INFLUENCE OF CENTRAL BANK GOVERNANCE ON ECONOMIC DEVELOPMENT OF MOGADISHU SOMALIA

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Abstract: The study seeks to examine the role of the central bank on the economic development of Somalia: a case study of central bank of Somalia, Mogadishu. The study objectives will be; to ascertain how central bank as a regulation affects economic development of Somalia, to determine whether financial market development affects economic development of Somalia, to assess how central bank as a government banker affects economic development in Somalia and to examine whether the monetary and fiscal policies affects economic development in Somalia. The study will be carried out with a purpose of identifying the roles of the Central Bank towards the economic development of Somalia, the level of economic development in Somalia and the extent to which the Central Bank has contributed to economic development in Somalia. The study will follow a cross sectional research design. The qualitative and quan-titative approaches will be employed based on central bank of Somalia, Mogadishu. The quantitative technique will be used to collect and analyze data on the role of central bank and economic development in Somalia. The target population of 140 will be selected and it comprises of 20 top authorities of Central Bank, 45 other employees of the bank, 55 Offi-cials from the Ministry of Finance, Somalia and 120 Local community members. The sample size of the study consists of 150 respondents of the target population. The sample will be purposively and randomly selected. The top authorities of CBS will be purposely selected because they head the bank and thus will have knowledge about the role of central bank on economic development in Somalia. The local community members will be randomly selected to give each an equal chance of representation. All respondents will be assumed to have vital information on the subject matter of the research. Respondents who will be willing to partic-ipate will be approached. The study will involve use of interviews and questions to gather data on the study variables. He conclusions were based on the objectives of the study that role of central banks drivers had a significant influence on economic development of Soma-lia. The results established that central banks drivers were found to significantly and posi-tively influence economic development of Somalia. When all the stated variables were tested in the regression model they were found to have a significant relationship between them-selves and economic development of Somalia. Government banker was the driver which had the highest influence on economic development followed by regulation and monetary poli-cies. The findings of the study established that role of central bank of Somalia were operat-ing under a highly competitive environment between them. However, this moderate result revealed that there were all variables which were influencing the economic development of Somalia. It was concluded that economic development of Somalia needed to embrace role of Central bank of Somalia drivers in order to achieve sustainable development advantage. The results obtained from this study were important in terms of reflecting the situation on the usage and role levels of central bank drivers of economic development of Somalia in com-mercial banks. The results further revealed a positive relationship between the individual role of central bank drivers and economic development. The results provide an insight to banks managers on the importance of role of Central bank with all commercial banks areas.

1. OBJECTIVES OF THE STUDY

General Objective

The general objective of the study is to examine the influence of central bank governance on economic development of Mogadishu, Somalia.

Specific Objectives

i.   To ascertain the influence of financial regulatory governance on economic development of Mogadishu, Somalia.

ii. To determine the influence of financial market development governance on economic development of Mogadishu, Somalia.

iii. To assess the influence of revenue governance on economic development of Mogadishu, Somalia.

iv. To examine the influence of monetary policy governance on economic development of Mogadishu, Somalia.

2. LITERATURE REVIEW

Theoretical Framework

The researcher also will choose Linear Stages of Growth Model and Schumpeterian theory of economic development since these provide a good theoretical framework for this research because it provides theoretical explanations of the role played by the central bank on economic development.

Linear Stages of Growth Model

In the 1950s and the early 1960s, the process of development was viewed as a series of successive stages through which all countries must pass. With the right mix of savings, investment and foreign aid these countries could be put on the path to development, thereby making development synonymous with aggregate economic growth. (Iqra &Zahid,2008) Walt Rostow became the most influential advocate of the stages of growth model of development- he argued that the advanced countries had all passed through a series of steps leading to development and growth. (Jalil&Feridun,2011) The developing countries were still in either the traditional society or the preconditions stage and had to follow a set of rules to take-off into self-sustaining economic growth. The principal strategy to help this takeoff was the mobilization of domestic and foreign savings in order to generate sufficient investment to accelerate economic growth.

Schumpeterian Theory of Economic Development

Schumpeter assumes a perfectly competitive economy which is in stationary equilibrium. In such a stationary state, there is perfect competitive equilibrium. No profits, no interest rates, no savings, no investments and no involuntary unemployment. This equilibrium is characterized by the term "circular flow", continues to repeat itself every year. In the circular flow, the same products are produced every year in same manner. (Kemal, 2003) According to him economic development "is spontaneous and discontinuous change in the channels of the circular flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing" Development consists in the carrying out of new combinations for which possibilities exist in the stationary state. New combinations come about in the form of innovations. (Khan & Khan, 2007)

3. REVIEW OF VARIABLES

Financial Regulatory Governance

Financial regulation is a form of supervision which subjects financial institutions to certain requirements, restrictions and guidelines aiming to maintain the integrity of financial system. This may be handled by either government on non-governmental organizations.Even within those countries with consolidated financial sector regulators, there are a myriad of combinations in which some of the sub-sectors – insurance, securities, banking, and pensions are incorporated in the integrated regulator and which are left out. For example in South Africa, insurance, pensions and securities are in the consolidated regulator but banking is excluded and remains under the Central Bank. Conversely in the United Kingdom banking, insurance and securities are integrated but pensions are excluded and fall under the independent Pensions Regulation (Al-Hamar, 2005).

Financial Market Development Governance

A financial market is a market where financial instruments are exchanged or traded Price discovery function means that transactions between buyers and sellers of financial instruments in a financial market determine the price of the traded asset. At the same time the required return from the investment of funds is determined by the participants in a financial market. The motivation for those seeking funds (deficit units) depends on the required return that investors demand. It is these functions of financial markets that signal how the funds available from those who want to lend or invest funds will be allocated among those needing funds and raise those funds by issuing financial instruments (Al-Hamar, 2005).

Revenue Governance

The central bank keeps major accounts of the government and manages the account of government and its agencies. (Shahbaz, Ahmad,&Chaudhary, 2008) As a government bank it also ensures that money is available to finance the government budget deficits. It can do this through the issue of government debt instrument, and also granting of ways and means advance to the government. Meanwhile central bank of each country relates with the central bank of other countries to enhance international settlements of financial claims. It also represents the government in such international financial organization like the international monetary fund, international bank for reconstruction and development, and bank of international settlement. (Shirazi,Manap,&Din,2004)

Monetary Policy Governance

In most developing countries, the role of monetary policy instruments is limited due mainly to the absence or the shallowness of capital market as well as to the lack of diversified productive base whose output could be enhanced by liquidity provision (Al-Hamar, 2005). Furthermore, a country with small-undiversified economy that relies heavily on the exports of one commodity, oil and natural gas in our case, and imports most of other goods is obviously more vulnerable to external disturbances.In such case - as Al- Hamar argues - both fiscal and monetary policy have limited role in controlling monetary development and influencing other economic variables compared to countries with relatively independent economies. Azzam (2005), among other, argues that the fixed exchange rate to a major currency, therefore, has been the refuge for such countries to mitigate the external shocks – as exchange rate may have great effects on price levels and balance of payment stability (Al-Jasser and Banafe, 2006) –

Research Design

According to Kothari and Garg (2014), research design refers to the conceptual structure within which research is conducted and constitutes a blueprint for the economical collection, measurement and analysis of the data whilst ensuring relevance to the research purpose. The study will adopt a descriptive research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables (Sekaran, 2008). Such a study is undertaken in order to ascertain and be able to describe the characteristics of variables in a situation (Kothari & Garg, 2014). Descriptive research design will be a valid method since the proposed study is concerned with a narration of facts and characteristics concerning an individual, group or situation. Specifically, the proposed study seeks to describe the role of Central in Bank in economic development of Somalia. Thus, the descriptive research design will be appropriate for this study as it will help to describe the state of affairs as they exist without manipulation of variables (Kothari & Garg, 2014).

4. DESCRIPTIVE ANALYSIS

Financial Regulatory Governance

This section tested the knowledge of the respondents on regulation in Central banks. Table 4.9 shows that 88% agreed that the CBS sets policies & procedures of privet banks and 82% agreed that the CBS improves on per capita income in Somalia and 76% agree that the CBS contributes to increase the GPD of the country. While 18% CBS also improves standard living of people. The mean score for the responses was 1.74 which indicates that most of respondents agreed to the statements regarding role of CBS sets policies and procedures.

Financial Market Development Governance

The second objective of the study was to determine the account payable management of commercial banks in Mogadishu.

Table 4.10 shows that 93% agree that there revise how debt and equity market expands in the local sitting and 89% agreed that the government play crucial role to manage financial market and 86% agree that The central banks sets the policy

Of the financial system and While 12% disagree that there is Central bank assure stability of financial system. The mean score for responses for this section was 1.645 which indicates that majority of the respondents agree that there revise how debt and equity market expands in the local sitting. The findings disagree (Lawrence, 2013) test reveals that there is no significant relationship between effective government banks and economic development of in Nigeria but this study indicates that there is a strongly positive relationship between government banks and economic development in Somalia.

Revenue Governance

The second objective of the study was to determine the account payable management of commercial banks in Mogadishu. Table 4.10 shows that 84% agree there is an affect Central bank also advises the government and thus helps it to boost the GDP and 83% agreed that The government obtains finances from the central bank and thus improves on the per capita incomes of households and 74% agree that The central bank also advise the government on economic actions to take and thus influences the standard of living of people and While 21% disagree that there is Central bank also advises the government and thus helps it to boost the GDP . The mean score for responses for this section was 1.89 which indicates that majority of the respondents agreed that Government banks was a major factor influences in economic development. The findings disagree (Lawrence, 2013) test reveals that there is no significant relationship between effective government banks and economic development of in Nigeria but this study indicates that there is a strongly positive relationship between government banks and economic development in Somalia.

Monetary Policies

The last objective of the study was to establish the monetary and fiscal policies of CBS banks in Mogadishu. results on Table 4.11 indicates that 89% agreed that Serving as a lender of last resort to the banking and even the financial system as a whole, 84% agreed that allocating credit to promote national goals cash register procedures reflect proper daily checkout and documentation and 77% agree that unifying and issuing the country's bank notes Cash register summary reports reconciled to the cash count at the close of a shift and finally 13% of the respondents disagree that Conducting monetary policy to manage the foreign exchanges and the price level. The mean score for responses for this section was 2.11. Which indicates that majority of the respondents agreed that Monetary and fiscal policies secondly the most effect of economic development in central bank in Mogadishu-Somalia

Regression Analysis

In this study, a multiple regression analysis was conducted to test the role of Central bank in the economic development of Somalia.

The research used statistical package for social sciences (SPSS V 22) to code, enter and compute the measurements of the multiple regressions.

Regression Models

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.512	0.262	0.238	.47211

Adjusted R^2 squared is coefficient of determination which tells us the variation in the dependent variables due to change in the independent variables. From the findings in the above table the value of adjusted R squared is 0.262 and indicates that there was variation of 26.2% on economic development in Somalia due to changes in Regulator, government banks and monetary and fiscal policies at 95% confidence interval. This shows the significant that 23.8% of the variations in the economic development in Somalia are accounted for by the variations in the independent variables and the remaining 76.2% are accounted by other factors contained in the standard error.

R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strongly positive relationship between the study variables as shown by 0.512.

Analysis of Variance

Table 4.13: ANOVA

Model		Sum Squares	df	Mean Square	F	Sig.
1	Regression	7.248	4	2.476	11.109	.000[a]
	Residual	20.925	94	.223		
	Total	28.389	98			

From the ANOVA statistics shown in table, the processed data, which is the population parameters, had a significance level of 0.5% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The F critical at 5% level of significance was o.41. Since F calculated (11.109) is greater than the F critical (2.72), this shows that the overall model was significant and that regulator, government banks and monetary and fiscal policies significantly play crucial role the economic development in Somalia.

Regression Coefficients

Table 4.14: Regression Coefficients

Model	Un standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1. (Constant) Financial Regulatory Governance	.561	.320		1.755	.043
	.136	.124	.027	.294	.038
Financial Market Development Governance	.257	.088	.276	2.873	.006
Revenue Governance	.316	.133	.362	3.890	.000
Monetary Policy Governance	.269	.090	.273	2.974	.004

From the data in the above table the established regression equation was;

$$Y = 0.561 + 0.136X_1 + 0.257X_2 + 0.316X_3 + 0.269X_4 + \varepsilon$$

From the above regression equation it was revealed that holding Financial Regulatory Governance, Financial Market Development Governance, Revenue Governance and Monetary Policy Governance to a constant zero, economic development in Somalia would be at 0.561. A unit changes in Financial Regulatory Governance would lead to change in the economic development in Somalia by a factor of 0.136. A unit changes in Financial Market Development Governance would lead to change in the economic development by a factor of 0.257 and a unit change in Revenue Governance would lead to change in the economic development in Somalia by a factor of 0.316. A unit changes in Monetary Policy Governance would lead to change in the economic development in Somalia by a factor of 0.269.

The regression results presented in above table indicate that Financial Regulatory Governance, Revenue Governance and Monetary Policy Governance were significant at 5 percent level. The coefficient of Financial Regulatory Governance showed 0.136 with a p-value 0.038, which is less than 5%, the coefficient of Financial Market Development Governance was 0.257 which is less than 0.05, with a p-value of 0.006.the coefficient of Revenue Governance was 0.316 which is less than 0.05, with a p-value of 0.000, and the coefficient of Monetary Policy Governance was 0.369; with a p-value of 0.004 which is less than 0.05 so that indicates there was statistically strong positive relationship between Financial Regulatory Governance, Financial Market Development Governance, Revenue Governance and Monetary Policy Governance and economic development of Somalia. Hence, the most significant factor is Revenue Governance. Overall, Revenue

Governance had the greatest play role in economic development of Somalia, followed by Monetary Policy Governance. All of the variables were found to be significantly affect economic development because they less than ($p < 0.05$).

5. CONCLUSIONS

The conclusions were based on the objectives of the study that the influence of central bank governance had a significant influence on economic development of Somalia. The results established that central bank governance drivers were found to significantly and positively influence economic development of Somalia. When all the stated variables were tested in the regression model they were found to have a significant relationship between themselves and economic development of Somalia. Revenue Governance was the driver which had the highest influence on economic development followed by financial regulatory governance and monetary policy governance. However, this moderate result revealed that there were all variables which were influencing the economic development of Somalia. It was concluded that economic development of Somalia needed to embrace role of Central bank of Somalia drivers in order to achieve sustainable development advantage. The results obtained from this study were important in terms of reflecting the situation on the usage and influence of central bank governance drivers on economic development of Somalia. The results further revealed a positive relationship between the individual influence of central bank governance drivers and economic development. The results provide an insight to banks managers on the importance of role of Central bank with all commercial banks areas.

6. RECOMMENDATIONS

The study recommends the adoption of the role of central bank in Somalia of dilemma. The Central bank models were recommended as a useful design for practicing economic development with respect to the implementation of best practice. The study results support the view that central bank drivers have a significant effect on economic development of Somalia. However, the influence of each driver varies from one bank to another. It is recommended that managers should study and select the driver that best suits their banks in order to achieve maximum performance.

Government bank a wider financial stability mandate implies significant changes in the structure and operation of the central bank. The wider the scope of the central bank's financial stability mandate, the greater will be its scrutiny in the political process. Financial stability decisions require greater interaction with the government than monetary policy decisions. Hence this research recommends determining how to organize such interaction in a manner that provides the central bank with the autonomy needed to achieve price stability will not be easy.

There is need for the regulator to introduce cash management controls that will be applied across all the economic development of Somalia. This will go way further towards increased in the sector and contributes towards better economic level or DPG in the sector. The study further recommends that there is need for role of central bank in Somalia to increase their income level per-capita.

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