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Effect of Financial Risk Management Practices on Growth of Financial Institutions in Garowe Puntland Somalia

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Abstract: *Financial risk is inherent in every financial institution, but those institutions that embed the right financial risk management strategies into business planning and financial performance management are more likely to achieve their strategic and operational objectives. This study sought to fill the existing research gap by answering the research question. The specific objectives of the study were to determine the influence of credit risk management practice, to assess the influence of liquidity risk management practice, to examine the effect of market risk management practice, and to determine the influence of foreign exchange risk management practice on the growth of financial institutions in Garowe Puntland.*

The research design of this study employed descriptive survey design. The target population was 178 respondents of financial institution managers and other employees both private and public, the sample size of the study consisted of 123 of respondents which was obtained using Slovene's formula and the sampling procedure of this study was employed stratified random sampling and purposive random sampling techniques. The research instrument by this study to collected data is questionnaire in terms of time and size and the questionnaire is none standardized. The validity and reliability of the research instruments was proved by expert, contents validity index ensured by subjecting the researcher devised questionnaires on risk and growth of financial institutions to judgment by the content expert.

The findings of the study suggested the effect of the risk management practice and growth of selected financial institutions have significant effect correlated indicated by Pearson's linear correlation, result that there is relationship between the variables. The researcher suggested that the risk management are clearly assigned and mitigated by operational managers of the banks which lead to growth of financial institutions.

As researcher, recommends in the financial institutions to make a technical assistance in the preparation of risk management in order to analyze effective and efficiency of the all types of risk management and also seek new ways to improvement and mitigation of risk. Financial institutions have to make clear follow ups procedure on borrowers and to also to emphasis their credit limit with having collateral security.

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I. Introduction

During 1990s, financial institutions particularly banks were growing rapidly through internal expansion and mergers. The major leaps in market share and financial power resulted through merger activity. The growing popularity of advance backed securities to fund home ownership is an example. Already widely used in the US and England, their acceptance and use is growing in Germany, France and Russia, and the transitional countries of Eastern Europe (Grunewald, 2007). This is the world stage setting for the study of commercial banking: dynamic, rapidly changing and crucial to the economic growth and development of a country as well as its political stability. Commercial banks are the queen of the financial services industry. The monetary wealth of every country – the life-blood of the country's economy – flows through commercial banks. The banking industry dating from the earliest times, the focal point of all economic activity is a unique industry. Its assets and liabilities are almost entirely financial and highly liquid. The basic financial structure and business activities render banks and banking risky subject to sudden failure if not properly managed and greed kept in check. Because of the importance of banking to the economic stability of a country, they are heavily regulated and in some countries entirely central government owned and controlled. Regulators, whatever country, concentrate on "safety and soundness" of the individual banks and the banking industry as a whole. Profitability is secondary (Grunewald, 2007).

In 2004, the growth of commercial bank was undertaken in Nigeria using this development was caused many factors including professionals and managers from a commercial bank. Still established in 1960 immediately after Nigeria got its independence from Britain (Scholte, 2005)

Prior to the collapse of centralized government in 1989, Somalia operated a relatively simplistic banking and credit system dominated by the Central bank and a handful of (largely foreign owned) commercial banking institutions. The banking system had little impact on or contact with the lives of ordinary Somalis even before the dissolution of the Barre regime. Informal tradition based systems of credit have dominated the money supply in Somali both before and after the 1990 civil war. Indeed, foreign remittances through these informal credit systems and wire transfers are thought to represent the lion's share of current GDP (which is almost impossible to calculate with any meaningful accuracy).

By 1990 all these institutions were bankrupt due to corruption and mismanagement. The need to re-establish an internationally recognized bank is critical to the advancement of the well being of the Somali population and the reconstruction of the Somali economy. Banks provide services that are not currently provided by the remittance companies such as retail banking, corporate banking, and loans for commercial and social development. In addition, they can provide competitive services to Somalis who are remitting funds to Somalia. However, Somalia does not have the legal framework, technical expert Security, or strong central bank needed to regulate the establishment of any commercial banks. A careful, methodical process should be initiated in order to deal with some of these fundamental institutional, legal and human resource deficiencies (Mohamed, 2000).

In 1990, following an agreement with the IMF implementing a free private oriented economy, a new Somali Commercial Bank was established, with a capital of 2 billion Somali Shillings. This capital was divided into 2,000 shares of one million Somali Shillings each. One billion was paid jointly by the Government and the Central Bank of Somali and one billion was left to private investors, of which only 22 shares were subscribed. The bank failed in 1991 as a result of the civil war, together with the formal financial system of the country (Franklin Amoo ,2009).

Somalia's banking system has clearly been heavily impacted by the political chaos that has enveloped the country's recent history. There are presently an extraordinarily small number of banks active in Somalia. This, however, is not in stark contrast to pre-1991 Somalia; the country had a long history of banking system fragility. According to "In the 1970s and early 1980s the banking system was largely a financing tool for public agencies… The Commercial and savings Bank was declared bankrupt, and the development Bank was unable to provide new lending in 1989. The financial system fell into deep crisis and, with the complicity of corrupt officials; most of the daily operations of the banking system fell to the black market risk management is a central part of any commercial bank strategic management (Mubarak, Jamil (1997).

It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. The focus of good risk management is the identification and treatment of these risks. Its objective is to add maximum sustainable value to all the activities of the commercial bank. It brings together the understanding of the potential upside and downside of all those factors which can affect the commercial bank. It increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the commercial bank overall objectives. Risk management is a continuous and developing process which runs throughout the commercial bank strategy and the implementation of that strategy. It should address methodically all the risks surrounding the commercial bank activities past, present and in particular, future. It must be integrated into the culture of the commercial bank with an effective policy and a program led by the most senior management (Lioyd, et al 2002).

II. Statement of the Problem

According to (Mubarak, Jamil (2012) there is declining trend of average growth of financial institutions in Somalia. Nasra Jama (2012) investigated the level of growth of Puntland financial institutions. The study found that the Puntland financial institutions growth was poor (mean index 1.62).Financial risk is inherent in financial institution, but financial institutions that embed the right financial risk management strategies into business planning and financial performance management are more likely to achieve their strategic and operational objectives. Taking financial risk management is core to the Bank's financial performance. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance. Pyle (1997)

According to CBS Financial Institution Decree Law No. 37 (2012), although underdeveloped, the financial institutions/banks system in Somalia has observed a significant expansion over the past few years based on increase in terms of in number of banks, financial products they are offering to the clients & etc.

The regulatory body believes that such growth should be matched with strong risk management practices.

However, the previous literature on risk management practices of financial institutions in Puntland is very limited. Therefore, the motivation of this study is to extend the literature by examining the effect financial risk management practices on financial institutions in Garowe Puntland

III. General Objective

To determine the effect financial risk management practices on financial institutions in Garowe Puntland

IV. Specific Objective

The specific objectives of the study were to:

i. To determine the influence of credit risk management practice on the growth of financial institutions Garowe Puntland
ii. To assess the influence of liquidity risk management practice on the growth of financial institutions Garowe Puntland
iii. to examine the effect of market risk management practice on financial institutions in Garowe Puntland.
iv. to determine the influence of foreign exchange risk management practice on the growth of financial institutions
v.

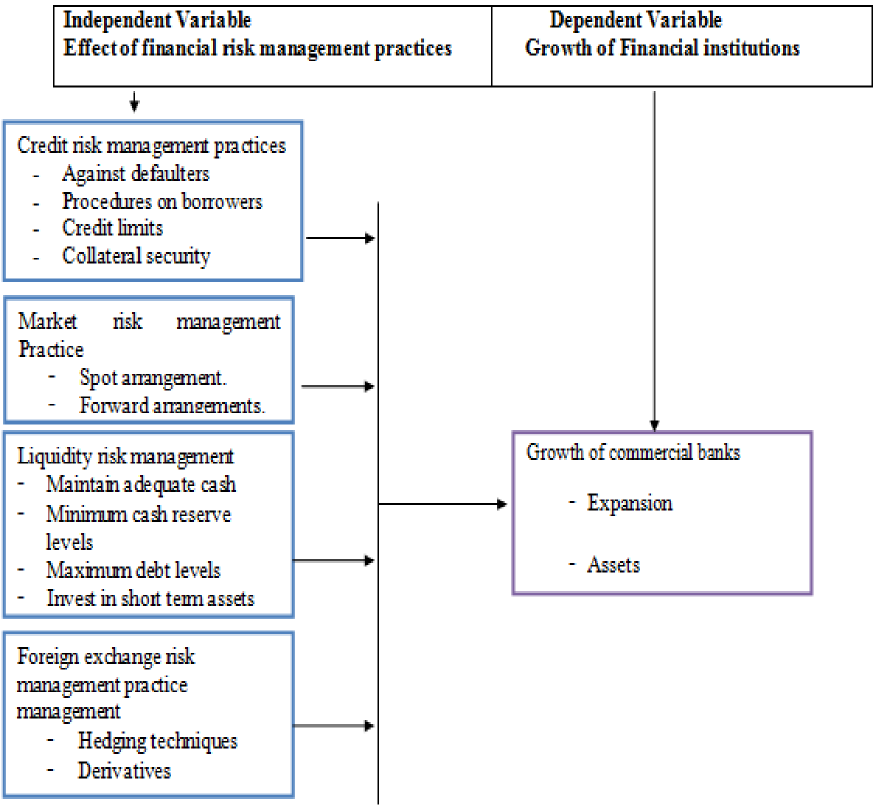
V. Research Questions

i. What is the effect of credit risk management practices on growth of financial institutions in Garowe Puntland
ii. What is the effect of liquidity risk management practices on growth of financial institutions in Garowe Puntland
iii. What is the effect of market risk management practices on growth of financial institutions in Garowe Puntland
iv. What is the influence of foreign exchange risk management practice on the growth of financial institutions?

The theoretical literature related to the variables of the study was directed by the conceptual framework.

VI. Conceptual Framework

Smyth (2004) defines a conceptual framework as a framework that is structured from a set of broad ideas and theories that help a researcher to properly identify the problem they are looking at frame their questions and find suitable literature. The conceptual framework of the study will consist of independent variables; credit risk management practices, liquidity risk management practices, and market risk management and a dependent variable; the growth of financial institutions.



VII. The Research Used A Descriptive Survey Design. The Population Of Interest Consisted Of The Six Financial Institutions Under Study Which Include The Following: Salaam Bank, Dahabashil Bank, Iftin Bank, Amal Bank And Tawakal Bank All Operating In Garowe, Somalia.

Description of respondents' background Information

This section deals with the description of the background information of the respondents. The background information was concerned with issues like; gender, age and education level of respondents. The background information of the respondents is presented in Tables 4.1 to 4.5.

Respondents by gender

Respondents were asked to indicate their gender. This sought to ensure proportionate representation in the study by both the male and the female respondents. Data collected is presented in Table 4.1 below

Table 4.1 gender of respondents

Gender	*Frequency*	*Percentage(%)*
Male	87	70.7
Female	36	29.3
Total	123	100.0

Results from tables 4.1 indicated concern gender, there were more male (70.7%) than female (29.3%). This implies that financial institutions employees are dominated by males .this dominates of male employees in the financial institutions are because males are more educated than females, so many of them qualify to have won financial institutions and few females qualify

VIII. Respondents by Age

Respondents were requested to indicate their ages. In this study, age of respondents was categorized into four groups namely: below 25, 25 – 39, 54-40 and 55 years and above .Results are presented in Table 4.2

Table 4.2: Age of respondents

Age	*Frequency*	*Percentage(%)*
Below 25	19	15.4
39-25	40	32.5
54-40	52	42.3
55 and above	12	9.7
Total	123	100.0

Table 4.2 indicates that 42.3% of the respondents belonged to the age of (40-54%), and 32.5% of the respondents are the age 25-39. So that financial institutions hired mostly the ages 25-54, because this the mostly productive ages of the employee in terms of experience and qualifications. the least hired ages in the institutions are once below 25 which is at 15.4 % and those above 55 ages which is 9.7% .so we can say the majority of this institutions they don't hire the young employee and least adult because the when their age is above 55 they reach tired age and the when they are the below 25 they are young and don't have qualification and experience which is needed by the banks.

IX. Respondent by Educational qualification

Respondents were also asked to indicate their highest level of academic qualifications (education). Table 4.3 presents the results:

Table 4.3: Level of education of respondents

Qualification	*Frequency*	*Percentage*
Primary	7	13.8
Secondary	13	12.5
Bachelor	47	38.2
Master	56	45.5
Certificate	0	0
Total	123	100.0

Table 2 showed that the findings of the study indicated that the majority of the respondents are Master degree holders that make up 45.5%% of the respondents and mostly they are top management and middle managers; the second group of the respondents were Bachelor degree holders which stand for 38.2% of the respondents, so we can say the majority of this selected financial institutions employees are master and degree holder since they are 83% of the employees.; the third group of the respondents has secondary school which represents 12.5% of the respondents, the fourth group of the respondents has Primary school which represents 5.7% of the respondents and mostly they are the lower staff of the banks. The extent of Risk Management in selected financial institutions in Garowe.

From the findings the researcher observed that the top managers of the selected financial institutions are master degree holders which showed that they have skills, knowledge, experience and competence to handle the operations and activities of the entire banks. This is indicates that the financial institutions attracted and retained highly educated employees who perform their duties well.

X. 4.2.4 Respondents by Position

Table 4.4 Position of the respondent

Positions	*Frequency*	*Percentage*
Top management	30	24.3
Middle Manager	37	30
Staff Only	56	45.5
Total	123	100.0

The findings indicate that there is high employee retention in financial institutions in Garowe, Puntland. If the researcher tends the position of the respondents the result indicates that the 24.3 % of the respondents are top managers of the banks while 30 % of the respondents are middle managers and 45.5% of the respondents are staff. Therefore the finding shows the majority of the respondents of the financial institutions are staff.

XI. 4.2.5 Respondents by Experience

Table 4.5: Experience of the respondent

Experience	*Frequency*	*Percentage*
Below 5 years	64	52.2
9-5years	41	33.3
10 and above	18	14.6
Total	123	100.00

If the researcher looks at the experience of the respondents the result shows that 52.2% of the respondents have worked for below 5 years. This is the followed by 33.3% of the respondents who have been worked in service for 5-9 years, where 14.6% of the respondents have been worked in service for 10 years and above.

XII. Description of the study objectives

Influence of credit risk management practice on the growth of financial institutions Garowe Puntland.

This objective sought to determine the influence of credit risk management practice on the growth of financial institutions Garowe Puntland. Based on a five-point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree), respondents were presented with a number of items to measure the extent to which credit risk management practice on the growth of financial institutions Garowe Puntland. Table 4.6 shows credit risk management practice on the growth of financial institutions Garowe Puntland.

Table 4.6: Influence of credit risk management practice on the growth of financial institutions Garowe Puntland.

Indicator	***Mean***
Credit risk	
Your institution usually take action against defaulters	3.71
Your institution has clear follow ups procedures on borrowers	4.29
Your institution has clear conduct for borrower	4.67
Your institution has clear credit limits	3.9

Your institution has collateral security requirements	3.72
Average Mean	4.05

The table 4.4 showed that the mean and standard deviation of that the banks usually take action against defaulters is (3.71 good) which indicates that the majority of the respondents are agreed that the selected financial institutions take actions against the defaulters such as when the client fail to pay back the loan the bank acquire the assets which is owned of the defaulter. The top and middle managers of the financial institutions do this in order to reduce the credit risk. The table also indicated that the mean of the bank has clear follow ups procedure on borrowers is (4.29 very good) which means that majority of the respondents were agreed that the selected financial institutions have a record procedure on their borrowers in order to control the borrowers. The table also exposed that the mean of that the financial institution has clear conduct for borrower is (4.67 very good) which stands for that the majority of the respondents were agreed that the financial institutions clear conduct to manage the borrowers by give them clear terms and amounts to be creditor to the client is also stated in their conduct. The table also showed that the mean of that the bank has clear credit limits is (3.9 good) Which represents that the respondents were agreed that the financial institutions have good credit limits to its client because the top management always sets this policy and assigned for the middle managers and the staff their enforcement clearly. The table again indicated that the mean of that the bank has collateral security requirements is (3.72 good) this implies that the majority of the respondents are agreed that the financial institutions , there is collateral requirement which is intended by the top management of commercial, that collateral to be cushion against the loan defaulters.

According to Kargi (2011) credit risk management has a significant impact on the growth of financial institutions. It concluded that banks' growth is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Epure and Lafuente (2012) examined bank performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin. Simonson and Hempel (1999), Hsiu-Kwang (1969) and IMF (1997) observe that sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards, and apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of nonperforming assets, loan

Influence of liquidity risk management practice on the growth of financial institutions Garowe Puntland

This objective sought to assess the influence of liquidity risk management practice on the growth of financial institutions Garowe Puntland. Based on a five-point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree), respondents were presented with a number of items to measure the extent to which liquidity risk management practice effects the growth of financial institutions in Garowe Puntland. Table 4.7 shows credit risk management practice on the growth of financial institutions Garowe Puntland.

Table 4.7: Influence of liquidity risk management practice on the growth of financial institutions Garowe Puntland.

Indicator	***Mean***
Liquidity risk	
Your institution usually maintain adequate cash	3.85
Your institution has clear Minimum cash reserve levels	3.96
Your institution has clear maximum debt levels	3.94
Your institution mainly invest in short term assets	3.60
Average Mean	3.83

The table 4.7 indicated that the mean of that the bank usually maintain adequate cash (3.85 good) which represents that the majority of the respondents agreed that financial institutions maintain adequate cash the top managers and middle managers have to prepare enough funds which need to be potential for funding crisis. Such as condition will be avoided inevitably be associated with an unexpected event, such as large charge off, loss of confidence or a crisis of national proportion such as crisis. Respondents were also asked if the institution has clear Minimum cash reserve levels and the mean is (3.96 good)this implies that the majority of the respondents are agreed that the financial institutions mostly have sufficient cash reserve which is needed to meet day by day obligations and repayment of depositors.

The findings point out that the mean 3.94 represents that the majority of the respondents agreed that the financial institutions has clear maximum debt levels in this view the financial institutions have strong structure in terms of range of debt and maximum debt which the bank can offer his client , that mean indicated very good range. The table showed that the mean 3.60 which is good, represents that the majority of the respondents agreed that the bank mainly invest in short term assets, the top managers of the banks mostly they invest short term assets because of quick returned on their funds and low risk so if the time of the investment become long the risk associate it is high. The findings of this indicate these selected financial institutions invested short term asset.

These findings agree with Arif and Anees (2012) that liquidity risk management affected the cash flow and the funds available for funding to a great extent. This implies that maintaining an adequate degree of liquidity in the whole banking system is extremely important, because the registration of a liquidity crisis at a single bank can have negative repercussions over the whole banking system courtesy the risk of contagion through interbank settlements.

According to Ioan and Dragos (2006) the management of liquidity risk presents two main perspectives both of which have an effect on an institutions growth. They indicated that an inadequate level of liquidity may lead to the need to attract additional sources of funding associated with higher costs that will result in the reduction of the profitability of the bank and ultimately lead to insolvency. On the other hand an excessive liquidity may lead to a fall in net interest margins and in consequence poor financial performance.

Keeping appropriate levels of liquidity is manifested in a bank's ability to obtain with immediacy the needed funds at a reasonable cost as and when necessary. Maintaining an adequate degree of liquidity in the whole banking system is extremely important, because the registration of a liquidity crisis at a single bank can have negative repercussions over the whole banking system courtesy the risk of contagion through interbank settlements.

Effect of market risk management practice on financial institutions in Garowe Puntland.

This objective sought to examine the effect of market risk management practice on financial institutions in Garowe Puntland.Based on a five-point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree), respondents were presented with a number of items to measure the extent to which market risk management practice effects the growth of financial institutions in Garowe Puntland. Table 4.8 shows credit risk management practice on the growth of financial institutions Garowe Puntland.

Table 4.8: Effect of market risk management practice on financial institutions in Garowe Puntland

Indicator	*Mean*
Market risk	
Foreign exchange transactions are usually based on spot arrangement.	4.20
Foreign exchange transactions are usually based on forward arrangements.	4.20
Your institution usually varies its interest rates	3.94
Your institution adequately hedged against market risk.	3.74
Average Mean	4.02

The table 4.8 exposed that the mean and standard deviation of the Foreign exchange transactions are usually based on spot arrangement is (4.20 good) which indicates the majority of the respondents agreed that the both manager and staff of the financial institutions because the spot market involves almost the immediate purchase or sale of foreign exchange transactions in order to reduce market risk of financial institutions. It works as it was intended, because they have well educated and skilled both manager and staff toward to the capability to perform their duties. The table 4.8 showed that the mean and standard deviation (4.20 good) that represents the Foreign exchange transactions are usually based on forward arrangements which indicates the majority of the respondents agreed that the both top manager, middle managers and staff of the financial institutions were perform the forward market by involves contracting today for the future purchase or sales of the foreign exchange.

The table 4.8 indicated that the mean and standard deviation of that the bank usually lower varies its interest rates is (3.94) which is good and indicates that the most of respondents are agreed that banks lower the variation in the levels of interest rates because of the institution’s dependence on these systemic risk factors which the top management and middle are working to eliminate from the financial institutions. They mostly try to estimate the impact of these particular systematic risks on performance, attempt to hedge against the and thus limit the sensitivity of variations.

The table 4.8 indicated that the mean and standard deviation of that the bank adequately hedged against market risk is (3.74 good) this implies that the majority of the respondents are agreed that the financial institutions mostly have sufficient of ways to avoid against the market risk.

The Basel Committee recommends the value at risk estimation using a confidence level of 99% and the use of an instantaneous shock of the price equivalent to a 10 days fluctuation of the prices. The literature review considering the subject of banking risk management is extremely vast and complex.

Koksal and Orhan (2012) conducted a study regarding the analysis of market risk during the recent financial crisis for a series of emerging and developed economies using the value at risk method. In order to examine the value at risk performance, as a market risk measure, it were used the Kupiec tests, Christoffersen and the Quadratic Loss function. The results concluded the fact that the value at risk performance is less pronounced for the developed countries compared to the emerging ones. The authors recommend the use of alternatives methods for quantifying risk along with value at risk as well as for the periodical assessment of the obtained performance as a measure for the correct risk management.

Influence of foreign exchange risk management practice on the growth of financial institutions.

This objective sought To determine the influence of foreign exchange risk management practice on the growth of financial institutions.Based on a five-point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree), respondents were presented with a number of items to measure the extent to which foreign exchange practice effects the growth of financial institutions in Garowe Puntland. Table 4.8 shows credit risk management practice on the growth of financial institutions Garowe Puntland

Table 4.9: Iinfluence of foreign exchange risk management practice on the growth of financial institutions

Indicator	*Mean*
Foreign exchange risk practices	
Foreign exchange risk is one of the major sources of risks in Somalia	3.9
The Institution makes great use of hedging techniques to manage foreign exchange risk.	4.5
Institutions use Derivatives to manage foreign currency risk to a great extent	4
Operational hedging strategies are more frequently combined with short term derivatives than with long term derivatives	4.1
Average Mean	**4.125**

The results tabulated in Table 4.9 shows that the respondents strongly agreed that the banks made great use of hedging techniques to manage foreign exchange risk and that hedging allows the commercial banks to manage foreign exchange risk as shown by high means of 4.5 and 4.0 respectively. Pramborg (2004) sent out a survey to banks in Sweden and Korea and compared their use of hedging techniques to manage foreign exchange risk. As found by Marshall (1999) in his study, there are similarities between financial institutions in the countries, but withnotable exception; the aim of hedging activity differed. Swedish banks favored minimizing fluctuations of earnings or protecting the appearance of the balance sheet, while the Korean banks are focused more on minimizing the fluctuations of cash-flows.

The respondents also agreed that operational hedging strategies are more frequently combined with short term derivatives than with long term derivatives as shown by a mean of 4.1. Bodnar and Gebhardt (1999) suggested that financial institutions use operational hedges to hedge long term foreign exchange risk, while the short term risk is hedged with derivatives. This is supported by Hommel (2002), Carter et al. (2003) and Hansen (2009), who in their research found these to be complementary strategies.

Growth of financial institutions in Garowe Puntland

This is the dependent variable of the study which indicates the Growth of financial institutions in Garowe Puntland. Based on a five-point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree), respondents were presented with a number of items to measure the level Growth of financial institutions in Garowe Puntland

Indicator	**Mean**
Expansion	
There has been a great increase in the deposits of your financial institution	3.96
There has been a great increase in amount of loan advances.	4.14
Your financial institution has opened up branches in the country	4.49
Your financial institution opened up branched on other countries	3.75
Your financial institution lending to small business has increased	3.68
Your financial institution lending to medium & large business has increased.	3.76

Your financial institution lending to international corporations has increased	3.83
The number of small depositors has increased	3.98
The number of medium & large depositors has increase.	3.98
The number of international corporations have account with your financial institution has increased	4.01
Assets	
There has been a great increase in the shareholders capital of this financial institution	4.00
Your financial institution has enough depositors of all types.	4.92
Your financial institution has accumulated securities.	1.64
Your financial institution investment in bonds has increased	1.60
Your financial institution 's Investment in fixed assets has increased	3.58
The number and quality of equipment owned by your financial institution has increased	4.12
Mean Index	3.71

The table 4.10 showed that the mean 3.96, There has been a great increase in the deposits of the financial institution which is represents that the majority of the respondents were agreed and it is good, there has been a great increase in the deposits in the financial institution s because of confidence of their client and economic productive of the financial institution is what causes all these increase.

The table showed that the mean 4.14 represents that the majority of the respondents agreed that the financial institutions, There has been a great increase in amount of loan advance. the top and middle managers of the financial institution has developed proper management of their financial institution included the period of the loan and also model of repayment were attracted by the client, that mean indicated very good interpretation. The table above showed that the mean 4.49 represents that the majority of the respondents agreed that financial institutions opened up branched on other countries. this expansion were caused by the proper management of the financial institution and also the objective of reaching all parties of the countries in order to reach financial institution in service in remote area which is makes possible all small business to get funds for their investment ,so this mean indicated very good interpretation.

The table above indicated that the mean 3.75 represents that the majority of the respondents agreed that financial institution opened up branched on other countries. Selected financial institution has opened up branches on other countries in order to exploit gaps in financial markets. This mean indicated good interpretation.The findings above showed that the mean 3.68 represents that the majority of the respondents agreed that the financial institution lending to small business has increased ,good rate in the interpretation.

Financial institution is lending small business for short term investment which easy the return on investments comes out. As financial institution to offer funds for small and medium business is one of the functions of financial institution.

The findings above showed that the mean 2.76 represents that the majority of the respondents agreed that the financial institution lending to medium & large business has increased, because the growth of financial institution is what causes lending medium and large business in order to perform loan well and financial institution done by his obligation to ward offering this service, good rate in the interpretation of the lending.

The table 4.10 indicated that the mean of financial institution lending to international corporations has increased is (3.82 good) which means that majority of the respondents were agreed that the selected financial institution’s lending to international corporations has increased because of the excess funds which is require to operate in the market in terms of investment of international corporations.

The table 4.10 showed that the mean of that the number of small depositors has increased is (3.98 good) which represents that the majority of the respondents were agreed that the financial institutions the number of small depositors has increased because of the proper operation of the financial institution which is promotion capital formations. The above table indicated that the mean of that the number of medium & large depositors has increase (3.96 good) which represents that the respondents were agreed that the financial institutions the number of medium and larger depositors has increased because it is the primary function of the financial institution to increase depositors funds in order to investment it for other purpose and also depositors get the profitability of the financial institution that is make a lot of money on their own money so they decide to investment their funds rather than have without performing.

The findings of the above table showed that the mean of that the number of international corporations have account with your financial institution has increase is (4.01) which represents that the respondents were agreed that the majority of the respondent stated that the Financial institution s have opened an account for international corporations this is due to the economic stability of the region. The table 3 indicated that the mean of that , there has been a great increase in the shareholders capital of this financial institution is (4.0) which means that majority of the respondents were agreed that the selected financial institution has increase shareholders capital because of the profitability and high-quality management of financial institution s now days in Garowe Puntland.

The table 4.10 showed that the mean and standard deviation (3.92 good) that represents the financial institution has enough depositors of all types, this mean shows the majority of the respondents agreed that the financial institutions have enough depositors both local and international ,small and large depositors.

The table 4.10 showed that the mean of that the financial institution has accumulated securities is (1.64 Poor) which represents that the majority of the respondents were not agreed that the selected financial institution's has accumulated securities. This financial institution has not accumulated securities because the Puntland financial institution doesn't use this system. The table 4.10 indicated that the mean of financial institution investment in bonds has increased is (1.60 poor) which means that majority of the respondents were not agreed that the selected financial institutions have a weak investment bonds because there is no stock market in Puntland that commercial financial institution has not offer bonds.

The table 3.10 exposed that the mean and standard deviation of the financial institution's Investment in fixed assets has increased is (3.58 Fair) which indicates the majority of the respondents somehow are agreed that the both managers and staff of the financial institution has increased investment of fixed assets of the financial institution due to the improvement of financial institutions in Garowe.

The findings of the table 4 showed that the mean of that the number and quality of equipment owned by your financial institution has increased is (4.12 good) which represents the majority of the respondents were agreed that the financial institution has increased the number of quality equipment owned by the financial institution because of the expansion the financial institutions has opened branches throughout the country so that each branch have to get good quality equipment in order to operate accurately.

The mean index indicated that the degree of growth good as (**mean index 3.71**). Thus it can be deduced that the degree of growth of selected financial institution was good.

XIII. 4.5 Regression Analysis Results

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Sig
1	0.851	0.724	0.676	0.000

A Predictors: (Constant), Credit Risk Management, Market risk management, Liquidity Risk Management and foreign exchange risk management. R-squared is a statistical measure of how close the data are to the fitted regression line. It is also known as the coefficient of determination, or the coefficient of multiple determinations for multiple regressions. 0% indicates that the model explains none of the variability of the response data around its mean. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance.

The model summary of the regression analysis in Table 4.18 shows that Financial risk management practices accounted for 72.4 % of the variance in the growth of financial institutions operating in Garowe (R square = 0.724). This shows that 27.6% of the variance in growth was explained by factors not in the study.

Table 14: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig
Regression	35.775	4	7.944	14.066	0.033
Residual	13.654	118	0.494		
Total	49.429	122			

The significance value is 0.044 which is less that 0.05 thus the model is statistically significant in predicting independent variables (credit risk management, market risk management, liquidity risk management and foreign exchange risk management) this shows that the overall model was significant

The general objective sought to determine the effect of financial risk management practices on financial institutions in Garowe Puntland. The Pearson Correlation analysis which determines the strength and direction of the relationships was used. The Pearson correlation coefficient ranges from 0 (if no relationship exists) to 1 (for a perfect relationship). Correlation coefficients (in absolute value) which are ≤ 0.35 are generally considered to represent low or weak correlations, 0.36 to 0.67 moderate correlations, and 0.68 to 1.0 strong or high correlations with r coefficients > 0.90 very high correlations(Field,2005).

Table 12: Pearson's Correlation Analysis

	CRM	**IRM**	**LRM**	**FRM**	**GROWTH**
CRM	1				
MRM	0. 599(**)	1			
LRM	0. 579(**)	0.799(**)	1		
FRM	0. 111(*)	0. 211(**)	0.211(**)	1	
GROWTH	0. 711(**)	. 531(**)	0.611(**)	0.535(**)	1

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

The general objective was analyzed using multiple regression analysis. Multiple regression analysis was carried out to establish the extent to which the combined effect of credit risk management, market risk management, liquidity risk management and foreign exchange risk management effect on the growth of financial institutions. Before the regression analysis was carried out, Pearson's correlation analysis was carried out to ensure that there was no multicollinearity. Multicollinearity exists when there is a strong correlation between two or more independent variables and this poses a problem when running multiple regressions. According to Field (2009) multicollinearity exists when correlations between two independent variables are at or in excess of 0.80. In this study, the highest correlation was between market risk management and liquidity risk management (r = 0.799, p < 0.000) which rules out multicollinearity. The study conducted a multiple regression analysis and from the regression model, holding (Credit Risk Management, market risk management, Liquidity Risk Management and foreign exchange risk management) constant at zero, the growth of the financial institutions will be 1.147. A one percent (1%) change in credit risk management will lead to (0.458%) variation in the growth of the financial institution; also a one percent (1%) change in market risk management will lead to (0.279%) variation in growth of the financial institution.

Further, a (1%) change in liquidity risk management will lead to (0.324%) variation in growth of the financial institution and lastly a (1%) change in foreign exchange risk management will lead to (0.251%) variations in growth of the financial institution. This shows that there is a positive relationship between (credit risk management, market risk management, liquidity risk management and foreign exchange risk management) and growth of the financial institution.

	Unstandardized Coefficients		**Standardized Coefficients**	**T**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	1.147	3.83		2.915	0.000
Credit Risk Management	0.458	0.221	0.673	1.988	0.001

Liquidity Risk Management	0.324	0.116	0.367	2.608	0.004
Foreign exchange risk management	0.251	0.125	0.182	1.817	0.002
Market risk management	0.279	0.145	0.377	1.991	0.003

The Unstandardized beta coefficients column in Table 4.17 above were used to obtain the overall equation as suggested in the conceptual framework. When these beta coefficients are substituted in the equation, the model becomes:

$Y = 1.147 + 0.458X1 + 0.324\ X2 + 0.251\ X3 + 0.279X4 + \varepsilon$ where
Y = Growth, X1 = Credit Risk Management, X2 = Liquidity Risk Management, X3 = Foreign exchange risk management, and X4 = Market Risk Management

The results also show the unique contribution to the explaining of the independent variable. The standardized coefficients assess the contribution of each independent variable towards the prediction of the dependent variable, since they have been converted in the same scale to show Comparison. Table 4.18 indicates that Credit Risk Management was the most significant with p-values of 0.001 followed by Foreign exchange risk management with p-values of 0.002 respectively. The t-test statistic shows that all the B coefficients of are significant (since $p<0.05$).

XIV. Summary, Conclusions and Recommendations Summary

The summary of the study is based on overall objective of the study which was to explore the effect of financial risk management practices on growth of financial institutions in Garowe Puntland**.** The study set out to determine the effect of financial risk management practices on growth of financial institutions in Garowe Puntland. Specifically, it was intended to determine the influence of credit risk management practice, liquidity risk management practice, market risk management practice and foreign exchange risk management practice and how each of these affected the growth of financial institutions in Garowe Puntland.

The researcher adopted descriptive survey design to establish how each of the different constructs of risk practices affects the growth of financial institutions in Garowe Puntland Somalia.

A sample of 123 respondents was selected from study population of 178 persons. These were selected using formula and simple random sampling techniques. Data was collected by use of self-administered closed ended questionnaires. Study findings were presented using mean standard deviation. Pearson's correlations were used to establish the relationship between the different study variables. Research findings based on the responses received revealed that all constructs of risk management practice (credit risk management practice, liquidity risk management practice , market risk management practice and foreign exchange risk management practice) had a significant positive effect on growth of financial institutions in Garowe Puntland Somalia.

XV. Conclusion

The following are the conclusions drawn from this study as per its respective specific objectives.

Influence of credit risk management practice on the growth of financial institutions Garowe Puntland.

As per the analysis show in this variable it implies that there is a significant predictor to growth of financial institutions in Garowe Puntland Somalia. The researcher observed that sound credit risk management practice would help improve prudential oversight of asset quality, establish a set of minimum standards, and apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of nonperforming assets and loans.This led the researcher to conclude that credit risk management has a significant impact on the growth of financial institutions in Garowe Puntland Somalia since the average mean was 4.05.

Influence of liquidity risk management practice on the growth of financial institutions Garowe Puntland

With reference to the analysis of this variable indicate that there is a significant predictor to growth of financial institutions in relation to the liquidity risk management practice in Garowe Puntland Somalia. It was observed that liquidity risk management affected the cash flow and the funds available for funding to a great extent. This implies that maintaining an adequate degree of liquidity in the whole banking system is extremely important. The management of liquidity risk presents two main perspectives both of which have an effect on an institutions growth. They indicated that an inadequate level of liquidity may lead to the need to attract additional sources of funding associated with higher costs that will result in the reduction of the profitability of the bank and ultimately lead to insolvency. This led the researcher to conclude that liquidity risk management practices effect the growth of financial institutions in Garowe Puntland Somalia.

Effect of market risk management practice on financial institutions in Garowe Puntland

The findings indicate that the both manager and staff of the financial institutions involve almost the immediate purchase or sale of foreign exchange transactions in order to reduce market risk of financial institutions, they also indicated that they perform the forward market by involves contracting today for the future purchase or sales of the foreign exchange.

They mostly try to estimate the impact of these particular systematic risks on performance, attempt to hedge against the and thus limit the sensitivity of variations. Based on these findings, the researcher observed that there is a significant positive relationship between market risk management practice and growth of financial institutions in Garowe Puntland Somalia. This implies that the majority of the respondents are agreed that the financial institutions mostly have sufficient of ways to avoid against the market risk.

The level of growth selected financial institutions

As indicated the analysis of chapter four the mean index of the degree of growth is 3.78, this indicated the majority of the respondents agreed that the degree of growth of financial institutions is somehow good according to the mean which arrange in between 3.58-4.49.

XVI. Recommendation

- The study has revealed that four components that are credit risk, market risk, liquidity risk and foreign exchange risk have a positive relationship with growth. Banks in Garowe should ensure that the management of these four variables is enhanced in order to improve their growth.
- It is also clear that the banks use the existing credit policy as the primary document for formulating a new credit policy. It will also be important if the banks can also consider using credit policy documents from other successful similar organizations as a benchmark for best practices.
- The researcher also recommends in the financial institutions to make a technical assistance in the preparation of risk management in order to analyze effective and efficiency of the all types of risk management practice and also seek new ways to improvement and mitigation of risk. Financial institutions have to make clear follow ups procedure on borrowers and to also to emphasis their credit limit with having collateral security.
- Financial institutions must have legal advisor who sets the legal policies and procedures for all transactions. Financial institutions have to make funds reserve for needs which reserve for funds crisis and also protect loss of confidence by the clients.
- Financial institutions should have regularly committee of the shareholders to set policies, procedure, objectives and review the loans performance and financial statement on the regularly basis in order to create a good performance and best suitable goal of the bank. Financial institutions must be safeguard assets from waste, fraud, and deficiency in order to promote accuracy reliability in the risk management and also evaluate the efficiency of operations. The institutions should establish effective channels of communication to ensure that all staff is fully aware of risk mitigations policies and procedures affecting their duties and responsibilities and that other relevant information is reaching the appropriate objectives of the institutions.

Areas of Further Research

The researcher suggested that further research needs to be done in other types of the institutions offering financial services for example the insurance, savings and credit cooperatives to establish the impacts of financial risks management practices on the growth of these institutions. The researcher also suggested that the population of study needs to be increased as a population sample of 178 is not enough to make accurate generalizations from.

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