'ah advisors at $p > 0.1$ with (sig. = 0.708; sig. = 0.375; sig. = 0.465; and sig. = 0.928) respectively. However, there is a difference among them regarding to with commercial banks at $p < 0.1$ with (sig. = 0.010).

To further understand which groups have different opinion, LSD (Least Significant Difference) technique was employed. Operators have different opinion regarding to dealing with commercial banks. Beginners are different from both medium and mature institutions at $p < 0.1$ with (sig. = 0.009; and sig. = 0.005) respectively. On the other hand, there is no difference between medium institutions and mature institutions at $p > 0.1$ with (sig. = 0.308). See table (57) in the appendix for statistical details.

CONCLUDING REMARKS

The study found that the turnover of informal financial institutions in Somalia is high whereby each institutions transfers average amount of \$21, 600,000.00 per month. Further, there is positive relationship between the amount of money remitted or transferred per month and the number of years that an institution has been in operation implying that the volume increases over time.

Informal financial institutions do contribute to social development Activities. The average amount contributed by each institution annually is approximately \$30,000.00 and this is a significant contribution. The study did not find any relationship between the amount of money contributed by IFIs to the society and their turnover or their experience. Generosity of owners of institutions and the competition among the IFIs to attract the people are hoped to be the two factors that mostly determine the amount of money paid as a contributions to the society. Regarding to the way IFIs manage their cash needs, the study found that there is no significant difference among the institutions on the methods used by the institutions to manage their cash needs. All institutions import money from their headquarters if there is cash shortage and export the cash to the headquarters if there is excess cash. Of the three groups of the institutions, only the mature institutions indicated that they do not export the cash surplus to their headquarters but still import cash from the headquarter if there is cash shortage.

Mutual trust is perceived as the most important contributor to the success of informal financial institutions in Somalia. The study found that religion and experience were the two factors that most of the clients entrusted operators of IFIs. On the other hand, the majority of the respondents refused that they entrusted operators on the basis of clan-relations. Advertisement and referrals were given less consideration compared to religion and experience.

A transaction cost is another important factor for the IFIs in Somalia. Informal financial institutions in Somalia created their own practices that facilitate them to deal with their clients to minimize the perceived transaction costs. The study found that there is no formal document required to apply a financial service in most of the cases and the operators used informal ways to know the identity of the clients. The study also found that there is no application forms to be filled up when applying to be served rather the operators ask few oral questions to know the needs of the clients.

Strong relations among the Somalis in general and among the family members in particular is hoped to be one of the factors contributing the success of IFIs. The study found that despite the immediate family members such as spouse and children, people also send to and receive

money from their parents, siblings, and friends. These people need a channel to use to help each other.

A conduct of good behavior and ethical values contributed to the success of informal financial institutions in Somalia. The study found that clients' selection of the IFIs is mostly based on the religion of the operators, thus, this indicates the importance of religiosity in the business of informal financial institutions. In addition, the commercial dealings of IFIs which is based more on Islamic law of commerce that prohibits the receipt and payment of interest contributed to the success of IFIs. IFIs have an individual Shari'ah advisor who supervises whether the operations of IFIs are according to the guidelines of Islamic law.

Limitations and Future Research Suggestions

The study of an empirical survey on Informal Financial Institutions in Somalia achieved to conduct the survey and answer all the research questions and this is hoped to contribute significantly to the literature of IFIs in Somalia which was very small. However, the findings of this study were subject to several limitations:

The first limitation arose from the sample of clients. In order for a researcher to generalize the findings of the study, the sample of the study should be representative to the population of the study. Due to time constraints, the researcher could only target 150 clients. The field of study was Somalia and the researcher was in Malaysia, therefore, it was difficult to get on time if sample was increased because of the geographic distance between the two countries. As a result of this, it is recommended that future studies will increase the sample of the clients to get the maximum number of clients.

The second limitation came from the targeted geographic location. The study targeted only clients in the capital city Mogadishu but the operations of IFIs are spread over the entire country, therefore, it should be recommended that future studies will include other cities such as Hargesa, Bosaso, Kismayo and Baidoa.

The third limitation came out from the use of only indicators of success, namely, turnover and social responsibility because there are more than two variable to indicate success, thus, it is recommended that future studies will increase the number of variable which is used to measure the success of IFIs.

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