

**T.C.**  
**ATILIM UNIVERSITY**  
**GRADUATE SCHOOL OF SOCIAL SCIENCES**  
**DEPARTMENT OF BUSINESS ADMINISTRATION**  
**BUSINESS ADMINISTRATION MASTER'S PROGRAMME**

**THE ROLE OF CREDIBLE CENTRAL BANK IN PRIVATE BANKS'  
PERFORMANCE IN MOGADISHU**



**Master's Thesis**

**Mohamud Abdullahi Kasim**

**Ankara, 2021**





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**Supervisor**

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**Ankara, 2021**

## ACCEPTANCE AND APPROVAL

This is to certify that this thesis titled “The Role of Credible Central Bank on Private Banks' Performance in Mogadishu” and prepared by Mohamud Abdullahi kasim meets with the committee’s approval unanimously/by a majority vote as Master’s Thesis in the field of Business Administration following the successful defense conducted in 14/01/2021.

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## ETHICS DECLARATION

I hereby declare that;

- I prepared this thesis in accordance with Atılım University Graduate School of Social Sciences

Thesis Writing Directive,

- I prepared this thesis within the framework of academic and ethics rules,
- I presented all information, documents, evaluations and findings in accordance with scientific ethical and moral principles,
- I cited all sources to which i made reference in my thesis,
- The work of art in this thesis is original,

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## ÖZ

Mohamud Abdullahi Kasim. Mogadişu'daki güvenilir merkez bankasının özel bankaların performanslarındaki rolü: Atılım Üniversitesi, Yüksek Lisans Tezi, Ankara, 2021

Merkez Bankası bir ülkenin ekonomik ve finansal durağanlığından sorumlu kurumudur. Bu çalışmanın temel amacı güvenilir merkez bankasının özel bankaların performansları üzerindeki rolünü değerlendirmek ve Somali'deki güvenilir bir merkez bankası varlığına destek veren etkenleri ortaya koymaktır. Bu işlem, merkez bankası sisteminin yönetimi, güvenilirliği, bağımsızlığı, şeffaflığı ve izlenebilirliğini ayrıntılarıyla ele alarak gerçekleştirilmiştir.

Bu çalışmada tarama araştırması yaklaşımı kullanılmıştır. Hedef kitle bilinmemektedir bu sebeple 40 kişiden oluşan denekler Somali'deki Dahabshiil, Salaam ve Premier Bankın üst ve orta düzey müdürlerinden oluşan kişilerden rastgele seçilmişlerdir.

Sonuçlar gösteriyor ki; güvenilir bir merkez bankasının varlığına destek sağlayan faktörler, sistemin şeffaflığı ve yönetimi olduğu kadar bağımsızlığı ve izlenebilirliğini de kapsamaktadır. Fakat Somali'deki merkez bankası bu faktörlerin hepsini bünyesinde barındırmamaktadır. Böylelikle de merkez bankası Mogadişu'daki özel bankaların performanslarına önemli bir etkide bulunmamıştır.

**Anahtar Sözcükler:** Merkez Bankası, Özel Banka Performansı, Mogadişu

## ABSTRACT

Mohamud Abdullahi Kasim. The Role of Credible Central Bank on Private Banks' Performance in Mogadishu: Atılım Üniversitesi, Master Thesis in Business Administration, Ankara, 2021

Central bank is an institution that is responsible for the financial and economic stability in a country. The main objective of the study is to examine the role of credible central bank in the private banks' performance and identify factors that contribute to the existence of a credible central bank in Somalia. This is done by elaborating the credibility, independence, accountability, transparency and governance of central banking system.

In this study, a Survey Research Approach is used. Target population was unknown so that respondents are randomly selected from a sample of 40 respondents including top and middle managers across three banks in Mogadishu which are, Dahabshiil Bank, Salaam Somalia Bank and Premier Bank.

The results indicate that factors that contribute to the existence of a credible central bank include independence, accountability as well as transparency and governance of the system. However, the current central bank in Somalia does not have all these factors. Thus, the central bank has no significant effect on the performance of private banks in Mogadishu.

**Keywords:** Central bank, private bank performance, Mogadishu.

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## INTRODUCTION

### *Introduction*

The main purpose of this thesis is to study the role of a trustworthy central bank on a bank which is private and on its performance in Mogadishu-Somalia. This chapter contains the research background, statement of the problem, the study's purpose, objectives of the research, the questions of research, scope, the importance of the research and operational definitions.

### *Background of the Study*

The Bank of England that chartered in 1694 is the role model and a great prototype of our modern banks in general; its history, as a result, it deserves specific consideration. Before 1796, that movement was approximately identical in amount to the wealth of the Bank. The capital of the Bank in the final growth took place at the charter's renewing, in 1781. It was then upraised to 11, 642, 400, bound or what? Or about 56 millions of USA dollars, the amount of which it has ever since persisted. The whole of this capital is borrowed to the government (Gray, 2001).

In Scotland, two banks were established by charter from the King; the Bank of Scotland and the Royal Bank of Scotland which were established in 1695 and in 1727. These two banks own branches in most of the main cities of Scotland; but since they never gained any exclusive privileges, a multitude of private banks jumped up to dispute the business with them, and to divide its revenues (Kitchener, 2001).

Additional examples for the first established central bank of Romania realized in Central bank was established in late of 19th century. Only eighteen institutes were given their particular features and attributes and then grew in a number of countries. Central banks have, however, grown into 173 by the beginning of 21<sup>st</sup> century.

In spite of the fact that primary central banks were belonged to governments, it continuously consolidated capacities which turned them into normal banks after 19th century. The noteworthy part is that banks' features developed in late 20<sup>th</sup>

century. Banks continuously became independent from central authorities. From these fundamental changes, 34 Central Banks adopted new features (Dumiter, 2014).

In Europe, most central banks have worked as a department of Ministry of Treasury anticipating, either legally or conventionally in order to utilize the approaches with the aim to attain incalculable destinations such as development issues of work, providing funds for implementing the fiscal policies of the central authorities to deal with deficits. It was important to have financial and price constancy. Moreover, the objective of price stability remained among the goals in the banks' charter with no particular status. However, it is worth noting that in such countries like Norway and Spain, these features were not in the charter. As corresponding to those states, concepts of economic affairs had no significance to the freedom of the central bank while monetary policy credibility was in initial stages of development (Alex, 2008).

In Africa, sixteen new central banks have released their doors since the beginning of 1959—the Central Bank of the States of West Africa, the Central Bank of the States of Equatorial Africa and of Cameroon, the Bank of Morocco, the Nigerian Central Bank; the Bank of Sudan, the Bank of the Republic of Guinea, and the Somali National Bank in 1960; the Bank of Jamaica, the Malagasy Bank of Issue, and the Bank of the Republic of Mali in 1962; the Central Bank of Algeria, the Bank of the Kingdom of Burundi, the National Bank of Rwanda, and the National Bank of the Congo (Leopoldville) in 1964 (Federal Reserve Bank, 1964).

Today, the countries of Cameroon become a member of both the Central African Economic and Monetary Community (CEMAC) and also that of the State of the Bank of Central African States (BEAC). BEAC and CEMAC constitute part of the “Franc Zone”. Franc Zone reflects a fact that financial policies of states in two regions of Africa are being directed by France specifically in the dominion of the exchange rate. This is done with respect to currencies of other nations, regarding its harmonization of regulations, centralization of international discussion reserves and that of the convertibility to other currencies. Cameroon for example, laws and regulations whose sources are listed in the international conventions, customs laws, ordinances, presidential decrees, ministerial orders, and circulars as well as court

decisions governs its banking industry. With respect to some socio-cultural, political and economic development within Cameroon, the above listed instruments of regulatory are seen to be more flexible in character and can be modified. Regulations of banking industry differ in between jurisdictions (Nico & Firm, p. n.d).

With the establishment of the United Nation's Trusteeship Administration (AFIS) a new money institution regulator "Cassa per la Circolazione monetaria della Somalia" with its Head Office in Rome (Italy) in April 8th, 1950, the history of the Central Bank of Somalia started. When independence approached in 1950s, During the 1950s, the Head Quarter has been moved to Mogadishu in 6th April, 1959. With this move, they took over operations of the Bancad'Italia's Mogadishu branch with its all the resources and liabilities. It stopped functioning on 3rd of June, 1960 transferring operations to the recently founded central bank "Somali National Bank" (Somalia central bank, 2015).

Transparency which is the key feature of a central bank is defined by King (1997) as the Optimal State Contingent Rule (OSCR). Through this agenda, the long-run inflation target of the central bank allows it to be more flexible in response to (supply) shocks in the short-run.

Furthermore, greater flexibility is the outcome of greater hope in the central bank that deviations from the aim do not indicate a lack of vow to the long-term target – the central bank which responds to shocks is not punished with the steadiness bias (see Svensson 1997). As extended in Kuttner and Posen (1999), the testable theory of the OSCR or reassuring view of central bank transparency is that whenever decreases than inflation persistence the central bank approaches the OSCR (builds greater trust). This is because one-time shocks have not pass-through effects on inflation hopes as it is believed that long-run inflation to reach to aim level (Adam, 2002).

Central banks are macro sensible regulators. This means that monitoring the macroeconomic developments are ideally positioned to the central banks to the extent that even in many countries, central banks already control and regulate the banks. A stronger role in financial durability is given to the central bank. Forceful

mechanisms are needed to ensure transparency and a high degree of responsibility to complement with these powers (Helmut, 2010).

Central Banking is considered to be investigational and in infant stage with the reality that it has no tradition that it may either last or may grow, it's potential to fill a short post-war need and no more, all these may soon come to an end. Also, its sphere is limited by the requirement that no Central Bank can be greater than its own State. However, in a different view, a Central Bank should acquire by external help (as in some ex-enemy countries) or by internal acknowledgment (as in France) a certain freedom or independence within, and perhaps without, its own State (James, 2013).

A central bank is accountable for providing its economy with funds when profitable banks cannot cover a supply shortage. In other words, it prevents the country's banking system where is the following by this feature, it is labeled as the "lender of last resort" ((Heakal, n.d).

The description of central bank accepted by this study is that central bank as the head institute which regulates and supervises the control of credit and financial system of the country. (Dahir,2014). Therefore, the study examined the role of credible central bank in private banks presentation in Mogadishu-Somalia.

#### *Problem Statement*

A central bank majorly accomplishes financial policy including value stability, employment, and economic development. The financial policies have an effect on the rate of exchange policy in the short run. It is useful for steadiness purposes that affect service and real GDP effectively (Schwödiauer, Komarov, & Akimova, 2006).

Since 1991, when the administration led by Mohamed Siyad Bare was ousted, all country's infrastructures as well as governmental bodies have collapsed including the central bank which has been expected to operate tasks to state and aid other banks with the necessary policies. As is the case for every country, the life of a credible central bank is very important to private banks' performance in Somalia.

Vision statement of Somalia's central bank states that it aims to foster financial stability, maintain the appreciation of Somalia Shilling, donate to the financial and economic policies and endorse the credit and exchange situations that contribute to the development of balanced economy (Somalia central bank, 2015). Central bank reliability must cover a freedom of a high degree, accountability and transparency. In this study, it is aimed to assess the most significant indicators including independence, transparency and accountability of a central bank in a chronological manner and its role towards private banks. Thus, the thesis's focal point was on finding the role of trustworthy central bank in the act of private banks.

#### *Research Purpose*

This study's purpose is to investigate credible central bank's role in private banks' performance in Mogadishu.

#### *Research Objectives*

- To examine major factors contributing to a credible central bank.
- To identify the central bank's role in the private banks' performance in Mogadishu.

#### *Research Questions*

- What are the major factors that contribute to the existence of a credible central bank?
- What is the role of a central bank in the private banks' performance?

#### *Scope of the Research*

The analysis will be realized by elaborating the views of banks' executives about transparency and accountability of the central bank of Mogadishu. The headquarters of major banks are located in Mogadishu. Data is collected in the time frame of 2018-2019.

#### *Significance of the Study*

This thesis will contribute to current general information on central bank operations in general, and those of Somalia in particular. The study will help the potential researchers of the field in Somalia. The result of the study is also expected

to lead the central bank of Somalia to the selection of the best accountability measures that will lead to better results. Finally, the study is useful for any potential students who want to do more research on this topic as it adds to the general knowledge available in the literature.

### *Operational Definitions*

A *Central Bank* is defined as an institution that has the accountability to manage the volume of the money supply in a general public interest. It is the body responsible for financial and economic stability in the district. The reliability of this institution is described as a transparent and clear commitment to comply with policy and policy objectives. To put it more precisely, reliability expresses “to what extent the public believes there is a change in policy when such a change takes place”. Brunner (1983), in more generally, establishes link among the performance of institutions involved and credibility in enforcing policies: “Reliability depends on the history of policy making and the policy institution's behavior” (Cukierman 1986, p.6).

*Central bank independence*: (CBI) is defined of being the central bank’s institutional capacity derived from an institutional mandate type; Groups that exempt monetary policy from directives, orders and other forms of intervention from central authority, industry and other interests (PawelSmaga, 2013).

*Accountability* is a complement naturally inherited in the independence of the central bank. "Accountability" indicates the fact that the central bank is responsible for achieving goals. (Andresen, T. 2010)

*Central bank transparency* can be described by the fact that no asymmetric information among makers of monetary policy with other economic intermediaries (Lisette Geessink, 2014).

Governance is the effectiveness, transparency, and managerial accountability of any institution through internal management, without compromising the interests of stakeholders including regulators, creditors, shareholders, and the public (Benes, J. and Kumhof, M. 2012).

*Private banking services* are services of banking, investment, and other financial services provided to clients who enjoy high levels of income or who invest large assets. The “private” term refers the provision of a “customer service” in a more personal basis than retail banking in the comprehensive market; done by committed bank consultants. The bank's performance is not necessarily tied to improved financial stability, but is also related to the profitability of the past to some extent (Huber, J. 2014).





## CHAPTER ONE

### LITERATURE REVIEW

#### 1.1. Literature Review

The definition of Central Bank credibility is an assurance to keep an eye on well-articulated and transparency rules and regulations targets. To be more exact, credibility is referring to the situation where the public believe a change in policy takes place when such a shift has actually occurred (Bordo & Siklos, 2014).

Central bank's credibility also undoubtedly effects on the reputation of the system. The concept of reputation can be related with a stock variable rising and falling over time as monetary policy strategies varieties. Within the context of credibility, reputation is a topic of progressing the nature of relations between central bank and government, political issues and the characters responsible for the monetary policy application.

Credible Central bank presence is depending on many major features. This research mainly focuses on four of them which are governance, transparency, independence, and accountability. Further considerations about major factors are explained below.

Central Bank independence refers to the "freedom of monetary policymakers from direct political or governmental influence in the conduct of policy." (Walsh, 2005) Though, the connection between government and the central bank is not such simple and altered aspects describe independence (Bandura, Mendoza, & Sidikou-Sow, 2006).

The concept of independence is in a better position when the management of the central banks is protected against political stress through contract and free recruitment. The system adores bigger autonomy when the government cannot involve in or impose its policy conclusion. Also, independence is better if the central bank's legal command states a well delineated aim for policies relating to monetary that undeniably, assuring the central bank's independence. Central bank's financial

independence relies on restriction limiting lending money to the government (Andrea Thomas, 2016).

On the literature relating to central banks as well as its system of finance, Corrigan points important issues. With the importance of development in amount of countries in Eastern Europe, they began to follow these recommendations. Firstly, banking constancy of its financial issues is vital for the precondition of growth as well as stability of the economy at a large amount. Secondly, reform of all features of operations are necessary in the transition from a middle planned and controlled economy to a market economy as there is nothing more important than that of reforming the banking and financial system. Thirdly, although the improvement of market capital especially that of the effective market and the other secondary market for securities of national government is obviously essential, top importance should be 24 E Gerald Corrigan to place the reform by adapting commercial banking system. Fourthly, effective of commercial banking system reform assumes a method of parallel reform in the system central banking. Lastly, both central bank and that of commercial banks own only one asset which is public confidence. Reforming that target to enforce confidence in the context is necessary where they are being applied (Jurgen Stark, 2006).

The transparency of Central bank can be defined of being the asymmetric information absence between monetary policymakers and other economic agents' relation with governed central bank preference. Ambiguity is decreased by this way and is beneficial. Additionally, it is possible that transparency affects the incentives to manipulate private sector beliefs through signaling and reputation building by policymakers (Geraats, 2002).

The Central bank which governance seems to dominate during times of the periods of the classical gold standard and the gold-exchange standard of international financial openness (Kahler, 2000).

Responsibility is a characteristic supplement to central bank independence. "Responsibility" implies that the central bank is considered liable for satisfying its targets. This incorporates, right off the bat, responsibility to the overall population, and, also, responsibility to fairly legitimated foundations, for the most part the

parliament, under extraordinary conditions (e. g. at the point when explicit approach objectives are fixed) likewise the legislature. The responsibility to the overall population is of an ethical issue however by and by mentally of most extreme significance (Schwödiauer, Komarov, & Akimova, 2006).

## **1.2. Role of Central Banking in Monetary Policy and Financial Stability**

A various research in literature, market analysts gave different definitions for monetary policy. All the definitions are circling into a similar idea. In examining supporting monetary arrangement is made at the attentiveness of the national bank based on its duty regarding the national economy, which is actualized without uncovering the essential target of value soundness. Similarly, monetary policy is the other significant part of open money strategy (Jeffrey Frankel, 2012).

According to a definition by Harry G. Johnson states that monetary policy is an approach utilizing the control of the flexibly of cash as an instrument for accomplishing the destinations of general financial strategy which is a money related approach by central banks. Thus, Hart referenced an arrangement which impacts the open load of cash substitute of open interest for resources of strategy that impacts open the position of liquidity known by a money related approach. Also, Paul Einzing featured that money related arrangement incorporates every single financial choice and measures whether or not related to non-financial or fiscal, these measures all influence the framework of fiscal policy. Quickly, the approach of finance utilizes the central banks' power over the elegantly, utilization of cash and minimizing costs as instruments for accomplishing destinations in monetary strategy. Money related approach job is significant fiscal arrangement points in charge make and develop of budgetary organization, proper financing cost arrangement, giving obligation to the board. When all is said in done terms generally creating and immature nations experience the ill effects of the financial emergency, or better to express, those are progressively delicate financial matters, since money related arrangement which has an essential job isn't very much defined, in this manner, monetary policy is the tool that facilities growth and stability for economic growth to analyze the effects of monetary policy on the economy, the target of monetary policy to be considered

genuinely, in a nation like Iraq with a huge spending shortage, it is important to utilize monetary arrangement to lessen the inflationary weight and along these lines expansion, and improve the spending shortfall. Be that as it may, as the monetary conditions are extraordinary. In any country, monetary policy requires special attention, seeking to control inflation and bring about rapid economic growth. Joseph Stiglitz accentuated an engaging perspective that there is no assurance that monetary strategy works, in this way the desire that financial arrangement is a reaction to monetary pressure is an error during downturns, money related arrangement is incapable, in light of the fact that individuals dither to buy products and ventures, and hence money related approach doesn't work, while financial approach can affect the total interest and gives methods for invigorating the economy. Actually, monetary policy influences loan fees for the time being, expanded cash keeps loan costs down, be that as it may, fiscal development has various outcomes, exorbitant increments in the cash gracefully produce, along these lines an expansion in financing costs, accordingly in since quite a while ago run money related strategy drives the financing costs up. Policies of Fiscal and monetary are divided into expansionary or contractionary. Expansionary policy is policy measures taken to increase GDP and economic growth are called (Ali Mamouri, 2015).

In Germany, the involvement in political command over central bank arrangements has been motivation to make the central bank independent, twice in the twentieth century, the political specialists have utilized their impact over central bank conduct to acquire government subsidizing through the print machine. The seignior age from the printing of new cash, notwithstanding whatever profits the central bank may procure has furnished them with an approach to support consumptions for combat hardware and wars by implies other than charges. What's more, twice, the outcome has been an annihilation of the money and a total seizure of the holders of ostensible resources. The Maastricht Treaty names value security as the target of money related approach and doesn't make reference to about budgetary solidness. In the scholarly community, before the emergency, and with certain creators even today, there was a view that expansion rates, swelling desires, and the inferred relative inter temporal costs were all that made a difference, Examples and no words

or modeling efforts were devoted to the role of financial institutions in the monetary system (Hellwig, 2014).

Numerous central banks have made financial stability committees of trustees that include every single significant partner. These councils appear to be helpful in getting to the decentralized data fundamental for financial stability efforts. What's more, most members have considered the cooperation of the account service to be urgent in such budgetary soundness related boards, given the possible monetary expenses of any goals system. A few central banks have additionally begun to give money related steadiness reports. The extra money related dependability transmits of central banks mirrors their improved believability with people in general, and can improve their monetary policy (Mohanty, 2014).

It is important here to note, before we analyze the role of central banks, the main criteria for examining the role of central banks, which will be as follows. First central banks should focus on targets. Second, the system should be independent from vehicles. Third, central banks must be accountable. Four, central banks must have clear communication manner and remain transparent. Lastly, central banks should target financial stability.

Simply, Central banks are regarded of being the engine of the economy, like the engine, controlling and regulating power; any failure of the engine poses a risk and problem in the system. Therefore, this body is an extremely important tool, while Wrights described man monetary policy, stating the conscious efforts of central banks to control their money supply and credit terms to achieve certain broad economic goals (Reem Heakal, 2015).

According to Charles Goodhart, though it is compulsory that central banks be independent, but the government oversees their work, so they are vulnerable to political authorities. In 1994, central banks first published cards in global finance. Central bankers in nearly 75 nations ranked A to F. On 2015 report, the only governor ranked "A" in the Middle East's rulers was the central bank's governor of Israel, while all central bankers in "India, Malaysia, Philippines and Taiwan" were also rated as "A". Albania tops the list in developing countries as the best among the world's central banks. This is because "the bank" well managed to stabilize

expectation of inflation based on inflation targeting frameworks. The effectiveness of central banks in most European countries is not always seen as the main pillar of the economy. In his book "a shortcut to economy literacy". Todd G. Buchholz made a note that central banks cannot do much to do factor management. They cannot make workers work harder or can inspire inventors to invent more. So, central banks' importance was known in some states in the early years of their economic growth.

In 1913, the central bank of the United State was established by Congress as the Federal Reserve System. In this context, the Fed, Congress and President together contribute to the policies of macroeconomics. The central banks' role in developing countries was expanded later than developed countries, and therefore, much sustainable economic development. Central banks should be free from the central authority in decision making, as they are the main tool for enhancing competitiveness in any economy, which does not mean any political intervention in banking affairs. However, the central banks' independence in developed economies is given by the government. It is not easy to understand central banks' role, but this system, very interestingly, states that when defined as the lender of the final economy, it is responsible for funding the country's economy if commercial banks cannot meet the supply shortage. Similarly, after a deputy meeting in parliament in 2004, the governor of the Iraqi central bank put it that bank is independent, financially and administratively independent, and therefore all the policies and procedures it adopts are independent. The central bank of Iraq authenticated the independence of the deputy governor of the central bank. In such a case, the blame game is useful, but it is always ready to justify financial collapse during wars and regional tension in developing countries and governments, especially in Africa and the Middle East. furthermore, central banks had to protect the wealth, while the surprising question is that who protects their wealth against whom. The system of central banks in developing countries is not perfect in the implementation of monetary policy and what is the role of the central bank after all? (Likewise, 2004).

Regarding Sklos (2008), Spinesi (2009) and Wasiams (2009), the independence concept is a misleading definition to the monetary authority position in the state affairs. A purely publicly owned body may be autonomous at best, but not entirely independent (Gabillon & Martimort 2004).

According to Mixo and Upadhyaya (2004), both proponents and opponents of central bank autonomy cannot agree on why such an arrangement is beneficial to society, however, Forder (2005) regards the central bank's autonomy as a convenient policy that suits some governments. Cukierman (1992) and Eijffinger & de Haan (1996) view the device as an important ingredient that can lead to a permanent reduction in inflation (Yang, 2008).

As suggested by Siklos, Bohl, Wohar (2010), financial stability system should be given a special focus, measurement and outcomes, a low and stable monetary policy strategy in the near future, so as well expectations for replacement by inflation and price level targeting.

Croitoru (2012) discussed that the central bank possibly will react to legendary increases in asset price because they can result in serious financial predicament and thus push the economy into a liquidity trap and post-acting process of monetary policy. It would be more appropriate if the central bank struggles with a moderate and stable inflation instead of a low and stable inflation level.

The recent literature trend on the system of central banking and that of the monetary policy, focuses on a system that is free from both politicians and the industry sector, which is also responsible for the fulfillment of the functions of the Parliament, mass media and the public.



## **CHAPTER TWO**

### **METHODOLOGY**

This chapter discusses the methodology through which the study is done. The chapter shades a light on research design, research population, sample size, sampling procedure, research instruments, data gathering procedure, reliability and validity of the instrument, data analysis, ethical considerations and limitation of the study followed by summery and conclusion.

#### **2.1. Research Design**

In this study, research approach is used in the form of Survey, a method of information –collecting that use to describe, compare, or explain individual and societal knowledge, feeling, values, preferences as well as behavior (Fink, 2009).

Moreover, the study performed quantity approach. This is any data collection technique (such as a questionnaire) or procedure of data analysis (such as graphs or statistics) that generates or uses numerical data (Saunder, 2009).

#### **2.2. Research Population**

Since this aims to determine the role of credible central bank in private banks' performance in Mogadishu, an accurate or exact number of the population was regarded as unknown because it seems that there are no clear procedures for registering banks staff in Somalia. Consequently, three main banks in Mogadishu are selected namely, Dahabshiil Bank, Salaam Somalia Bank and Premier Bank. These banks operated well and may exist long time as they have many branches in Mogadishu.

It is worth noting that the entire population is not achievable to be studied as a result of time constraint and limited resources available for effective handling of such study. Consequently, only a portion of the population is studied. As a result, the

study adopted a sample of 40 persons including top and middle managers from three banks in Mogadishu and is randomly selected.

The sample size of this study is adapted or followed from the literature especially a Ukraine study conducted by Gerhard, Vladislav, and Iryna (2013) which employed sample size of 40 from Kiev respondents.

### 2.2.1. Sample procedure

Non-probability sampling judgmental sampling techniques is used in this study. Purposive or judgmental sampling has been considered to be suitable because Banks tend to have a fixed schedule. Data, therefore, was collected from people who were easily available and were too co-operated. Purposive sampling was also convenient because the sample selection and the idea of the population is realized a shorter period.

**Table 2.1.** Sample Procedure

No	Names of the Banks	Numbers of respondents	percentages
1	Dahabshiil Bank	20	50%
2	Salaam Somali Bank	16	40%
3	Premium Bank	4	10%
	<b>Total population</b>	<b>40</b>	<b>100%</b>

The reason for the selection of the above three banks is that they represent the most important and effective banks in Mogadishu in terms of popularity and easiness of giving statistics. They also have good reputation as high level banks in Somalia.

The primary data collection is realized by using questionnaire. This is because the study is concerned with variables that cannot be observed. Thus, such information, the best way of collecting data is by using questionnaires. This method is selected because it gives the chance to have face to face relation with respondents. Through this way, the purpose is clearly explained to them and also some help can be provided (Saunders, 2009).

This study used a modified questionnaire adapted from Smaga. The questionnaires determined from a modified question are on the literature review and

structured into three parts. Section (A) is about profile of the respondents while Section (B) is about research question one. Section (C) relates to research question two. Also, format of questionnaires is designed as five point likert scale. Subsequently, a pilot-test realized the questions through testing a number of CCB. Lastly, any mistakes and errors in the questionnaire are corrected to enhance both validity and reliability (Smaga, 2012).

### **2.3. Validity and Reliability**

Reliability is defined to be the extent to which results are consistent over time and an accurate representation of the total population and if results of a study can be reproduced under a similar methodology, then the research instruments is considered reliable. Validity finds out whether the research truly measures what it was intended to measure or how truthful the research results are. In other words, the validity is determined usually by raising a series of questions, and often looks answers given in the research done by others (Joppe, 2000).

As suggested by Amin (2005), validity coefficient of at least 0.70 or 70% of the instrument items are accepted as valid in research. To enhance the quality of study, the researcher made any effort to reach validity and reliability coefficient of at least 0.70.

#### **2.3.1. Reliability**

To evaluate the logic and internal consistency of the items, a reliability test was conducted by using Table 1 which shows that all variables have Cronbach Alpha values of more than 0.7. This makes all variables accepted, internally consistent and the scale deemed reliable for further analysis. However, it is also suggested that alpha of 0.50 and above is an indication of internal consistency. Based on the literature, all the Cronbach's alpha scores for the variables were greater than 0.60 which is acceptable. The highest alpha obtained by Central Banks ( $\alpha=.900$ ) and followed by Private Banks ( $\alpha=.770$ ).

**Table 2.2.** Reliability

No	Variables	No	Items	Cronbach's Alpha
1	Central Bank	40	17	.900
2	Private Banks	40	5	.770

Firstly, the sample members were requested to answer the questions of the questionnaire with honesty. The questionnaires' results are analyzed through statistical package for Social Sciences, (SPSS Version 16:0).

#### 2.4. Data Analysis

Quantitative approach is used in this study, and data was analyzed by using statistical package for the Social Science (SPSS) version 16.0. In addition, the researcher used descriptive statistics: mean mode and frequency distribution. As cited, Fischer school state that descriptive statistical analyses is performed on the sample groups to obtain a clear understanding of the population and measures of central tendency (including means, medians, and other percentiles). Each questions in the questionnaire has alternatives selected based on a scale of five where 1=strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.

The table that follows presents the meaning ranges and its interpretations:

**Table 2.3.** Mean Ranges & Interpretation

Mean range	Scale category	Interpretation
4.24 --- 5.04	Strongly Agree	Very high
3.43--- 4.23	Agree	High
2.61 --- 3.42	Neutral	Normal
1.81 --- 2.61	Disagree	Low
1.00 --- 1.80	Strongly Disagree	Very low

Source: primary data 2019


#### 2.5. Ethical Considerations

The ethical issue was considered the during research project. Confidentiality and anonymity are protected. So, any secret information was given high priority.

Data research is strictly intended to be used for academic purpose and that utmost confidentiality was observed.

## **2.6. Limitations of the Study**

Main limitation of the research mainly relies on the fact that the questionnaire was self-prepared. Secondly, extraneous variables are out of the researcher's control such as respondents' honesty, personal biases. Finally, there was a barrier of language which limited the understanding of respondents to the questionnaire; to enhance the validity of the study the researcher wrote the questionnaire into English language.





## CHAPTER THREE

### FINDINGS AND DISCUSSIONS

#### 3.1. Introduction

This chapter contains four parts. The first part presents the respondents' demographic data. The second section discusses the data presentation and analysis. The third part reports the major findings of the study and the fourth part contains the discussions of the study.

#### 3.2. Respondent Profile

The respondents of this study were only top managers and the middle managers of the selected banks. The managers have different age, gender and education levels. The output was generated by using SPSS package.

**Table 3.1.** Respondents' Profile

<b>Respondent profile</b>	<b>Frequency</b>	<b>Percent</b>
<b>Age</b>		
21-30	27	67.5
31-40	10	25.0
41-50	2	5.0
51above	1	2.5
<b>Gender</b>		
Male	37	92.5
Female	3	7.5
<b>Education</b>		
Secondary Certificate	2	5.0
Bach Degree	23	57.5
Master Degree	13	32.5
Other	2	5.0
<b>Marital Status</b>		
Single	16	40.0
Married	24	60.0
<b>Banks</b>		
Dahabshiil Bank	20	50.0
Salaam Somalia Bank	16	40.0
Premier Bank	4	10.0
<b>Total</b>	<b>40</b>	<b>100.0</b>

Source: Primary data 2019

❖ **Age:** The majority of respondents' ages are between 21-30 (67.5%) of total respondents, ages between 31-40 are 25% of total respondents and ages between 41-50 are 5%, ages above 50 are 2.5% of total respondents.

❖ **Gender:** The gender of respondents of the study was 92.5% of male and 7.5% of females.

❖ **Educational Level:** The percentages of the respondents who have completed secondary school are 5%. Respondents who have bachelor degree are 57.5% and the respondents who have master degree are 32.5% and also there is only 5% of the respondent who have other educational levels.

❖ **Marital status:** The respondents of the study who married are 60% and 40% of them are singles.

❖ **Banks:** The majorities of the respondents are working at Dahabshiil Bank and represents 50% while 40% of the respondent are from Salam Somali Bank and the rest are from premier bank which is 10% of the respondents.

### **3.3 Data Representation And Analysis**

The analysis of collected questionnaire in relative to the research objectives are presented in this part. This part is classified in to two subparts. The first subpart explains the analysis of data of the first objective of the study. The second subpart presents the analysis of the data of the second objective of the study.

#### **3.3.1. The mean and standard deviation of the major factors that contribute to the existence of a credible central bank**

The results of the questions to examine the major factors contributing to a credible central bank are presented in the following table.

**Table 3.2.** Major factors that contribute to the existence of a credible Central Bank

No.	Questions	Mean	St. Deviation	Interpretation
1	In conducting policies that promote the country's economic prosperity, the policymakers in the central bank are free from direct political or governmental influence.	2.07	1.095	Low
2	Central bank does not require reducing asymmetric information between economic agents and policymakers.	2.20	.911	Low
3	Transparency usually affects the policymakers' incentives to manipulate private sector beliefs by signaling and reputation building.	2.38	1.192	Low
4	The central bank is held responsible for fulfilling its objectives.	2.18	1.196	Low
5	The central bank governor maintains accountability to the general public and legal bodies, usually the parliament under special circumstances.	2.28	1.176	Low
6	The central bank sets specific policy that gives hand the attainment of goals.	2.50	1.261	Low
7	Economic policies that lead the country's entire financial institutions function smoothly are best made by committees.	2.72	1.301	Normal
8	The central bank set target with measure of inflation.	2.45	1.377	Low
9	The decision to solve conflicts between the central bank and political authorities (the government) are clearly articulated through the general public and legitimated institutions.	2.43	1.279	Low
10	The credibility of central bank improves the reputation which is subject to the growing nature of central bank-government relations, political factors and the personalities responsible for monetary policy implementation.	2.50	1.155	Low
11	The central bank functions as a development bank granting loans at financial institutions and regularly conduct own pressure-tests of the financial sector.	2.30	1.159	Low
12	Pressure testing is the most effective tool in financial stability analysis according to the perspective of the bank.	2.20	1.114	Low
13	The central bank has not the responsible for the overall economic condition of the country in the case of economic down turns.	2.18	1.279	Low
14	The central bank is required to have its own financial stability index; produce and publish Financial Stability Indicators (FSIs) with avoidance of any other types of involvements.	1.78	.974	Very low
15	As a private bank, your activities related to international trade are facilitated by central bank.	2.05	1.154	Low
16	The central bank protects your bank's finance freeze from internationally.	2.30	1.285	Low
17	Transaction costs incurred by your banks are reduced by credible central bank.	2.35	1.528	Low
18	Over all mean	2.29	1.202	Low

Source: Primary data 2019

➤ Q1 the respondents of the study disagreed that the policymakers in the central bank are free from direct political or governmental influence in the conduct of

policies that promote the country's economic prosperity according to the mean of 2.07 and the standard deviation of 1.095.

➤ Q2 the respondents of the study disagreed that central bank does not require to reduce asymmetric information between economic agents and policymakers according to the mean of 2.20 and 0.911 of the standard deviation.

➤ Q3 the respondents of the study disagreed that transparency affects the policymakers' usage of signaling and reputation building incentives to manipulate private sector beliefs, according to the mean of 2.38 and the standard deviation of 1.192.

➤ Q4 the respondents of the study disagreed the fact that the central bank is held responsible for fulfilling its objectives, with a mean of 2.18 and standard deviation of 1.196.

➤ Q5 the respondents of the study disagreed that the central bank governor maintains of accountability to the general public and legitimated institutions, usually the parliament under special circumstances, according to 2.28 of the mean and the standard deviation of 1.176.

➤ Q6 the respondents of the study disagreed that the central bank sets specific policy that gives hand the attainment of goals according to the mean of 2.50 and the standard deviation of 1.261.

➤ Q7 the study's respondents agreed that there is a normally that the economic policies that lead the country's entire financial institutions function smoothly are best made by committees, with a mean of 2.72 and 1.301 of standard deviation.

➤ Q8 the respondents of the study disagreed that he central bank set target with measure of inflation according to the mean of 2.45 and the standard deviation of 1.377.

➤ Q9 the respondents of the study disagreed that the conflicts resolution between the central bank and political authorities (the government) are clearly articulated through the general public and legitimated institutions according to the mean of 2.43 and the standard deviation of 1.279.

➤ Q10 the respondents of the study disagreed that the credibility of central bank enhances the reputation which is subject to the evolving nature of central bank-government relations, political factors and the personalities responsible for the implementation of monetary policy according to the mean of 2.50 and the standard deviation of 1.155.

➤ Q11 the respondents of the study disagreed that the central bank functions as a development bank granting loans at financial institutions and regularly conduct own pressure-tests of the financial sector, according to the mean of 2.30 and the standard deviation of 1.159.

➤ Q12 the respondents of the study disagreed that Pressure testing is the most effective tool in financial stability analysis according to the bank's perspective, with a mean of 2.20 and a 1.114 of standard deviation.

➤ Q13 the respondents of the study disagreed that the central bank has not the responsible for the overall economic condition of the country in the case of economic down turns, as mean exhibits a value of 2.18 with a standard deviation of 1.279.

➤ Q14 the respondents of the study strongly disagreed that the central bank is required to have its own financial stability index; produce and publish Financial Stability Indicators (FSIs) with avoidance of any other types of involvements according to 1.79 of mean and 0.974 of the standard deviation.

➤ Q15 the respondents of the study disagreed that the private banks activities related to international trade are facilitated by central bank, according to a mean value of 2.05 and 1.154 of the standard deviation.

➤ Q16 the respondents of the study disagreed that the central bank protects your bank's finance freeze from internationally regarding 2.30 of the mean and 1.285 of the standard deviation.

➤ Q17 the respondents of the study disagreed that transaction costs incurred by your banks are reduced by credible central bank with a mean of 2.35 and 1.528 of the standard deviation.

### 3.3.2. The mean and standard deviation of the role of central bank on the private banks' performance

The flowing table presents the analysis of the answers of the respondents on the roles of central bank in the private banks' performance.

**Table 3.3.** The Role of central bank in the private banks' performance

No.	Questions	Mean	St.Dviation	Interpretation
1	As a private bank, you are satisfied to the central bank activities.	2.33	1.347	Low
2	Private banks depend much on central bank policies.	2.28	1.339	Low
3	Private banks are preferred to build relation with the central bank.	2.22	1.121	Low
4	Private banks believes that they can't work without central bank.	2.57	1.448	Low
5	Central bank is very important for your private bank for last resort.	2.28	1.219	Low
6	Overall men	2.336	1.2948	Low

Source: Primary data 2019

➤ Q1 the respondents of the study disagreed that the private banks are satisfied to the central bank activities as the mean exhibits a value of 2.33 while the standard deviation shows a value of 1.347.

➤ Q2 the respondents of the study disagreed that private banks depends much on central bank policies as the mean shows a value of 2.28 and the standard deviation exhibits 1.339.

➤ Q3 the respondents of the study disagreed that private Banks are not preferred to build relation with the central bank, according to the value 2.22 of mean and the standard deviation of 1.121.

➤ Q4 the respondents of the study disagreed that private banks believes that they can't work without central bank regarding the mean value of 2.57 and the 1.448 of the standard deviation.

➤ Q5 the respondents of the study disagreed that central bank is very important for their private bank for last resort, according to the mean value of 2.28 and 1.219 of the standard deviation.

### **3.4. Major Findings Of The Study**

The first objective of the study was determined as evaluating the major factors contributing to a credible central bank. These factors are considered to be transparency, accountability, governance and independence. It is thought that while the respondent of the study indicated that central bank of Somalia, in conducting policies that promote the country's economic prosperity, have not been free from direct political or governmental influence, the determination of activities of private banks on issues related to international trade aren't facilitated by central bank until recently. The governor maintains accountability to the general public and legitimated institutions. Determining the role of central bank in the private banks' performance in Somalia was the second objective of the study. The results showed that private banks are not satisfied with the central bank's activities and they do not rely on it in their daily basis so that building any strong relationship is not on sight.

### **3.5. Discussions**

Factors that contribute to the existence of a creditable central bank are classified into four categories. The first is independency which is defined by Walsh (2005) as the freedom of monetary policymakers from direct political or governmental influence in conducting policies.

The results of this study show that the central bank is not free from political or governmental influence like the results suggested by Gabillon & Martimort (2004). Second is accountability. Accountability to the general public is of a moral nature but, on the other hand, psychologically of utmost importance (Schwödiauer, Komarov, & Akimova, 2006). However our study found that there is no accountability between central bank and its policy makers since they are not separated into legal. The third is central bank governance. Our central bank doesn't govern and maintain of accountability to the general public and legitimated institutions and also the central bank is not dependent to policies in stability. If government appoints a governor, it may be mandatory to have government representative in the board, thus, no legal provision. Political independence index

will be very low (Ahsan, Skully, & Wickramanayake, 2006). The fourth is transparency. It is defined as the absence of asymmetric information between monetary policymakers and other economic agents (Geraats, 2002). The central bank of the Somalia doesn't prevent asymmetric information while there is no accountability, private bank doesn't rely on the central bank and they can believe that they work without the support of the central bank.

Central bank doesn't have any tangible role in the private banks' performance while private banks don't have effective relationship with the central bank. It doesn't facilitate international transactions that is done so that private banks don't rely on central bank and their relationship will be very low consequently, there is no significant relationship between central bank and private banks' performance.

## CONCLUSION AND RECOMMENDATION

This chapter comprises two parts. The first part puts a conclusion of the main results while the other part makes recommendations to policy makers and pointing areas for future research.

The system of central bank as a financial body is an institution with the responsibility of managing expansion and contraction of the volume of money in the interest of general public welfare (Dahir, 2014). The study is made about the role of credible central bank in private banks' performance in Mogadishu, Somalia. The population of the research was about a sample of 40 examining two objectives. The first objective examined the major factors contributing to the existence of a credible central bank. The second one identified central bank role in the private banks' performance.

Results collected based on the respondents are the following:

- Central banks don't work efficiently
- No longer relationship between central bank and private banks
- Central bank is not free from policy instability
- There is no transparency in the central bank's activities
- Main factors that create credible central bank are missing.

### *Recommendations*

- Creation of factors that contribute to a credible central bank like good governance, transparency, accountability and independence.
- Private banks must create good relationship and effective communication with the central bank.
- Improvement of Central bank credibility and economic stability.

*Further Research*

- The role of credibility and efficiency of agency independence in fixed policy rules in private banks' performance.
- Central bank structure, policy efficiency and relationship to the private banks' performance.
- The role of central bank supervision in private banks' performance.



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**APPENDIX A**

**QUESTIONNAIRE**

**Dear Sir/Madam,**

As a student from ATILIM University who is currently writing a thesis in master of business administration. I am interested in The Role of Credible Central Bank in Private Banks' Performance in Mogadishu. The answers and your personal information will remain confidential and anonymous. I shall use your responses to compile and analyze the data to help us better understand our area of interest. Only Tick (✓) the one that corresponds to your opinion. *I thank you in advances*

**Section A: Personal information**

**Age:** 21-30 [  ]      31-40 [  ]      41- 50 [  ]      51 above [  ]

**Gender:**      Male [  ]      Female [  ]

**Level of Education:** Secondary [  ] Bachelor degree [  ] Master Degree [  ] other [  ]

**Marital Status:**      Single [  ]      Married [  ]

**Which bank did you work for?**

Dahabshiil Bank [  ]      Salaam Somalia Bank [  ]      Premium Bank [  ]

**Directions:**

Please indicate the extent to which you agree or disagree by writing only the number option for each of the statement provided on the table below.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

### Section B: Questions related to credible central bank

No	Research Question	1	2	3	4	5
1	The policymakers in the central bank must be free from direct political or governmental influence in the conduct of policies that promote the country's economic prosperity.					
2	Central bank's does not required to reduce asymmetric information between economic agents and policymakers.					
3	Transparency affects the policymakers' incentives manipulate private sector beliefs through signaling and reputation building.					
4	The central bank is held responsible for fulfilling its objectives.					
5	The central bank governor maintains of accountability to the general public and legitimated institutions, usually the parliament under special circumstances.					
6	The central bank sets specific policy that gives hand the attainment of goals.					
7	Economic policies that lead the country's entire financial institutions function smoothly are best made by committees.					
8	The central bank set target with measure of inflation.					
9	The resolution of conflicts between the central bank and political authorities (the government) are clearly articulated through the general public and legitimated institutions.					
10	The credibility of central bank enhances the reputation which is subject to the evolving nature of central bank-government relations, political factors and the personalities responsible for the implementation of monetary policy.					
11	The central bank functions as a development bank granting loans at financial institutions and regularly conduct own pressure-tests of the financial sector.					
12	Pressure testing is the most effective tool in financial stability analysis according to the bank's perspective.					
13	The central bank has not the responsible for the overall economic condition of the country in the case of economic down turns.					
14	The central bank is required to have its own financial stability index; produce and publish Financial Stability Indicators (FSIs) with avoidance of any other types of involvements.					
15	As a private bank, your activities related to international trade are facilitated by central bank.					
16	The central bank protects your bank's finance freeze from internationally.					
17	Transaction costs incurred by your banks are reduced by credible central bank.					

**Section C: questions related to private banks performance**

<b>No</b>	<b>Research Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	As a private bank, you are satisfied to the central bank activities					
2	Private banks depend much on central bank policies					
3	Private banks are preferred to build relation with the central bank					
4	Private banks believes that they can't work without central bank.					
5	Central bank is very important for your private bank for last resort					





## TURNİTİN RAPORU

### turnitin raporu

#### ORIJİNALLIK RAPORU

% <b>19</b>	% <b>16</b>	% <b>4</b>	% <b>10</b>
BENZERLİK ENDEKSİ	İNTERNET KAYNAKLARI	YAYINLAR	ÖĞRENCİ ÖDEVLERİ

#### BİRİNCİL KAYNAKLAR

<b>1</b>	<b>polgariszemle.hu</b> İnternet Kaynağı	% <b>3</b>
<b>2</b>	<b>Submitted to Atılım University</b> Öğrenci Ödevi	% <b>2</b>
<b>3</b>	<b>iie.com</b> İnternet Kaynağı	% <b>1</b>
<b>4</b>	<b>www.tjeb.ro</b> İnternet Kaynağı	% <b>1</b>
<b>5</b>	<b>Submitted to Asia e University</b> Öğrenci Ödevi	% <b>1</b>
<b>6</b>	<b>Submitted to Universiti Brunei Darussalam</b> Öğrenci Ödevi	% <b>1</b>
<b>7</b>	<b>eprints.utar.edu.my</b> İnternet Kaynağı	% <b>1</b>
<b>8</b>	<b>www.addisherald.com</b> İnternet Kaynağı	% <b>1</b>
<b>9</b>	<b>Submitted to Kampala International University</b> Öğrenci Ödevi	% <b>1</b>

10	<a href="http://docplayer.net">docplayer.net</a> İnternet Kaynağı	% 1
11	Submitted to Istanbul Aydın University Öğrenci Ödevi	% 1
12	<a href="http://just.edu.so">just.edu.so</a> İnternet Kaynağı	<% 1
13	<a href="http://www.aeaweb.org">www.aeaweb.org</a> İnternet Kaynağı	<% 1
14	Harold James. "Introduction", Contemporary European History, 2008 Yayın	<% 1
15	<a href="http://www.sustech.edu">www.sustech.edu</a> İnternet Kaynağı	<% 1
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## CURRICULUM VITAE

**Name and Surname:** Mohamud Abdullahi Kasim

**Place and Date of Birth:**

**Education:**

Degree	Field	University	Year
Undergraduate	Bachelor of Accounting	SIMAD University	2015
Graduate	Master of Business Administration (MBA)	ATILIM University	2021

**Work Experience:**

Work Place	Position	Year
Somali Embassy in Ankara	Worked with Support Staff	2019
Dahabshil Bank, Mogadishu-Somalia	Worked with as Counter	2014 - 2016
Dahabshil Bank, Mogadishu-Somalia	Worked with Dahabshil as Accountant	2012 - 2014

**Foreign Languages:** Somali, English, Turkish, Arabic

**Publications:** Role of credible central bank in private banks presentation in Mogadishu

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**Date:** 02/04/2021