

Mekelle University



Regulations of commercial banks in Somaliland a critical examination of the law and practices: A CASE OF COMMERCIAL BANK OF SOMALILAND

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**College of law and Governance Department of LL.M in
Business Law**

DECLARATION

I, Abdimalik kosar, ID No, clg/PBR030/12 declare that all source of material used for writing of this thesis have been acknowledged. I conform that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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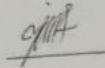
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Abstract

One of the major actors in the banking are commercial banks there are different types of banks which central bank and commercial banks are the main ones. Therefore, this study was assisting the Somaliland commercial bank in developing, how to develop and make the commercial bank sector policy more inclusive and recommendations on how to provide commercial bank, while meeting the needs of the various actors; and development of a bank document based on findings and opportunities for commercial bank of Somaliland and other development partners to assist in development of an inclusive financial sectors in Somaliland.

The report also provides a framework for capacity building for both commercial bank and central bank. The study takes a capacity and gaps for banking Somaliland, by identifying commercial banks opportunities, policy imperatives as well as regulatory barriers to exploit these opportunities. The study is based on literature review and field assessment to analyze access to commercial banks in Somaliland.

The main purpose of this work is to assess the adequacy of the laws regarding the regulation of commercial banks in Somaliland. Especially emphasis to the regulation of commercial act to that end, international literatures and practice as well as the pertinent legislations commercial bank in Somaliland will be analyzed thoroughly. Moreover, in order to see the practice of commercial bank in light of the applicable laws, the prevailing practice in the sector will be assessed. In addition to analyzing of the legislations, this research paper will also use interviewees and analyzing of data rendered in relation to commercial bank.

Acknowledgment

The accomplishment of my LL.M studies in general and this research thesis in particular has come through the help and assistance of many actors. First and foremost we started the name of Allah who gave us a good health (**ALHAMDULILLAH**) and allow to us the ability to complete the research paper. Secondly, I am very much indebted to my advisor Professor **Kahsay Gebremedhin** whose scholarly guidance and comments enriched this research paper. Many of my friends and class mates have contributed for the success of this paper for whom I am very much grateful. But my especial thanks go to my best friends **Mahdi Ismail, Abdiwahab Mohamed** who has been with me throughout my studies and from the inception of the idea of this research paper to its end. I am also grateful to my friends (Professors.) kahsay giday, Gebreamlak, kahsay, kahsay Gebremedhin who have assisted me in providing necessary materials and different court cases. Last but not least, I am very much thankful for all my family members especially my mother **safia sulub** for her and my brother **Fahad kosar** unreserved love, encouragement and support throughout my studies and beyond.

Thank you all

List of acronyms

ROS Republic of Somaliland

GDP Gross Domestic Product

IBS Islamic Bank of Somaliland

FSD - Financial Sector Deepening

BOS -Bank of Somaliland

LDMCs -Least Developed Member Countries

ABC - African Banking Corporation

NDIC- creation of Nigerian Deposit Insurance Corporation

LDMCs – Least Developed Member Countries

ABC – African Banking Corporation

NDIC – Nigerian Deposit Insurance Corporation

AML – Anti-Money Laundering

CBOS – Commercial Bank of Somaliland

BOG – Bank of Ghana

CBN – Central Bank of Nigeria

BOU – Bank of Uganda

SPSS – Statistical Package for the Social Sciences

-IMF – International Monetary Fund

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Chapter One

1.1 Introduction

The Bank of Somaliland or the central bank, established in 1994, is responsible for monetary policy. It acts as a central bank and a commercial bank at the same time. It has a board of seven members chaired by the Governor. The bank to maintain price and exchange rate stability; promote credit and trade conditions which support balanced economic growth; support the economic and financial policies of the government where possible.

The financial resources of the country can be properly utilized through banks because they serve as a backbone of the financial sector. The banking sector has attracted a huge amount of investments and expanded to a great extent. Nowadays banks are not only restricted to financial intermediary services, but also involved in providing specialized services to their customers in order to meet ever changing customer needs as the banking industry is innovating rapidly¹

The banking sector plays a significant role in enhancing and developing a nation's economy. Banks provide a safe link between the savers who deposit their money and the investors. In addition, banks are involved in current and future development plans of an economy by providing capital for innovation, and infrastructure, and create job opportunities.

It is therefore, necessary evaluate the financial performance of banks in order to identify their strengths and also possible weaknesses in their managerial skills and competencies which can be strengthened to enhance the services of they provide. In addition, banks must make future plans to develop their service standards to facilitate balanced economic and technological growth in the country.²

Efficiency in Financial performance of banks is very important in all societies and economic systems. One of the most important challenges faced by bank managers, therefore, is how to optimally use their scarce financial resources. In-depth analysis and evaluation of the financial performance of different banks can identify the strengths and weaknesses in the system further improvement.

In other words, analysis of financial performance provides an insight into how efficient a bank is in using its assets to generate profits and how sound was its financial health was over a given period of

¹ Abdillahi M. Hersi and Said Elmi (2011). Base-line Survey of Microfinance Services in Somaliland. Final Report Submitted to Ministry of Commerce, Industry and Tourism. May, 2011.

² Adam (2014). Evaluating the Financial Performance of Banks using Financial Ratios- A Case Study of Erbil Bank for Investment and Finance. European Journal of Accounting Auditing and Finance Research 2(2), 156-170

time. It can also, be used to compare and assess similar firms across the domain of banking in the country.³

The financial sector development is dependent on a sound legal and regulatory framework and the ability of central banks to provide the necessary support and supervisory functions. However, no legal framework has been established for banks, and no banking supervision function and regulatory skills have been developed within the Bank of Somaliland.

Without a clear legal framework enforced by a functioning regulator, there is little scope for attracting private sector investors to establish banks and other financial institutions across Somaliland. There have been attempts by the Somaliland Parliament to introduce a new banking law that would strengthen its regulatory functions in support of a functioning commercial banking system. If this proposed banking law is passed it would allow these remittance companies to evolve their financial services within Somaliland⁴

The financial sector is currently at an early stage of its development, and the government has already introduced some key national policies and incentives for the development of this crucial sector. The government has currently introduced new Financial Legislative Bills covering The Central Bank of Somaliland, Commercial Banks and private financial institutions operating in the country.

The new financial bills are currently being debated in the Parliament. Therefore, the Constitution of the Republic of Somaliland Article 13: Banks (1) The state shall establish a Central Bank which shall direct the monetary system and the currency of the nation. The opening of commercial and development banks shall be made possible and private banks shall be accorded preferential status.⁵

1.2 Statement problem

This study investigated financial sector in Somaliland, institutional, product, market and prudential regulation that has been undertaken to understand the finance market and how it is currently regulated. The study acknowledges efforts in developing policy and laws to facilitate access to financial services, such as Banking Act.⁶ And

³ Adam (2014). Evaluating the Financial Performance of Banks using Financial Ratios- A Case Study of Erbil Bank for Investment and Finance. European Journal of Accounting Auditing and Finance Research 2(2), 156-170.

⁴ Who needs a Bank? A Rapid Market Survey of Somaliland's Financial Service Landscape. Report submitted to PAC in January 2012 by Finline

⁵ Constitution of the Republic of Somaliland

⁶ Diagnostic-Study-for-Somaliland-Financial-Sector.pdf

The challenges and critical success of the banks and identifying the benefits of commercial banks Somaliland. So, the banking industry Somaliland plays a significant role in the countries and related activities, banks facilitate the process production, distribution, exchange and consumption wealth. Banks also administer payment system which are core to the economy.

Competition and limitation of sources has placed banks under pressure to lower their transactional cost and improve their services and maintain quality service. So, banks in the future will save for people who want to consume and invest in the productive sources.⁷

All policies and laws have not been operationalized due to lack of resources, capacity challenges etc. and thus not effectively used. The policy and regulatory instruments are weak, without supportive infrastructure, and new emerging technologies like mobile phone and banking services is taking up root in Somaliland and gaining public trust amongst population.

However, there challenge in developing policies and laws that keep up with technology pace. This opens an opportunity for finance service providers in developing self-policing practices for this industry in the absence of government interventions. Are weak and inadequate in client protection.⁸

Banking in Somaliland faces numerous challenges to fully adopted utilizing in electronic banking (E-shilling) so I my researcher forward the following challenges , low level in electronic uses, and poorly developed telecommunication infrastructure, lack of suitable legal and regulatory frame work for commercial banks in Somaliland, Somaliland current laws do not accommodate electronic money. Somaliland has not yet enacted legislation that deals with commercial.⁹

Thus, there are some observed critical points that need investigation and understand, so the main gap of this study. One of the problems have infrastructure Somaliland bank there is no commercial banks separate because central banks Somaliland is doing the work commercial bank loans, exchange. Therefore, we need to separate the central bank and commercial banks. And also, to investigate the, some variables such as literacy level, infrastructure competition. Therefore,

The country is not recognized therefore there is no international banking relations, and also Lacks internal financial management systems and capacity, especially reporting, internal audit and financial control.¹⁰

⁷ Abor. (2004) technological innovation and banking in Ghana: and evaluation of customer's perception. American academy of financial management.

⁸ Ibid Diagnostic-Study-for-Somaliland-Financial-Sector.pdf

⁹ Agbolade, o.k. (2011) information and communication technology and bank profitability in Nigeria. Australian journal of business and management research vol-1,102-107.

¹⁰ Somaliland challenges banks pdf

1.3 Objectives of the research

1.3.1 General objectives

- The general objective of the research is to explore institutional gaps in regulating commercial banks in Somaliland

1.3.2 Specific objectives

1.3.3 The specific objectives of research

- To the current structure and operation of regulation of commercial banks in Somaliland?
- To explore the institutional gaps in regulating commercial banks in Somaliland?
- To draw lessons from international experiences?

1.4 Research question

- What do the current structure and operation of regulation of commercial banks in Somaliland?
- What are the institutional gaps in regulatory frame work of commercial banks in Somaliland?
- What are lessons that can be draw from regional international experiences?

1.5 Significance of the study

Somaliland finance sector is mainly in the hands of private sector and has been operating in unregulated environment. An effective protection of the rights of investors and a framework of known legal rules are conducive to stronger economic development. However, developing effective legal and regulatory models in Somaliland may be a challenge given the inadequacies. In resources (both financial and skills) by the government in implementing the framework. A legal or regulatory an institutional frame work may need to be designed differently to take this and other factors into account.

1.6 Limitation of the study

The major limitation of this study was availability of reliable data given that there is no clear validation and determination of accuracy. Therefore, all estimates regarding the magnitude of financial inclusion to Somaliland people must be treated cautiously.

1.7 Research methodology

The study will be analyzed through the non-doctrinal research methodology and empirical and descriptive method of research was used. In order to achieve the main research objectives, the study

will use dominantly qualitative approach. It is because of the reason that qualitative research identifies the presence or absence of something. This research design relies on texts and image data. Because I am going to analyze an interview results, laws and case report. Data sources. To conduct the research, the researcher will use both primary and secondary source of data.

1.8 Primary source of data

Primary data will be gathered from the constitution, proclamations, directives, regulations and interview.

1.9 Secondary source of data

Secondary source of for this research will be Books, Internet source, journal articles and court decisions.

1.10 Ethical considerations

The researcher will respect the ethical responsibilities in conducting the whole research. All statements taken from others work will be cited effectively. And the respondents will be informed that, it is their free consent and the research will serve for academic purpose.

The respondent's privacy will be confidentially protected. Their name will not be disclosed without their consent. Interviews will be conducted by respecting all research participants' nature of work and title given for them. In addition, the researcher/interviewer will collect, analyze and interpret data without bias and emotion.

1.11 Rule of citation The Mekelle

University School of Law rule of citation will be pursued throughout the research.

1.12 Organization of the Thesis

The thesis will be organized in to five chapters. The first chapter will discuss the back ground of the study, statement of the problem, objective of the study, scope of the study, relevance of the study, delimitation of the study and limitation of the study, methodology of the study. In Chapter two theories of commercial banks regulation and international/ other jurisdiction experiences . In the third chapter research over view of financial institutional and regulatory schemes of Somaliland Chapter four explore the institutional challenges in regulation commercial banks In Somaliland and interpret the data collected. Chapter five delivers conclusion and forward recommendation.

Chapter Two

Review of Related Literature.

Literature review is prepared in two parts, i.e., the theoretical review and the empirical review part. In the theoretical review part, the theories that states about the commercial banks regulations and the variables that is Islamic banks are discussed. The empirical literature part discusses past studies that were conducted on the area of factors regulations commercial banks. and the results of the study under review are discussed.

Theoretical review

There are articles, journals and different information on the issue of the commercial banks regulation and the factors which controls the commercial banks regulations. Some authors had classified the factors and explain their relationship with commercial banks regulations.

History Islamic banks

Islamic banking system and the Sharia-compliant financial products that form the core of Islamic banking have become one of the fastest growing segments of the financial market industry, operating through more than 300 institutions in 75 countries (Cihak, Hesse 2008).

However, empirical evidence regarding the effect of Islamic banking transactions on economic growth has yet to be analyzed in detail largely due to data limitations. Legal origin has been established as a substantial determinant of financial and economic growth. However, Islamic banking system is derived from a legal origin, Sharia Law, frequently separate from that of the institutions in the countries where it operates.

While researchers have hypothesized that this phenomenon could change the effect of legal origin on development (Imam et. al 2010), Africa has been one of the major beneficiaries. Africa alone has 27 countries as members of the Bank and thus, in the Bank classification of Least Developed Member Countries (LDMCs) of 28 countries, 18 of these countries are African (IDB, 2008a).

By virtue of being members of this special group, they enjoy a lot of privileges in terms of allocations and projects execution of the Bank, which aimed at poverty alleviation, boosting economic growth and enhancing institutional capacity so as to manage and sustain development projects and programs. More so, most of the activities in the LDMCs are concentrated in education, health, agriculture and water supply sectors (IDB, 2004).

Islamic bank The House of Representatives approved the Law on Islamic Banks on 19 September 2012 and the President signed the Law on 3 October 2012 (Decree No. 0270/102012). Here is a copy (in Somali) of the Somaliland Islamic Banks Law (Law No. 55/2012). The Law consists of 41 Articles and an addendum setting out the Application Form for License to set up an Islamic Bank.

The financial system in all economy is composed of the Bank-based system where provision and monitoring of investments funds are made through the banks on one hand and the stock market where investors (surplus units) enter directly through ownership of securities. Banks play an intermediary role of mobilizing funds from savers and subsequently lend them to investors-individual/corporations.

Banks play a key role in improving economic efficiency by channeling funds from resource surplus

unit to those with better productive investment opportunities. Banks also play key role in trade and payment system by significantly reducing transaction costs and increasing convenience(NCA, 2006). In less monetized countries, like Ethiopia, whereas financial sector is dominated by banking industry, effective and efficient functioning of the latter has significant role in accelerating economic growth.

In Somaliland commercial banks are the main controller of the financial system performing financial intermediation. They control greater portion of the investment funds from domestic deposits and are the main investments of the corporate bodies, SMEs and individual investors. That is why the traditional banking business of supplying funds to the economy is still of importance.

RIBA in Islamic banking

The last sermon in the farewell Hajj given by the Prophet Muhammad (pbuh) is considered to be the Magna Carta for the mankind. It was very short and powerful speech and culmination of his life-long preaching of the religion Islam. He basically mentioned three important points in his speech: a. Basic belief of one Allah; b. Rule of Law and morality; c. Rule of Justice. He put emphasis on economic justice by declaring riba haram, and declaring the sanctity of life, wealth and property. In his farewell speech regarding interest, the Prophet (pbuh) said: “Allah has forbidden you to take usury (interest); therefore, all interest obligations shall henceforth be waived. Your capital is yours to keep. You will neither inflict nor suffer any inequity. Allah has judged that there shall be no interest.

Riba: It's Prohibition in the Sharia

Riba is an Arabic word, derived from the verb Riba that literally means ‘to grow’ or ‘expand’ or ‘increase’ or ‘inflate’ or ‘excess’. The same literary meaning has occurred in many places of Al Qur’an as well. It is, however, not every growth or increase, which falls in the category of riba prohibited in Islam. It is generally translated into English as “usury” or “interest”, but in fact it has a much broader sense in the Shariah. Riba in the Shariah, technically refers to the ‘premium’ that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension in its maturity. In Fiqh terminology, riba means an increase in one of two homogeneous equivalents being exchanged without this increase being accompanied by a return.

The term riba is, however, used in the Shari`ah in two senses. The first is riba al-nasi`ah and the second is riba al-fadl. Some Muslim scholars attempt to define riba which seems to be closer to the sense implied in the verses of the Qur’an and hadith related to it. They define riba as an increase or excess which, in an exchange or sale of a commodity, accrues to the owner (lender) without giving in return any equivalent counter-value or recompense to the other party.

In the pre-Islamic and early Islamic era, riba signified the increase of money in consideration for an extension of the term of maturity of a loan. The pre-Islamic and early Islamic Arabs used to pay the money on loans and received a certain sum leaving the principal sum untouched. When the maturity date expired, they would claim the principal sum from the debtor; if it was not possible for the debtor to repay, they would increase the principal sum and extend the term.

The Prohibition of Riba in the Qur'an

The prohibition of riba in al-Qur'an developed gradually and appeared in four revelations. The first revelation was revealed in Makkah before the prohibition of riba for which the verse paved the way. It says: “

And whatever you lay out with the people in order to obtain an increased return, this increases you nothing with Allah, but whatever you give in alms, seeking Allah's pleasure, it is those who receive multiplied recompense”, [Chapter al-Rum (The Romans) 39.

The second revelation was revealed in Madinah, which mentions riba: “Because of the sinfulness of the Jews, we have forbidden to them certain good things that were permitted to them, and for their hindering many from Allah's Way. And for their taking riba, though they were forbidden, and that they devoured people's wealth in falsehood, and We have prepared for the unbelievers among them a grievous chastisement” [Al-Nisa` (Women), 160-161].

This revelation created some misunderstanding among the scholars as to whether the prohibition is directed to Muslims or to the Jews in Madinah. The argument that the prohibition is directed to Muslims rather than the Jews seems to be stronger as because the discontentment with riba first occurred while Prophet Muhammad (pbuh) was still in Makkah and there were very few Jews in Madinah at that time. Besides, the Jews in Madinah were mostly involved in the agricultural sector and not in the commercial sector.

An express of prohibition follows in Chapter 'Al `Imran (The Family of Imran), which mentions riba and bans it for the first time: “O you who believe! Do not devour riba multiplying it over, and keep your duty to Allah that you may prosper” [3:130].

The Philosophy of Islamic Banking

Islamic banking system is based on risk sharing, owning and handling of physical goods, involvement in the process of trading, leasing and construction contracts using various Islamic modes of finance. As such, Islamic banks deal with asset management for the purpose of income Generation. They will have to prudently handle the unique risks involved in management of assets by adherence to best practices of corporate governance. Once the banks have stable stream of Halal income, depositors will also receive stable and Halal income.

The forms of businesses allowed by Islam at the time the Holy Quran was revealed included joint ventures based on sharing of risks & profits and provision of services through trading, both cash and credit, and leasing activities. In the Verse II: 275, Allah the Almighty did not deny the apparent similarity between trade profit in credit sale and Riba in loaning, but resolutely informed that Allah has permitted trade and prohibited Riba.

Profit has been recognized as 'reward' for (use of) capital and Islam permits gainful deployment of surplus resources for enhancement of their value. However, along with the entitlement of profit, the liability of risk of loss on capital rests with the capital itself; no other factor can be made to bear the burden of the risk of loss. Financial transactions, in order to be permissible,

should be associated with goods, services or benefits. At macro level, this feature of Islamic finance can be helpful in creating better discipline in conduct of fiscal and monetary policies.

The financial sector is currently at an early stage of its development, and the government has

already introduced some key national policies and incentives for the development of this crucial sector. The government has currently introduced new regulations of commercial banks Central Bank of Somaliland, Commercial Banks and private financial institutions operating in the country.

The following sections describes the existing legislative regulations in banks

The Constitution of the Republic of Somaliland

Article 11: The National Economy

- 1.** The state shall lay down the national economic policy based on the principles of free enterprise and the joint working of private property, public property, the national wealth and foreign investment so as to realize the growth of productivity, the raising of the standard of living, the creation of jobs, and, in general, the advancement of the economy of the nation
- 2.** In order to ensure that the economic system does not lead to the exclusive enrichment of a group or a small section of the public, and to avoid (both) the creation of economic classes consisting of those who are prosperous and those who are not, and the widening of the economic gulf between the urban and rural communities, the state shall ensure that social benefits and economic opportunities are provided in a just and equitable manner
- 3.** The state shall ensure the security of foreign investment in the country. Such investment shall be regulated by Law

Article 13: Banks

- 1.** The state shall establish a Central Bank which shall direct the monetary system and the currency of the nation. The opening of commercial and development banks shall be made possible and private banks shall be accorded preferential status.

Regulation of commercial banks

Regulation and acts analysis of the finance sector (institutional, product, market and prudential regulation) has been undertaken to understand the finance market and how it is currently regulated.

- Central banks act-**Lr.54/2012**
- Islamic bank act -**Lr.55/2012**
- Anty money laundry **Lr.87/2019**
- remittances act - **Lr. 86/2019**
- mobile money act-**Lr. 102/2022**
- For closure act **Lr.56/2012**
- Payment Systems Regulation Lr. **BSL/02/2022**
- Clearing house regulation Lr. **BSL_01/2022**
- National payment system **BSL/03 2023**
- Foreign ex-change regulation **BSL/O4/2023**

Empirical evidence from different studies

The empirical literature part discusses past studies that were conducted on the area of factors regulations commercial banks examine. In this part the variables that were included, the methodology that is used to undertake the study and the results of the study under review are discussed. These will help to see where the literature on this area is and how this study will add to the existing literature. Accordingly, the articles will be discussed below one by one

This paragraph briefly discusses the Nigerian banking system and bank regulation on the banks' performance. And contributes framework relating banking regulation to the performance of banks in Nigeria.

The banking system in Nigeria was based on the British banking system which began operation during the colonial era. Commercial banks commenced in 1872 by the British treasury by creating the first „bank“ known as the African Banking Corporation (ABC).

In 1874, another bank, called the Bank of British West Africa (now First Bank of Africa) was established and automatically overtook the former bank's operations. These banks functioned for the British colonial masters so as to provide banking services and administration in Nigeria at that period. These operations continued with lax regulatory structures imposed until after Nigerian independence in 1960 (Woldie, 2003; Ojukwu Ogba, 2009).

Regulations of Nigeria commercial banks a critical examination

Regulatory Framework in Nigeria

In Nigeria, the banking sector is primarily regulated by the Central Bank of Nigeria (CBN) under several key acts and regulations. The Banks and Other Financial Institutions Act (BOFIA) 2020 is the principal legislation governing commercial banks, ensuring that banks operate in a secure and well-supervised environment.

Banks as institutions are opined as over-regulated and opaque, however, banks still have issues of regulation in terms of government controlled or market-controlled challenges which lead to different policy implications for different countries. Regulation can be defined as “a specific set of command applied by a body devoted to a cause” (Hassan, 2011).

Thereby, regulation of banking institutions can be explained as the application of different methods or structures to banks so as to mitigate banking failures or crises. Bank regulation has been studied quite extensively, yet, still remains one of the current topics of research in the field of banking and finance.

Financial intermediation consists of banking and nonbanking institutions; hence, banking regulation is a field of study under financial intermediation. Financial intermediaries such as banks are necessary structures for an economy and they are part of the economic development of a country; therefore, encouraging more regulation and supervision is part of improvement on its financial services it renders to customers and investors.

Regulating banks can be viewed in different ways, such as deposit insurance scheme, capital requirements, activities restriction, mixing banking firms with nonbanking firms and many other regulatory methods. The most common methods/structures that have been studied are deposit insurance systems, activities restriction and capital requirements (Barth, Caprio and Levine, 2004; Diamond and Dybvig, 1986; Diamond and Rajan, 2000; Freixas and Rochet, 2008; Kremmling, 2011).

Bank regulation has diverse effects on different countries, be it developing or developed and Nigeria is also affected by the regulatory structure imposed on the Nigerian banking system. Seminal works on bank regulation by Barth et al. (2004) showed that developing countries like Nigeria have low transparency and inadequate regulation and supervision of banks. Recent studies conducted by Hassan (2011), Ojukwu-Ogba (2009), Okezie, et al. (2011), Oladejo and Oadipupo (2011) expressed the different analysis of the Nigerian banks' performance. However, they expressed the issue of bank regulation as one of the challenges facing the Nigerian banking system.

Theoretical framework of bank regulations

There are different theories on regulation which are related to different fields of research in the academia. The theories of economic regulation can be divided into two parts – positive and normative. The positive theory of economic regulation clearly postulates on the economic explanation of regulation and finding out the consequences of regulation; whereas, normative theory of economic regulation postulates on the search for the most efficient form of regulation. Most studies conform to the positive theories of economic regulation as it is direct and provide empirical analysis of the regulatory forces in a market (Den Hertog, 1999).

The other view on economic regulation is the private interest theory which was first indoctrinated by Posner in 1971 on the economic theory of regulation and later developed by Stigler in the same year. This theory of regulation explains that “as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit” (Stigler, 1971).

The different views of theory on regulation have been used as theoretical underpinnings for bank regulation. And other theories pertaining to banking institutions have been framed for bank

regulation, for instance, industrial organization theory used as a framework for bank regulation.

In most studies of bank regulation, theoretical framework of bank regulation have stemmed from Stigler (1971)'s economic theory of regulation (Barth et al., 2004) which emphasized on the total control of economic activities by the government. However, this

mode of regulation hinders economic growth of a country. Thus, looking from the banking perspective, regulation is favoured so as to provide stability in the banking system and meet up to its requirements of a high solvency and liquidity level (Adam, 2005).

Bank regulation originated from the objective of banks as intermediaries – as mediators or negotiators between two parties (borrowers and depositors) (Okezie, et al., 2011; Diamond and Dybvig, 1986). Thus, banks are comprised of functions which are based on the terms of the balance sheet items – assets (loans) and liabilities (depositors). The banks gain assets by providing and issuing bank assets to borrowers and balancing the assets through liabilities provided by depositors.

Another area in bank regulation is capital requirements. Capital requirements or regulation can be regarded as the increment of capital requirements to banking firms which will positively improve bank performance and stability. Low capital requirements will lead to bank runs or failures (Freixas and Rochet, 2008; Kremmling, 2011). While increasing, capital requirements might aid bank performance, opposing views have stressed on the impact of high capital requirements leading to moral hazard and high risk to banks.

Another bank regulation issue is activity restrictions. Kremmling (2011) explained that there are four fundamental areas of activity restrictions, which are, securities dealings, insurance business, real estate and non-financial firms dealing. These main areas were also stressed by Barth et al. (2004) in their study on bank regulation. Theoretically, when banking firms deal with nonbanking activities, it will aid the regulatory framework of the bank by providing more transparency and as such, banks will not be able to take high risk, compared to banks with activity restrictions.

After independence and creation of the Central Bank of Nigeria in 1959, the regulatory structure of Nigerian banks turned towards developing local banks for the populace. However, numerous banking firms brought about several bank runs and unregulated and under-supervised banking services which led to several economic impediments for the country (Ojukwu-Ogba, 2009)

Key Banking Regulations and Acts in Nigeria

- 1) 1958: Central Bank of Nigeria Act – Establishes the CBN and defines its mandate.
- 2) 1991: Banks and Other Financial Institutions Act (BOFIA) – Governs licensing, supervision, and operations of financial institutions.
- 3) 2003: Money Laundering (Prohibition) Act – Implements anti-money laundering (AML) measures.
- 4) 2004: Nigeria Deposit Insurance Corporation (NDIC) Act – Provides deposit insurance to protect depositors.
- 5) 2005: Banking Consolidation Reform – Introduced capital adequacy requirements.
- 6) 2011: Financial Reporting Council Act – Enhances financial transparency and corporate governance.
- 7) 2020: Updated BOFIA Act – Strengthens banking regulations and enhances CBN’s supervisory powers.
- 8) 2022: Cybersecurity Act – Protects financial transactions from cyber threats.

Regulatory Bodies in Nigeria

- a. Central Bank of Nigeria (CBN) – Regulates commercial banks, sets monetary policies, and ensures financial stability.
- b. Nigeria Deposit Insurance Corporation (NDIC) – Protects depositors’ funds and manages failed banks.
- c. Financial Reporting Council (FRC) – Enforces financial reporting standards.
- d. Economic and Financial Crimes Commission (EFCC) – Investigates financial crimes, including fraud and money laundering.

Regulations of Ghana commercial banks a critical examination

The beginning of the modern banking system in Ghana was in the late 19th century (Antwi - Asare and Addison, (2000). It started with the creation of the first Government savings bank in 1888 (Agyemang, 2011). The British Bank of West Africa, which is now known as the Standard Chartered Bank, was established in the then Gold Coast in 1896, followed by Barclays Bank DCO in 1917. After independence, the Bank of Gold Coast was split into 2 banks.

Central banking activities were assigned to the newly created Bank of Ghana, whilst the commercial activities were entrusted to the Ghana Commercial bank. According to Osakunou, 2009, to address the general regulatory and supervisory vacuum in the 1957 banking ordinance, the Bank of Ghana Act (1963) was established which segmented banking institutions into; Investment banking (1963), Agricultural Cooperation & Credit Bank (1965), Merchant banking (1972) and Social Security Bank (1975).

The Bank of Ghana is mandated with the regulatory and supervisory functions of banks in the country. The regulatory and legal framework within which banks, non-bank financial institutions as well as forex bureau operate in Ghana consists of:

Regulatory Framework in Ghana

In Ghana, the banking system is regulated by the Bank of Ghana (BOG), which oversees monetary policy and ensures financial stability. The Banking Act 2004 (Act 673) and its amendments form the primary legal framework governing commercial banks in the country.

Key Banking Regulations and Acts in Ghana

1. 2002: Bank of Ghana Act – Establishes the Bank of Ghana as the central regulatory authority.
2. 2004: Banking Act (Act 673) – Governs commercial banking operations.
3. 2006: Foreign Exchange Act – Regulates foreign exchange transactions.
4. 2008: Payment Systems Act – Oversees mobile money and digital payment services.
5. 2016: Banks and Specialized Deposit-Taking Institutions Act – Strengthens supervision of financial institutions.
6. 2018: Corporate Governance Directive – Introduces banking sector reforms.

Regulatory Bodies in Ghana

- a. Bank of Ghana (BOG) – Oversees commercial banks and financial regulations.
- b. Securities and Exchange Commission (SEC) – Regulates capital markets.
- c. Financial Intelligence Centre (FIC) – Enforces anti-money laundering regulations.

Commercial banks are both foreign owned, government owned as well as individually owned. Foreign commercial banks were established in Ghana after colonization to facilitate commerce and production of exports. They include Grindlays Bank which was established in 1906 at Entebbe, Standard Bank established in 1912 and Barclays Bank. Presently, there are many commercial banks operating in the country.

Commercial banks are financial institutions established to carry on financial business in a country by safe guarding people's deposits and lending them to others on behalf of customers. Commercial banks can be owned by the government, private individuals or foreigners.

The evolution of commercial banks is a direct failure of the past attempts by the government and donor funded rural credit programs to reach the poor farmers and landless households within rural areas. Coupled with this fact that small scale business people targeted by commercial banks did not have the traditional collateral which is the basis for loan acquisition to the formed banking sector.

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Despite the substantial worldwide expansion of commercial banks in the last two decades, an overwhelming number of poor people continue to lack access to basic financial services. This expansion has reached mainly households and micro-enterprises.

with regular income flows. With activities that may require comparatively larger loans amounts, small scale enterprises and rural households have less frequent revenue flows, need longer repayment terms and still largely subserviced. Even rural commercial banks still focus mainly on trading and other non-agricultural activities that have a short turnover. Successful outreach expansion can be achieved through the entry of financial intermediaries not previously serving.

Regulations of Uganda commercial banks a critical examination

In Uganda, the banking industry is regulated by the Bank of Uganda (Bou) under a series of acts and regulations that ensure financial stability and promote best banking practices. The Financial Institutions Act of 2004 is the main regulatory law governing banking operations.

Key Banking Regulations and Acts in Uganda

1. 2000: Bank of Uganda Act – Establishes the Bank of Uganda as the central monetary authority.
2. 2003: Micro Deposit-Taking Institutions Act – Regulates microfinance banks and deposit-taking institutions.
3. 2004: Financial Institutions Act – Governs licensing, operation, and supervision of financial institutions.
4. 2004: Foreign Exchange Act – Regulates foreign exchange transactions and forex bureaus.
5. 2005: Financial Institutions Licensing Regulations – Defines procedures for obtaining a banking license.
6. 2005: Financial Institutions Credit Reference Regulations – Establishes a credit reference system.
7. 2006: Forex Bureau and Money Remitters Regulations – Governs foreign currency exchange businesses.
8. 2010: Financial Institutions (Minimum Capital Requirements) Instrument – Sets capital requirements for banks.
9. 2011: Financial Consumer Protection Guidelines – Enhances consumer rights in banking transactions.
10. 2013: Financial Institutions (Foreign Exchange Business) Amendment Rules – Updates forex transaction regulations.
11. 2016: Financial Institutions (Amendment) Act – Expands regulatory oversight and strengthens corporate governance.
12. 2020: National Payment Systems Act – Regulates mobile money services and digital payments.

Regulatory Bodies in Uganda

- a. Bank of Uganda (BOU) – Regulates commercial banks, controls monetary policy, and ensures financial system stability.
- b. Uganda Microfinance Regulatory Authority (UMRA) – Supervises microfinance institutions.
- c. Financial Intelligence Authority (FIA) – Enforces anti-money laundering (AML) laws.

CHAPTER THREE

RESEARCH METHODOLOGY

1.1 Introduction

This chapter outlines the methods which will be adopted in order to answer the research questions detailed in chapter one. It consists of description of the study area, the research design, source of data, sample size, and sampling design, data collecting instruments, and research ethics.

1.2. Description of Study Area

Somaliland is a self-independent state of Somalia that is recognized as an autonomous region consisting of five regions, i.e. Togdheer, Sanaag, Sool, Marodijeh and Awdal with Hargeisa as its capital city. Somaliland is located the horn of Africa. Its boundaries are defined by the Gulf of Aden in the north, Somalia in the east, the federal republic of Ethiopia in the south- west and republic Djibouti in the north-west. The total area of the republic of Somaliland is 137,600 Square Km, and it has coastline which is 850kms long. The population of Somaliland was estimated at 4.4 million and the population consists of nomads and urban. Considering on the scope the study was conducted on Hargeisa capital city of Somaliland (independent state without international recognition), which is largest city in Somaliland, which most government headquarters are located and most governmental activities are managed and implemented, the researcher takes commercial bank Somaliland because they have first-hand information concerning this research.

3.3. Research Design

The research design is a plan of actions, which specifies the types of data to be collected and how to analyse the data collected, a survey is a method of data collecting information by interviewing or administering a questionnaire to a sample of individuals. The study will use in descriptive research design to deliver precise specific of the variables. In the study mixed methods approach both quantitative and qualitative were applied in order to obtain a complete insight to the objectives of the study. This research design will be to collect information by the

use of questionnaires to the sample selected for the study, interview will be conducted by the researcher mostly to find out the views of the selected personnel on the study especially heads of departments. (Orodho, 2010),

3.4. Sources of Data

Primary data source

In this study about to explore institutional gaps in regulating commercial banks in Somaliland, primary data will be used for collecting data through questionnaire and interview. Primary data states to the fresh facts collected or produced in each research for the first time. These data will be produced from the sample population by using questionnaire to staffs of Commercial Bank of Somaliland and interview to managers of selected institution. There is secondary data related to this study for reason using primary data in Hargeisa.

3.5. Sampling Size Determination

The target population this study consists of 119 persons who work at Commercial Bank of Somaliland and its sample size of ninety-two (92) respondents will be selected from the total target population one hundred nineteen (119) by using Yamane formula. Selecting sample size from population to answer the questionnaire the researcher will use probability sampling techniques especially simple random sampling. Department directors Will be selected in purposive sampling to answer the interview based on their knowledge and experience and their availability, so that the researcher chooses different department directors because of the size of population that has a set of characteristics that interest in this research is very small, due to at 95% level confidence and 5% marginal error. The sample size was calculated as follows.

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

Where,

n= The Sample size

N= Target population

e= Marginal error

$$n = \frac{119}{1+119(0.05)^2} = 91.7 \quad \underline{n= 92}$$

3.6. Instruments of Data Collection

The researcher will use questionnaire and interview as tools of data collection. In the reason, that multi-system that consists of questionnaire and interview used for get clear and accurate data.

1. Questionnaire: A questionnaire is a list of questions drafted by the researcher and to be filled by staff Commercial Bank of Somaliland, this is the basic tool that the researcher will use for the data collection. The questionnaire is containing closed ended using Likert scale has five possible answers. questionnaire where the variables will be measured by using scaling technique. The reason for use this method is that it minimized the bias.
2. Interview: The word “interview” refers to a one-on-one conversation between an interviewee and the researcher. Structured questions will be conducted by the researcher to asking questions to department directors.

3.7. Data Processing and Analysis

Data will be sorted out, checked for completeness and consistency. It will be then categorized into systematic comparable form for the different dimensions of the study. Both qualitative and quantitative methods will be used to analyse the collected data. The qualitative data will be analyzed. by writing summary of department heads’ responses in each question and quantitative data will be used for descriptive statistics such frequency, percentage, mean and standard deviation and then find out and test the statistical significance among each component of independent variables and the dependent variable of this study using by a chi-squared test, also

written as χ^2 test. This study used SPSS (version 20) which easily for the researcher to analyse for the findings.

3.8. Ethical Consideration

To safeguard its most privacy for the participants and the information will be provided by them as well as reflect ethics practiced in this study the following will be done:

1. Each respondent will be given autonomy to take part or not to contribute in the study. So, no respondent will be forced to participate.
2. All participants will be assured of secrecy. That is their responses are not made known to other people and this will be done through coding of answers and reporting them in a generalized manner.
3. The works of other people used in this study will be recognized through proper citation & Referencing.

3.8. Reliability test

Cronbach's Alpha Cronbach's Alpha Cronbach's Alpha based on standardized item N of items of 28 is 0.874. Reliability test is a very crucial aspect of the data without which data analysis will be meaningless. Reliability means that a measurement procedure yields consistent scores when the phenomenon being measured is not changing or that the measured scores change in direct correspondence to actual changes in the phenomenon" (Crotty, 1998, p.124). Cronbach's alpha is used to measure reliability of the data (Crotty, 1998). In order for data to be internally consistent, Cronbach's alpha should be equal to or greater than 0.5 (Bowling, 2009). This reliability test shows the reliability test result of the questionnaire items specifically Likert scale items of the variables.

Chapter Four

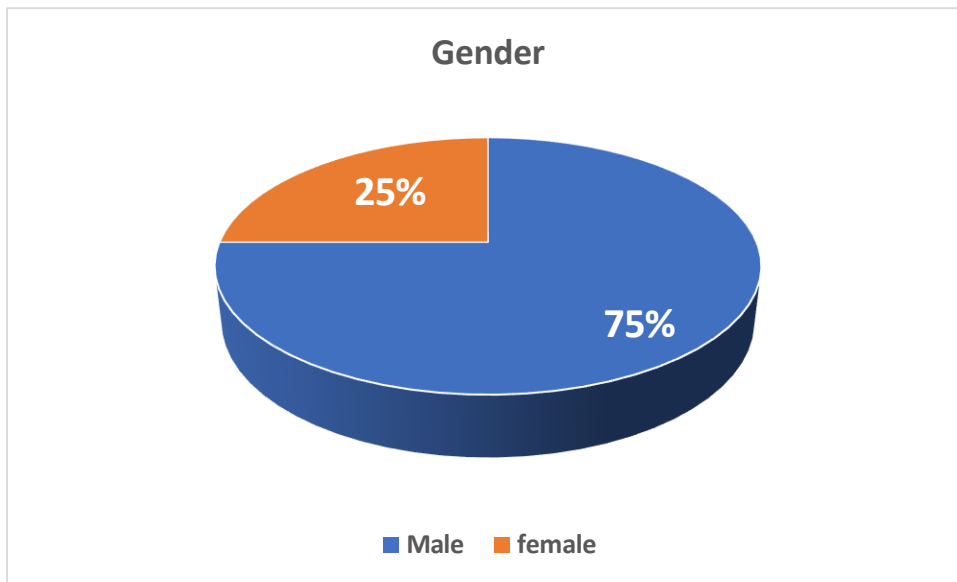
DATA ANALYSIS AND INTERPRETATION

This chapter presents the responses from target respondents who formed the sample of the study whose main objective was to explore institutional gaps in regulating commercial banks in Somaliland. The nature of the information obtained from the questionnaire was descriptive. Descriptive statistics were therefore used to analyse the data. These included the calculation percentages and frequencies to measure and compare the outcomes.

4.1. GENERAL BACKGROUND OF RESPONDENTS

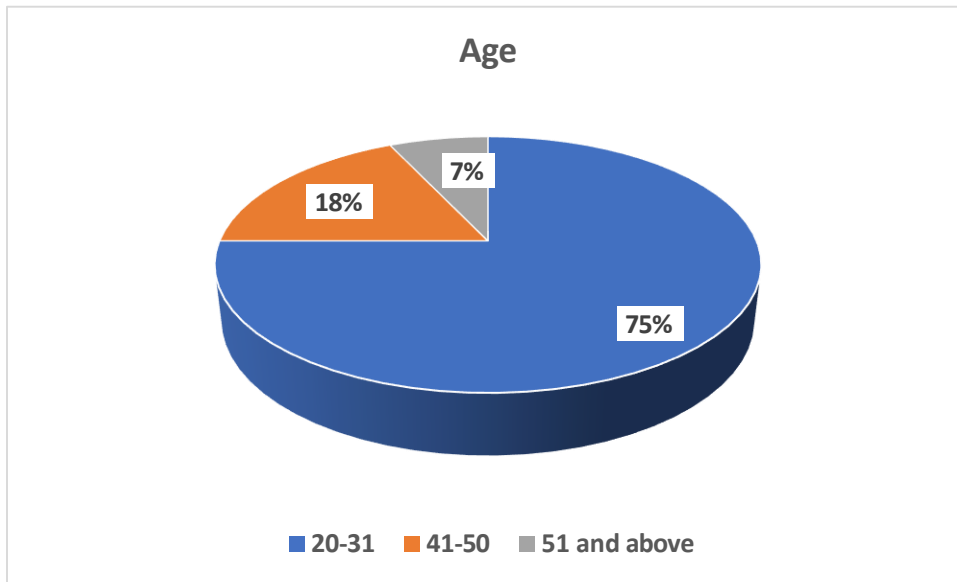
In this section, the general characteristics of the respondents were presented in the following consecutive graphs which is the demographic of the respondents.

Table 4.1.1 gender



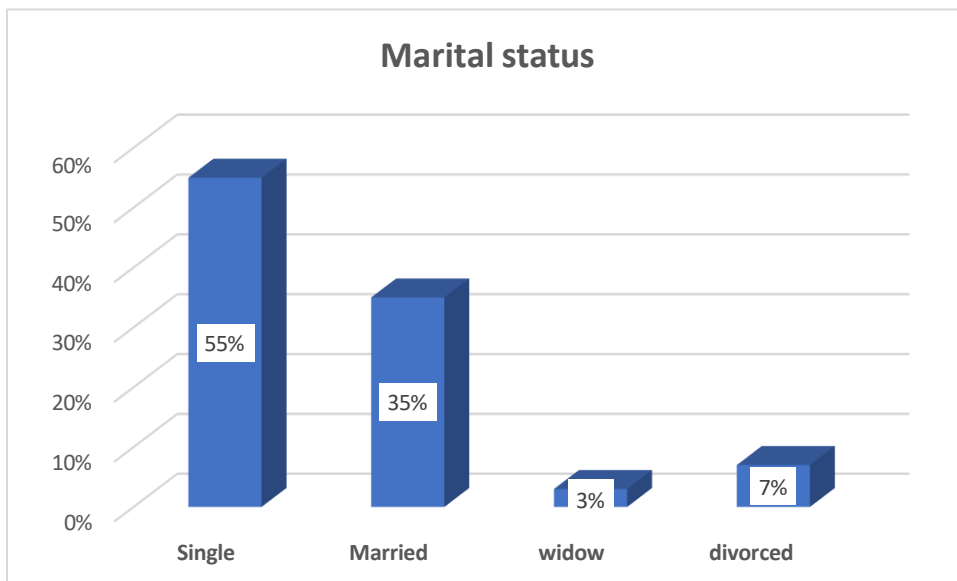
The above graph displays the gender distribution of the respondents, revealing that 75% were male and 25% were female. This indicates that males constituted the majority of the research participants.

Table 4.1.2 Age



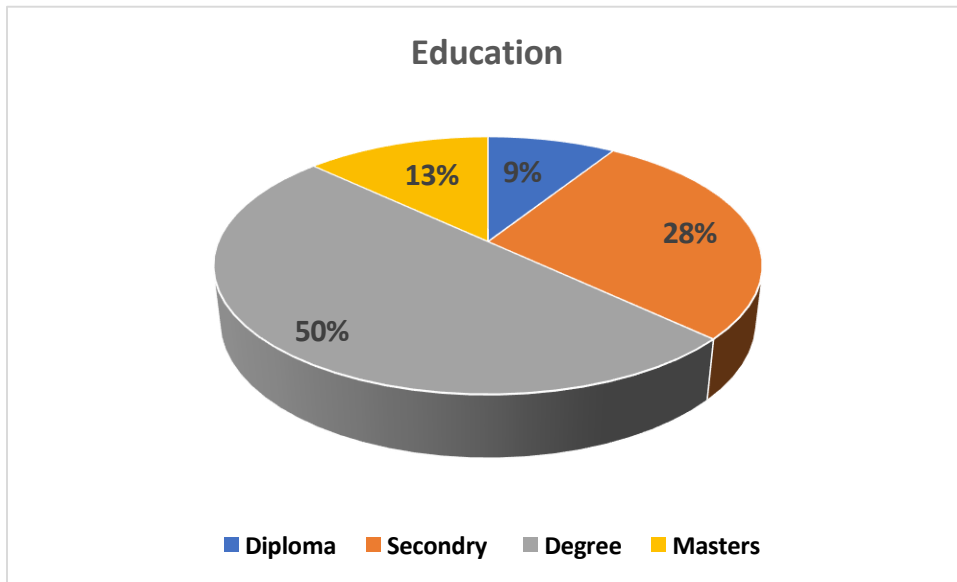
The graph presented in the discussion indicates that the majority of the respondents, comprising 75%, are aged between 20-31 years. Another segment, 18% of the respondents, falls within the 41-50 years age range. The remaining 7% of participants are above 50 years of age. This illustrates that the majority of the respondents are between the ages of 20 to 31.

Table 4.1.3 Marital status



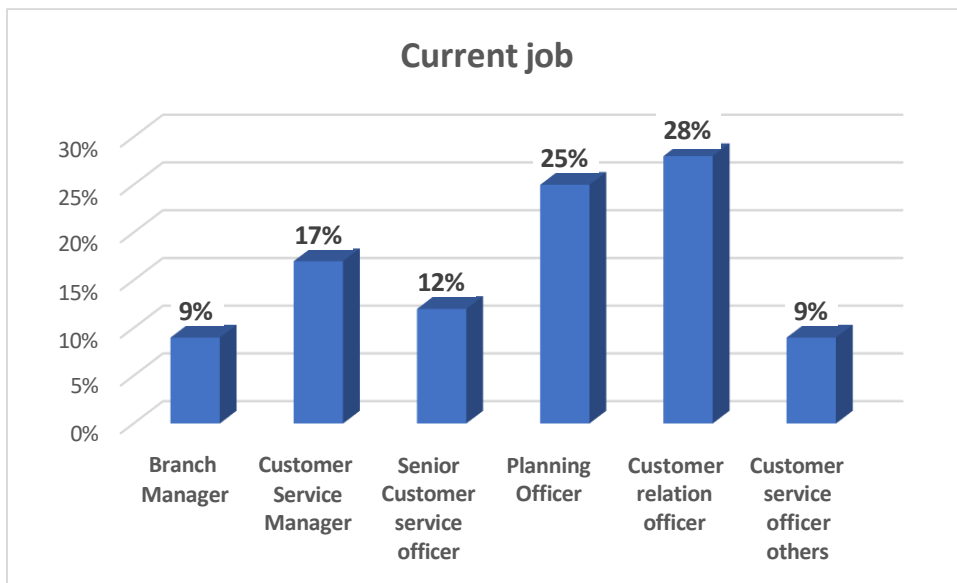
The above figure shows analysis of the respondents' marital status reveals that a majority, 55%, were single. Married respondents constituted 35% of the total. A smaller proportion, 3%, were either widowed or widowers, while the remaining 7% were divorced.

Table 4.1.4 Educational Background



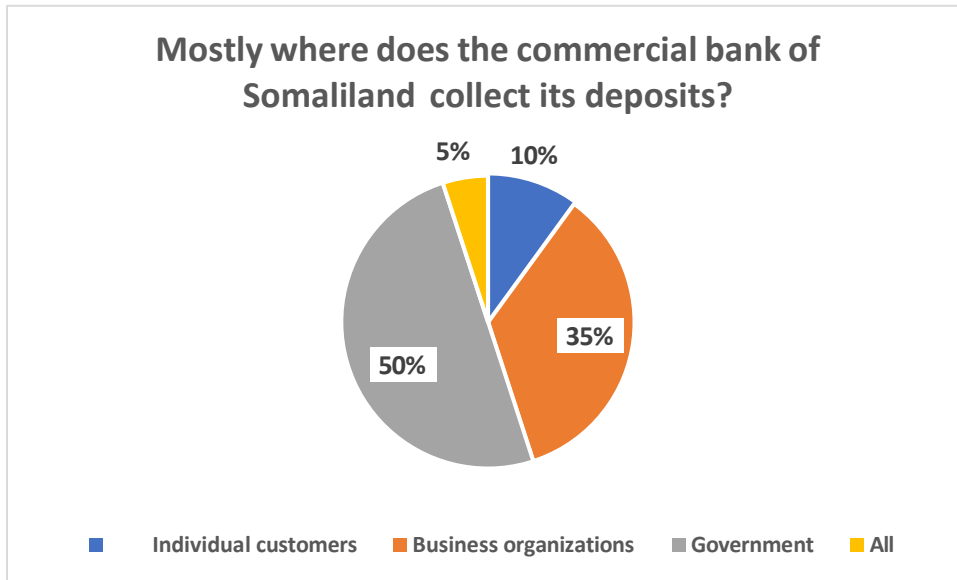
The pie chart illustrates the educational qualifications of the research participants. It indicates that 50% of the participants hold a bachelor's degree, 28% have a master's degree, 9% possess a diploma, and the remaining 13% have completed secondary education. This demonstrates that the majority of the respondents have attained a bachelor's degree.

Table 4.1.5 Current job



The table chart details the current job positions of the research participants. It shows that 28% of the participants are employed as customer relations officers, 25% work in planning sections, 17% are in customer service management, 12% hold senior customer service roles, and 9% are customer service officers, with another 9% serving as branch managers.

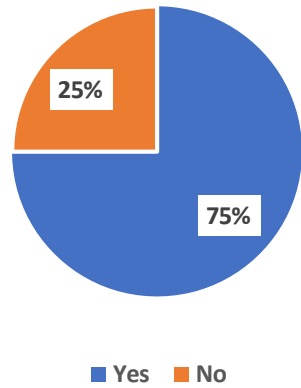
Table 4.1.6



The pie chart illustrates the sources of deposit collections for the Commercial Bank of Somaliland. It shows that 50% of the bank's deposits come from government institutions, 35% from business organizations, 10% from individuals, and the remaining 5% from various unspecified sources. This demonstrates that the majority of the bank's deposits are sourced from government entities.

Table 4.1.7

6. Is Commercial Bank of Somaliland mobilizing enough deposits, currently?



The pie chart reflects on whether the Commercial Bank of Somaliland is currently mobilizing sufficient deposits. It shows that 75% of the respondents answered "yes," indicating that the bank is effectively gathering deposits, while the remaining 25% of respondents answered "no." This data suggests that a majority of the participants believe the Bank of Somaliland is successfully mobilizing enough deposits at present.

4.2 structure and operation of regulation of commercial banks in Somaliland

Questions	Responses	Percentage
Regulatory Effectiveness: Do you believe that the current regulatory framework for commercial banks in Somaliland effectively prevents financial crises?	Agree Strongly agree. Neutral Disagree Strongly disagree	10% 5% 30% 20% 35%
Regulatory Enforcement: In your opinion, are the regulations governing commercial banks in Somaliland adequately enforced to ensure transparency and accountability?	Agree Strongly agree. Neutral Disagree Strongly disagree	38% 32% 20% 7% 3%
Regulatory Impact: Do you agree that the regulations imposed on commercial banks in Somaliland facilitate fair competition	Agree Strongly agree. Neutral Disagree Strongly disagree	18% 32% 40% 5% 5%

and innovation in the banking sector?		
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(Source: researcher survey, 2024)

The survey results suggest that a majority of respondents, 55% combined (20% disagreeing and 35% strongly disagreeing), do not believe that the current regulatory framework for commercial banks in Somaliland is effective in preventing financial crises. This indicates significant skepticism about the adequacy of existing regulations to mitigate risks and protect the financial system. Conversely, only a small fraction, 15% (10% agreeing and 5% strongly agreeing), feel that the regulations are effective in this regard. Additionally, a substantial 30% of respondents remain neutral, indicating either uncertainty or ambivalence about the regulatory framework's effectiveness.

Overall, these findings imply that there may be widespread concern or dissatisfaction with the current regulatory measures in place for commercial banks in Somaliland, suggesting a potential need for review and strengthening of the regulatory environment to enhance financial stability.

On the other hand, the survey results indicate that a majority of respondents, totalling 70% (38% agreeing and 32% strongly agreeing), believe that regulations governing commercial banks in Somaliland are adequately enforced to ensure transparency and accountability. This suggests that there is a strong perception among participants that the enforcement of banking regulations is generally effective, contributing positively to the integrity of the banking sector.

Additionally, 20% of respondents remain neutral, indicating either a lack of information or uncertainty about the effectiveness of regulatory enforcement. A smaller portion, 10% combined (7% disagreeing and 3% strongly disagreeing), expresses scepticism regarding the adequacy of enforcement, suggesting some concerns about the consistency or thoroughness of regulatory practices.

Overall, these findings imply a generally positive sentiment toward the regulatory enforcement within the commercial banking sector in Somaliland, though there remains room for improvement to fully convince the minority who are skeptical.

Finally, the survey results suggest that a combined 50% of respondents (18% agreeing and 32% strongly agreeing) believe that the regulations imposed on commercial banks in Somaliland facilitate fair competition and innovation in the banking sector. This indicates that half of the respondents perceive the regulatory environment as supportive of competitive practices and innovative advancements in banking.

However, a significant portion of respondents, 40%, remain neutral, implying a substantial level of uncertainty or ambivalence about the impact of these regulations on competition and innovation. Additionally, a small minority, 10% combined (5% disagreeing and 5% strongly disagreeing), do not believe that the regulations are effective in promoting fair competition and innovation.

These findings imply that while there is a positive sentiment regarding the regulatory impact on competition and innovation, there is also a considerable degree of uncertainty. This suggests that

further efforts may be needed to enhance the clarity and effectiveness of regulations to ensure they are widely perceived as fostering a fair and innovative banking environment.

4.3 Contribution of commercial banks in the Economic development

Table 1

Questions	Responses	Percentage
Commercial Bank contributes on the economic development and facilities highly speed of money transfer.	Agree Strongly agree. Neutral Disagree Strongly disagree	21% 63% 6% 7% 3%
Commercial bank makes rebuilding of economic structure and pays small scale microfinance.	Agree Strongly agree. Neutral Disagree Strongly disagree	20% 6% 6% 57% 11%
Commercial banks help to mobilize the savings of the community and make them available to the entrepreneurs.	Agree Strongly agree. Neutral Disagree Strongly disagree	11% 4% 28% 46% 11%
Commercial bank Collects and pays of cheques and bills on behalf of the customers	Agree Strongly agree. Neutral Disagree Strongly disagree	50% 40% 1% 5% 4%

(Source: researcher survey, 2024)

The data suggests that a significant majority of respondents recognize the critical role that Commercial Banks play in promoting economic development and expediting money transfers. Specifically, 63% of respondents strongly believe in the positive impact of these banks, while an additional 21% agree, totalling 84% in Favor. In contrast, only a small minority, 10% combined, express disagreement (7% disagree and 3% strongly disagree) with this perspective. Meanwhile, 6% of the respondents remain neutral. These results imply that the general consensus among the respondents is that Commercial Banks are crucial facilitators of economic growth and efficiency in financial transactions.

On the other hand, the data implies that a substantial majority of respondents, totalling 68%, hold a skeptical view regarding the effectiveness of commercial banks in contributing to the rebuilding of economic structures and supporting small-scale microfinance initiatives, with 57% not believing and an additional 11% strongly disagreeing. On the other hand, only 26% support the idea that commercial banks play a beneficial role in these areas, with 20% agreeing and 6% strongly agreeing. Furthermore, 6% of the participants remain neutral on the issue. This suggests a

significant level of skepticism or dissatisfaction among the respondents about the role of commercial banks in fostering economic reconstruction and microfinance support.

Moreover, the data indicates that a clear majority of respondents, totalling 57%, believe that commercial banks are ineffective in mobilizing community savings for entrepreneurs, with 46% disagreeing and 11% strongly disagreeing. In contrast, a minority of 15%, consisting of 4% who strongly agree and 11% who agree, view commercial banks as effective in this role. Additionally, 28% of participants are neutral, showing neither agreement nor disagreement. This suggests that there is a prevailing skepticism about the ability of commercial banks to effectively support entrepreneurial initiatives through the mobilization of community savings.

Finally, the data implies that an overwhelming majority of respondents, totalling 90%, view commercial banks as effective in handling the collection and payment of cheques and bills for their customers, with 50% strongly agreeing and 40% agreeing. In contrast, only a small percentage of respondent's express dissent, with 5% disagreeing and 4% strongly disagreeing with the banks' effectiveness in this area. Furthermore, a minimal 1% of the participants remain neutral. This suggests that the consensus among respondents is largely positive regarding the banks' capabilities in managing payments and collections efficiently.

4.4 Challenges faced on commercial banks.

Questions	Responses	Percentage
The high illiteracy rate among the masses, implying that, people have got little knowledge about the banking procedures.	Agree Strongly agree. Neutral Disagree Strongly disagree	65% 14% 11% 7% 3%
Mis-management of banks by the top officials in form of corruption and fund embezzlements among others includes shareholders getting loans without securities.	Agree Strongly agree. Neutral Disagree Strongly disagree	50% 45% 2 3%
Poor infrastructures that are characterized by poor and remote communications systems in the countryside, which affected mobility of clients and banking operators.	Agree Strongly agree. Neutral Disagree Strongly disagree	41% 34% 17% 6% 2%
in case of transactions of foreign currency, Commercial banks have more problems which restrict and makes more	Agree Strongly agree. Neutral Disagree Strongly disagree	60% 24% 14% 2%

controllable than other financial institutions.		
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(Source: researcher survey, 2024)

The survey data indicates that a significant majority of respondents, 79% combined (65% agreeing and 14% strongly agreeing), perceive that the high illiteracy rate among the population leads to limited knowledge about banking procedures. This consensus suggests that illiteracy is a major barrier to understanding and engaging effectively with the banking system.

A smaller portion of respondents, 12% (7% disagreeing and 5% strongly disagreeing), do not see illiteracy as significantly impacting people's understanding of banking. Meanwhile, 11% of the respondents remain neutral, indicating neither agreement nor disagreement with the statement.

This analysis implies that there is a widely held belief that enhancing literacy levels could potentially increase public engagement with and understanding of banking services, suggesting that educational interventions may be beneficial for improving financial literacy.

Moreover, the data reveals that a substantial majority of respondents, totalling 90% (with 50% agreeing and 40% strongly agreeing), recognize issues of mismanagement within banks by top officials, manifesting as corruption and fund embezzlements, notably in instances such as shareholders obtaining loans without adequate securities. On the other hand, a small percentage of 8% disagree with this assessment, and an even smaller group, 2%, remain neutral. This demonstrates a significant consensus among respondents regarding the prevalence of unethical practices in bank management, highlighting widespread concern and the perceived need for enhanced governance and accountability in the banking sector.

The survey results indicate that a strong majority, 75% combined (41% agreeing and 34% strongly agreeing), believe that poor and underdeveloped infrastructure, particularly in terms of communication systems in rural areas, negatively impacts the mobility of clients and banking operators. This significant agreement suggests widespread concern over how infrastructure deficiencies in remote areas can hinder effective banking operations and access.

Furthermore, a smaller proportion of respondents, 8% combined (6% disagreeing and 2% strongly disagreeing), do not believe that these infrastructural issues significantly impact banking operations. Meanwhile, 17% of participants remain neutral, neither agreeing nor disagreeing with the statement.

These findings imply that there is a recognized need for improvement in infrastructure to enhance the efficiency and accessibility of banking services, particularly in rural settings. This could lead to better client service and operational efficiency for banks operating in these areas.

Finally, the survey results show that a substantial majority, 84% combined (60% agreeing and 24% strongly agreeing), perceive that commercial bank encounter more issues than other financial institutions when handling transactions involving foreign currency. These issues are believed to both restrict operations and necessitate stricter controls within these banks.

A small percentage of respondents, totalling only 2%, disagree with this view, suggesting they do not see commercial banks as having more problems compared to other financial institutions in this regard. Additionally, there are no respondents who strongly disagree. Meanwhile, 14% of participants remain neutral, neither agreeing nor disagreeing with the statement.

This indicates a widespread belief among respondents that commercial banks face unique challenges in foreign currency transactions that are less prevalent in other financial sectors. It implies that there may be a need for specific regulatory or operational adjustments within commercial banks to better manage these transactions effectively.

4.5 Ways to overcome those barriers

Questions	Responses	Percentage
Commercial Banks must give an opportunity to trust and confidence of their customers and make policies that promote their well being	Agree Strongly agree. Neutral Disagree Strongly disagree	40% 60% 0% 0% 0%
Commercial banks must operate more efficient and effectiveness and must promote financial services institutions;	Agree Strongly agree. Neutral Disagree Strongly disagree	30% 70% 0 0% 0%
Commercial Banks must have an extensive network of agents that service must be almost all the towns and villages in Somaliland as well as all major cities and towns in other countries populated by Somaliland Diaspora;	Agree Strongly agree. Neutral Disagree Strongly disagree	55% 25% 10% 10% 0%
Commercial Banks must influence and make highly contribution to formal financial participation to their customers such like insurance, MFIs, etc.	Agree Strongly agree. Neutral Disagree Strongly disagree	22% 54% 20% 4% 0%

(Source: researcher survey, 2024)

The survey data, showing that 100% of respondents (with 40% agreeing and 60% strongly agreeing) support the statement, implies a unanimous belief among participants that commercial

banks must prioritize building trust and confidence with their customers. Furthermore, it suggests that there is strong consensus on the need for banks to develop policies that promote the well-being of their customers.

The absence of neutral or disagreeing responses highlights a strong endorsement of the importance of customer-centric practices in banking. This indicates that customers and stakeholders greatly value trust and positive relationships with their banks, and expect policies that not only protect their interests but also enhance their financial well-being.

Moreover, the survey results, showing a total of 100% agreement (30% agreeing and 70% strongly agreeing), indicate a unanimous consensus among respondents that commercial banks need to operate with greater efficiency and effectiveness. Additionally, it emphasizes the expectation that these banks should actively promote financial services institutions.

This strong level of agreement suggests that stakeholders hold commercial banks to high standards regarding operational performance and their role in enhancing the financial services sector. The absence of neutral, disagreeing, or strongly disagreeing responses underscores the universal belief in the need for improved efficiency and proactive engagement in the financial services industry among respondents. This implies a clear demand for commercial banks to lead in innovation and service improvement to meet customer needs and industry challenges.

Additionally, the survey results indicate that 80% of the respondents (55% agreeing and 25% strongly agreeing) support the idea that commercial banks should have an extensive network of agents servicing not only all towns and villages in Somaliland but also major cities and towns in other countries where the Somaliland diaspora is significant. This strong majority implies that there is a recognized need for commercial banks to expand their reach, ensuring accessibility and convenience for customers both domestically and internationally.

The presence of 10% neutral and another 10% disagreeing shows that while there is a strong consensus, there are still some reservations or differing opinions about the feasibility or necessity of such extensive coverage. The lack of a percentage for those who strongly disagree suggests minimal strong opposition to the idea, though some skepticism or practical concerns may exist about implementation. This overall agreement underscores the importance of accessibility in banking services, which could potentially lead to enhanced customer satisfaction and expanded market presence.

Finally, the survey results reveal that a significant majority of 76% (22% agreeing and 54% strongly agreeing) believe that commercial banks should significantly influence and contribute to formal financial participation for their customers, including services like insurance and microfinance institutions (MFIs). This suggests a strong expectation among respondents that banks should not only handle traditional banking services but also play a pivotal role in integrating and promoting broader financial services to enhance financial inclusion.

The data also shows that 20% of respondents are neutral, indicating some uncertainty or indifference about this role for commercial banks. Meanwhile, a small minority of 4% disagree, and there is an unspecified percentage of respondents who strongly disagree. This minor dissent

could reflect skepticism about the banks' capability or willingness to extend beyond traditional banking roles or concerns about the effectiveness of such integration.

Overall, the results imply a prevailing belief that banks have a crucial role in expanding access to a wider range of financial services, thereby supporting economic empowerment and financial stability for their customers.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATION

This chapter centres on summarizing the key findings from the research questions, drawing conclusions, and offering recommendations based on the responses of research participants and the relevant literature.

5.1 SUMMARY OF MAJOR FINDINGS

The objective was to explore the institutional gaps in regulating commercial banks in Somaliland by addressing three fundamental questions.

- ✓ The first objective of the research focused on examining the current structure and operation of regulations governing commercial banks in Somaliland. The findings reveal significant skepticism about the effectiveness of the regulatory framework in preventing financial crises, with 55% of respondents believing it to be ineffective, while only 15% consider it effective, and 30% remain neutral. In terms of regulatory enforcement, a majority of 70% feel that it is adequate in ensuring transparency and accountability, though 20% are neutral and 10% express skepticism. Regarding the impact of regulations on competition and innovation, 50% of respondents believe the regulations facilitate fair competition and innovation, whereas 40% are neutral and 10% disagree. These results suggest that while the enforcement of regulations is generally viewed positively, there is considerable doubt about their effectiveness in preventing financial crises and promoting a competitive and innovative banking environment, indicating a need for regulatory review and enhancement.
- ✓ The second research objective was aimed to assess the contribution of commercial banks to economic development in Hargeisa, Somaliland. The findings reveal that a significant majority of respondents, 84%, recognize the crucial role of commercial banks in promoting economic development and expediting money transfers, with only 10% expressing disagreement and 6% remaining neutral. However, there is substantial skepticism regarding the effectiveness of commercial banks in rebuilding economic structures and supporting small-scale microfinance initiatives, with 68% of respondents holding a negative view and only 26% seeing a beneficial role, while 6% remain neutral. Additionally, 57% of respondents believe that commercial banks are ineffective in mobilizing community

savings for entrepreneurs, contrasted by a mere 15% who view them as effective, and 28% remaining neutral. Conversely, an overwhelming majority, 90%, perceive commercial banks as effective in handling the collection and payment of cheques and bills, with only 9% dissenting and 1% neutral. These results suggest that while commercial banks are highly regarded for their role in promoting economic growth and managing financial transactions, there is considerable skepticism about their effectiveness in supporting economic reconstruction, microfinance initiatives, and entrepreneurial activities through community savings mobilization.

- ✓ The last research objective aimed to identify the challenges faced by commercial banks in Somaliland and propose potential solutions. The findings reveal that a significant majority of respondents, 79%, perceive high illiteracy rates as a major barrier to understanding banking procedures, indicating a need for educational interventions to improve financial literacy. Additionally, 90% of respondents recognize issues of mismanagement and corruption within banks, highlighting the necessity for enhanced governance and accountability. Poor infrastructure, particularly in rural areas, is seen by 75% of respondents as negatively impacting banking operations, suggesting improvements in communication systems to enhance access and efficiency. Furthermore, 84% believe that commercial banks face more challenges with foreign currency transactions compared to other financial institutions, indicating a need for specific regulatory adjustments. There is unanimous support (100% of respondents) for prioritizing trust and confidence-building with customers, emphasizing the importance of customer-centric policies. The same unanimous support is seen for the need for greater operational efficiency and effectiveness, along with promoting financial services institutions. Expanding the network of banking agents to cover Somaliland and key international locations is supported by 80% of respondents, while 76% believe that banks should also contribute to formal financial participation through services like insurance and microfinance. Overall, these findings underscore several key challenges and suggest that addressing these through targeted educational, governance, infrastructural, and operational improvements can enhance the effectiveness and accessibility of commercial banks in Somaliland.

Conclusion

The research revealed significant gaps in the regulation of commercial banks in Somaliland. It was found that while there is a general positive perception of regulatory enforcement in terms of transparency and accountability, there is considerable skepticism about the effectiveness of the regulatory framework in preventing financial crises and promoting fair competition and innovation. Furthermore, although commercial banks are highly regarded for their role in promoting economic development and managing financial transactions, there is substantial doubt about their effectiveness in supporting economic reconstruction, small-scale microfinance initiatives, and mobilizing community savings for entrepreneurs. The findings also highlighted major challenges such as high illiteracy rates, mismanagement and corruption, poor infrastructure, and issues with foreign currency transactions. Addressing these issues through targeted educational, governance, infrastructural, and operational improvements is essential to enhance the effectiveness and accessibility of commercial banks in Somaliland.

Recommendations

Therefore, to achieve commercial banks inclusion in Somaliland, efforts are required through intervening in the following area

- ❖ commercial education and literacy
- ❖ Technology-enhanced delivery channels
- ❖ A sound regulatory framework
- ❖ Capacity building of Central Bank

Commercial banks education and literacy

Given the low levels of literacy amongst respondents, and the fact that most of them not being exposed to a range of banks products, it can be argued that the financial literacy is quite low in Somaliland. Therefore, commercial banks l service providers must provide banking education to their clients by implementing banking literacy programmes; and the international community must support such programmes.

Technology-enhanced delivery channels

The use of mobile money services and other modern delivery channels are gaining ground in Somaliland, e.g. Zaad services etc. Reflecting on the survey results where there are an increasing number of users amongst households and business people to send and receive money, and savings.

Such new transaction channels provide unprecedented power to reach more people and research has already demonstrated the capacity of mobile banking to reach more previously unbanked and low-income people in a shorter period of time. The new channels offer dramatic increases in outreach by solving the critical bottlenecks of costs, both fixed and variable.

However, achieving full commercial banks inclusion will require strategic partnerships among distributors, product banking providers, and technology providers in commercial bank in Somaliland. There is the need for telecommunication and banking services providers to synchronise their mobile money to promote use of such services.

Legal and regulatory framework in the banking sector.

Some gaps have been identified in the development and enforcement of policies, legal, regulatory and institutional reforms for the banking sector. As reported elsewhere in the report, there is inadequate regulatory framework for the banking sector; inadequate client protection; weak legal infrastructure and the regulation that lags technology and immediate commercial regulatory priorities being on setting up offices and institution.

Capacity building of Central Bank

As a key institution for regulatory oversight of the banking sector, a central bank will need to be supported by development partners, especially World Bank. All the organizational and operational aspects related to building the capacity of Central Bank will need to be addressed. Such as

- ❖ Support in developing and operationalizing the strategic plan
- ❖ Development of the human resources i.e. develops personnel policies, pay and grading structures, job descriptions etc.
- ❖ Design and implementation of a new accounting and management information system within the central bank; preparation of financial statements in accordance with international standards; and, utilization of 'best practice' accounting procedures for preparing the first years.
- ❖ Development of an internal audit function for the central bank; modern banking audit programs and procedures; and design of a training program and delivery of training of new audit staff in risk-based auditing and international standards on auditing.
- ❖ **Training and development-** A detailed staff skills inventory and training needs analysis should be undertaken with the aim of assessing the best options available for building relevant skills (for example, banking operations, risk management, management skills, financial management, international banking).

- ❖ Conduct a comprehensive review and enhancement of the current regulatory framework to address its shortcomings.
- ❖ Develop and implement financial literacy programs to improve the population's understanding of banking procedures.
- ❖ Strengthen governance structures within commercial banks to reduce mismanagement and corruption.
- ❖ Invest in improving communication systems and other infrastructure, particularly in rural areas.
- ❖ Introduce specific regulatory adjustments to improve the management of foreign currency transactions.
- ❖ Develop and implement customer-centric policies to build trust and confidence with customers.
- ❖ Invest in technology and training to improve the operational efficiency of commercial banks.
- ❖ Expand the network of banking agents to cover all towns and villages in Somaliland and key international locations.
- ❖ Encourage commercial banks to play a more active role in promoting formal financial participation through services like insurance and microfinance.

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