

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE



Assessment of Risk and Benefits of Foreign Banks Entry to Ethiopia

BY

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Declaration

I, Direslgn Dagnaw declare that this paper is a result of my independent research work on the topic entitled “Effect of Foreign Bank Entry in Ethiopia” in partial fulfillment of the requirements for the Degree of Masters of Art in Accounting and Finance at Addis Ababa University. This work has not been submitted for a degree to any other university. All the references are also duly acknowledged.

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This is to certify that **Direslgn Dagnaw** has carried out this research work on the topic entitled **“Effect of foreign bank entry in Ethiopia”** under my supervision. This work is original in nature and has not been presented for a degree in any University and it can be submitted for the partial fulfillment of the requirements for the award of the degree of Masters of Art Accounting Finance.

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ACRONYMS

CBE	Commercial Bank of Ethiopia
CEO	Chief Executive Officer
FDI	Foreign Direct Investment
GATS	General Agreement on Trade In Services
GDP	Gross Domestic Product
GNP	Gross National Product
IBD	International Banking Department
NBE	National Bank of Ethiopia
SPSS	Statistical Package for Social Science
SSA	Sub-Saharan Africa
WTO	World Trade Organization

Abstract

Despite heavy pressure from globalization and developed economies, the Ethiopian government continues by law to prohibit the entry of foreign banks to the country. In recent decades, international trade in goods and financial services has become increasingly important. To facilitate such trade, many banking institutions have also become international. The general objective of this study is to assess the effect of foreign bank entry in Ethiopia. The researcher employed a mixed approach to investigate the problem under study. The data were collected from higher officials of national bank of Ethiopia & 18 commercial banks in Ethiopia. The collected data were analyzed by using IBM SPSS statistics 20. The finding of this research shows foreign banks entry in Ethiopia has significant effect in Ethiopian banking sector. In addition, there entry has a benefits and potential risks for the general economy of the country as well as for local banks which are currently operating in this country.

Key Words: *Foreign bank, Foreign Direct Investment (FDI), Ethiopia*

CHAPTER ONE

1.1. Background of the study

The opening of financial services and the structural reforms of domestic financial sector are two interwoven processes, both aimed at developing an efficient and competitive financial system to facilitate economic growth. The degree of financial liberalization and integration has risen significantly in the 1990s. In particular, foreign bank presence as measured by percentage in total bank assets in low income countries has increased from 19 percent in 1995 to 42 percent in 2000 (World Bank 2002). Along with the expanded participation in The General Agreement on Trade in Services (GATS), policymakers have come to realize that the presence of foreign financial service providers can benefit the consumers, the financial industry through learning-by doing, and the economy through efficiency gains. However, foreign bank entry is not without risks especially if it is conducted in the absence of strengthening the institutional framework. More than trade in goods, the gains and costs of trade in financial services depend on many factors including the structural reforms in domestic financial sector, the regulatory framework as well as the sequencing of liberalization. (Nihal Bayraktar and Yan Wang, 2004)

1.1.1. Historical Background: Ethiopian Economy and Financial Sector

Ethiopia has some notable historical differences compared to other countries in the region. Although occupied by the Italians for a short time in the 1930s, Ethiopia does not share the colonial legacy of its neighbors. Its population (now above 100 million) has historically been, and continues to be, almost evenly divided between Coptic Christians and Muslims, with a very small Jewish population still located in the Northwest of the country. The Ethiopian economy has been state controlled through a series of industrial development plans since the Imperial Government of Haile Selassie.

It was managed as a Soviet-style centrally planned economy under a socialist government from 1976-1991. The post-1991 government led a transition to a more market-based system, and subsequent governments have introduced further reforms. Although state control has been reduced and domestic and foreign (private) investment promoted, the state still plays a dominant role in the economy today.

Ethiopia's financial sector remains closed and is much less developed than its neighbors. Ethiopia has no capital market and very limited informal investing in shares of private companies. A series of financial sector reforms has been introduced since 1994, when private banks were allowed to be re-established. But the three large state-owned banks continue to dominate the market in terms of capital, deposits and assets. The current government is committed to alleviating poverty through private sector development and through integrating Ethiopia into the global economy. However, the government does not at this time seem prepared to privatize large state-owned enterprises (or banks), allow for private ownership of land, or open the financial sector to foreign participation and competition.

How Is Ethiopia Different from Other African Countries?

As noted, Ethiopia has a unique economic and social/historical background; but it is not clear how it is different from other African countries. To address this question, this section compares key economic, social, and financial indicators for Ethiopia with those of other African countries. Table 1 summarizes the key indicators for four East African countries (Ethiopia, Kenya, Tanzania, and Uganda) and Sub-Saharan Africa (SSA) as a whole. Ethiopia has similar economic and social features compared to many other African countries, including historically low per-capita GDP growth rates, an underdeveloped infrastructure, and a legal system based on English law. But Ethiopia also has some differences from other African countries. In 2005, per-capita GDP was 140.6 U.S. dollars, the lowest level in East Africa. Agricultural dependency and rural population are 46.3 and 84.0 percent, respectively, both of which are among the highest in East Africa. Life expectancy is 42.7 years, the lowest in the region. Only 22.0 percent of the population has access to clean drinking water, which is the lowest in SSA. These characteristics clearly show that Ethiopia is one of the least developed countries in East Africa and among SSA countries. Table 1 also includes key financial indicators. Following Levine et al. (2000), we utilize three financial intermediation variables. The first indicator is liquid liabilities, which is defined as M3 (currency plus demand and interest-bearing liabilities of banks and non-bank financial institutions) as a percentage of GDP. According to Levine et al., this is a typical measure of 'financial depth' and thus of the overall size of the financial sector. The second indicator, commercial-central bank, is defined as commercial bank assets as a share of commercial bank plus central bank assets. This measure captures how the economy's savings are allocated to commercial banks. The third indicator is private credit, defined as credit extended to the private

sector as a ratio to GDP. Levine et al. (2000) emphasizes the key importance of private credit. As previously noted, Levine et al. (2000) found a strong positive relationship between the development of financial intermediation and economic growth. Based on Ethiopia's poor economic and social indicators, one may expect Ethiopian financial intermediation to perform poorly. However, this is not borne out by all the financial intermediation indicators noted in Table 1. That is, in 2004, credit issued to the private Sector in Ethiopia was 19.1 percent of GDP (the 2nd highest in East Africa and the 5th in SSA), and liquid liabilities were 44.6 percent of GDP (the largest in East Africa and the fourth in SSA).

However, on closer inspection, with respect to private credit to GDP, Ethiopia's GDP is relatively low, so this does not necessarily mean that intermediation is stronger in Ethiopia on this dimension. Note also that Ethiopia's gross domestic saving rate is only 3.6 percent, the lowest in East Africa. This implies that much of the population does not have ready access to banking services, and it may also be the case that the infrastructure for banking in rural areas is especially poor. It should also be noted that liquid liabilities (i.e., M3) can be increased by worker remittances rather than domestic saving. Hence, the credit issued and liquidity indicators noted may not reflect depth in Ethiopia's financial system.

It is further worth noting that the financial liberalization index, which measures banking security and independence from government control, on a scale of 10 to 100 (100 being the most liberal), is only 20 for Ethiopia (the lowest in SSA). This indicates that the Ethiopian financial sector is highly controlled by the government, a finding that is consistent with Dailami (2000), who ranked Ethiopia as the most closed country in the 96 countries for 1997 covered in his study.

Moreover, bank concentration, defined as the asset share of the three largest banks, is 87.9 percent in Ethiopia, which is the highest in East Africa. Indeed, the Ethiopian banking sector is dominated by one large state-owned bank, the Commercial Bank of Ethiopia (CBE). Table 2 presents the assets of Ethiopian banks for 1998-2006. In 2004, there were three state-owned banks and six private banks. The asset share of the CBE was 66.3 percent, while the share of all three state-owned banks was nearly 80 percent. These results clearly indicate the dominant state control of the Ethiopian banking sector.

Table 2. Assets of Ethiopian Banks, 1998-2006

Value (Millions of ETB)	1998	1999	2000	2001	2002	2003	2004	2005	2006
State-owned banks	19,732	19,936	23,417	25,035	25,673	27,697	33,113	35,001	37,646
Commercial Bank of Ethiopia	17,503	17,434	19,828	21,489	22,146	24,200	27,975	33,169	35,849
Development Bank of Ethiopia	2,229	2,502	2,615	2,578	2,569	2,555	4,081	n.a.	n.a.
Construction and Business Bank	n.a.	n.a.	974	968	958	942	1,057	1,832	1,797
Private banks	1,354	2,040	3,157	4,036	5,234	6,968	9,093	12,253	16,443
Dashen Bank	511	674	865	1,100	1,486	1,991	2,677	3,420	4,546
Awash International Bank	452	536	759	907	1,112	1,401	1,770	2,226	2,954
Bank of Abyssinia	206	388	718	896	1,142	1,333	1,585	2,057	2,834
Wegagen Bank	185	366	514	583	646	889	1,140	1,616	2,259
United Bank	n.a.	76	143	214	314	469	674	1,073	1,599
Cooperative Bank of Oromia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	129	224
Nib International Bank	n.a.	n.a.	158	336	534	885	1,247	1,732	2,027
Total	21,086	21,976	26,574	29,071	30,907	34,665	42,206	47,254	54,089
Share (%)	1998	1999	2000	2001	2002	2003	2004	2005	2006
State-owned banks	93.6	90.7	88.1	86.1	83.1	79.9	78.5	74.1	69.6
Commercial Bank of Ethiopia	83.0	79.3	74.6	73.9	71.7	69.8	66.3	70.2	66.3
Development Bank of Ethiopia	10.6	11.4	9.8	8.9	8.3	7.4	9.7	n.a.	n.a.
Construction and Business Bank	n.a.	n.a.	3.7	3.3	3.1	2.7	2.5	3.9	3.3
Private banks	6.4	9.3	11.9	13.9	16.9	20.1	21.5	25.9	30.4
Dashen Bank	2.4	3.1	3.3	3.8	4.8	5.7	6.3	7.2	8.4
Awash International Bank	2.1	2.4	2.9	3.1	3.6	4.0	4.2	4.7	5.5
Bank of Abyssinia	1.0	1.8	2.7	3.1	3.7	3.8	3.8	4.4	5.2
Wegagen Bank	0.9	1.7	1.9	2.0	2.1	2.6	2.7	3.4	4.2
United Bank	n.a.	0.3	0.5	0.7	1.0	1.4	1.6	2.3	3.0
Cooperative Bank of Oromia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.3	0.4
Nib International Bank	n.a.	n.a.	0.6	1.2	1.7	2.6	3.0	3.7	3.7

Note: n.a. (not available)

Sources: Annual Reports of the individual banks.

The foregoing observations have important implications. As discussed above, Demirgüç-Kunt et al. (1998) and Mattoo et al. (2006) found a positive relationship between financial sector openness and economic growth. Mattoo et al. emphasized that the key elements of financial openness are domestic market competition, foreign ownership, and limited capital controls, all of which are lacking in Ethiopia. That is, high bank concentration indicates a lack of competition in Ethiopia's banking sector. Foreign banks are not permitted to enter the market in any form, and the Ethiopian Government maintains strong control over international capital movements.

Beck et al. (2004), who concluded that increase in bank concentration were an obstacle to obtaining finance. They found that the constraining effects of bank concentration were exacerbated by more restrictions on bank activities, more government interference in the banking sector, and larger share of government-owned banks. By the same token, these constraining effects were dampened by the presence of a large share of foreign banks. It would appear therefore that the highly closed nature of the in Ethiopian financial sector would serve to negate the positive effects that would otherwise come from greater financial intermediation.

Table 1. Key Economic and Social Indicators for Ethiopia and Other African Countries

	Ethiopia	Kenya	Tanzania	Uganda	Sub-Sahara Africa	Rank of Ethiopia in East Africa	Rank of Ethiopia in SSA
Economic and Social Indicators							
GDP (2005, US\$ millions)	10,018	15,151	12,646	7,786	9,286	4 / 4	41 / 45
Per-capita GDP (2005)	140.6	442.3	329.9	270.2	898.7	4 / 4	41 / 45
Per-capita GDP growth (annual average, 1995-2005)	0.9	-0.1	1.6	3.0	0.5	3 / 4	17 / 45
Agriculture dependency (% of GDP, 2005)	46.3	27.9	46.2	32.2	28.2	1 / 4	6 / 43
Rural population (% of total population, 2005)	84.0	79.3	75.8	87.4	62.6	2 / 4	3 / 47
Life expectancy (years, 2005)	42.7	49.0	46.3	50.0	48.7	4 / 4	34 / 46
GINI index (average, 1990-2005)	35.0	50.0	34.2	45.7	47.3	3 / 4	28 / 30
Infrastructure							
Paved roads (% of total roads, 2003 or 2004)	19.1	14.1	8.6	23.0	24.2	2 / 4	10 / 24
Improved water source (% of population with access, 2004)	22.0	61.0	62.0	60.0	65.0	4 / 4	47 / 47
Legal origin	English	English	English	English	English	English = 14 / 33	
Religion	Muslim	Protestant	Muslim	Catholic		Muslim = 12 / 33	
Financial Indicators							
Liquid liabilities (% , 2004)	44.6	39.2	21.2	19.7	29.8	1 / 4	4 / 27
Commercial-central bank (% , 2004)	50.4	90.0	87.5	50.0	67.2	3 / 4	33 / 40
Private credit (% , 2004)	19.1	24.5	7.5	6.1	17.1	2 / 4	5 / 27
Gross domestic saving (% of GDP, 2005)	3.6	9.3	9.7	7.1	9.2	4 / 4	29 / 42
Financial liberalization index (10-100, 2007)	20.0	50.0	50.0	70.0	48.2	4 / 4	38 / 38
Dailami's financial openness index: 1.12 (closed) - 1.93 (free) (1997)	1.12	n.a.	n.a.	n.a.	1.44	n.a.	17 / 17
Bank concentration (% , 2004)	87.9	58.9	67.2	62.6	80.7	1 / 4	5 / 10

Note: For the list of Sub-Saharan African countries, see Table A1. For definitions of the indicators and sources, see Table A2.

Source: <http://www.fordschool.umich.edu/rsie/workingpapers/wp.html>

1.1.2. Ethiopian Government Concerns and Opposition to Liberalization

Given the evidence from the literature and our analysis discussed above of the importance of greater openness and foreign participation in enhancing financial intermediation and economic growth, it may be surprising that the Ethiopian government remains so strongly opposed to financial sector liberalization. It appears that the Prime Minister, his economic advisors, and the Cabinet of Ministers are particularly concerned about the potential impact of foreign bank entry on the development of the domestic banking sector, access to and the allocation of credit, domestic savings mobilization, the country's capital account, and the ability of the central bank to supervise foreign banks and the new products and services that they introduce into the market. Ethiopia's Prime Minister, Meles Zenawi (2007), has expressed his personal views on financial sector reform and development in Africa in a partially completed manuscript entitled, African Development: Dead Ends and New Beginnings. His views on the past failures of financial

reforms and the design of new reforms are of interest. In Section 17.2 of his Chapter 17, “Outcome of Economic Reform,” he holds financial sector reforms responsible for the high incidence of non-performing loans and excess liquidity in many African countries. He attributes this failure to the pervasive lack of information in guiding bank operations (bank inability to assess credit), and the lack of demand for credit from private sector borrowers that has led to excess liquidity. He notes also that there have been high interest-rate spreads, high real rates of interest, and pervasive rent-seeking. Excess liquidity reflected the failure of banks to effectively mobilize savings and promote lending. In the case of Ethiopia, the Prime Minister and his government, as key stakeholders, have five main concerns, many of which are shared by other stakeholders, including the leadership of the private banks and the Ethiopian Bankers’ Association:

The government believes that the development of a viable domestic banking sector will be threatened by foreign banks, because they have more capital, more experience, and better reputations. They argue that the Ethiopian financial sector is too young and inexperienced to compete (the infant industry argument).

- Ethiopian government officials also believe that entry by foreign banks will further skew credit allocation towards large-scale industrial, real estate and service enterprises (including trade) and away from agriculture, small-scale and cottage/micro enterprises (sectors which are the priorities for the government’s development strategy). They contend that foreign banks will concentrate lending in major urban centers using foreign funds, contributing little towards the development of rural banking. Furthermore, they contend that foreign banks will “cherry pick” the best companies and sectors.
- Domestic savings mobilization has been identified as an area of concern to Ethiopian officials, who have suggested that foreign banks would lend in their home or other foreign currencies and would not be interested in mobilizing domestic savings.
- There is concern that foreign banks may serve as conduits for the inward and outward flows of capital (e.g., through capital and money-market transactions; credit operations; personal capital movements; etc.). This may cause foreign exchange and/or liquidity shortages, with potentially adverse effects on the country’s capital account. The concern becomes more pronounced in view of the limited regulatory capacity of the central bank.

- Finally, it is strongly believed that the authorities will be unable at present to regulate and supervise foreign banks effectively.

1.2. Statement of the Problem

In recent decades, international trade in goods and financial services has become increasingly important. To facilitate such trade, many banking institutions have also become international (Aliber (1984)). Banks have expanded internationally by establishing foreign subsidiaries and branches or by taking over established foreign banks. The internationalization of the banking sector has been spurred by the liberalization of financial markets worldwide. Developed and developing countries increasingly allow banks to be foreign-owned and allow foreign entry on a national treatment basis. Financial liberalization of this kind proceeds, among other reasons, on the premise that the gains from foreign entry to the domestic banking system outweigh any losses. Several authors have addressed the potential benefits of foreign bank entry for the domestic economy in terms of better resource allocation and higher efficiency (see Levine 1996, Walter and Gray, 1983, and Gelb and Sagari, 1990). Foreign banks may improve the quality and availability of financial services in the domestic financial market by increasing bank competition, and enabling the greater application of more modern banking skills and technology, the serve us to stimulate the development of the underlying bank supervisory and legal framework, and also enhance a country's access to international capital. In-addition to those benefits, there may also be costs to opening financial markets to foreign competition. Stiglitz (1993), for instance, discusses the potential costs to domestic banks, local entrepreneurs, and the government resulting from foreign bank entry. Domestic banks may incur costs since they have to compete with large international banks with better reputation; local entrepreneurs may receive less access to financial services since foreign banks generally concentrate on multinational firms; and governments may find their control of the economy diminished since foreign banks tend to be less sensitive to their wishes.

As yet, Ethiopia appears unique as compared to its East African neighbors (namely Kenya, Tanzania, and Uganda) and many other developing countries in that it has not yet opened its banking sector to foreign participation. The Ethiopian banking sector remains isolated from the impact of globalization. Although Ethiopian policy makers understand the potential importance of financial liberalization, but it is widely believed that liberalization may result in loss of control

over the economy and may not be economically beneficial. While Ethiopia's financial sector has not been studied to any great extent, the benefits of foreign bank entry through bank sector liberalization for developing countries have been widely investigated, with conclusions suggesting that there may be significant positive effects involved. For example, Demirgüç-Kunt, Levine, and Min (1998) investigated the effects of foreign bank presence in 80 countries between 1988 and 1995. They found that liberalizing restrictions on foreign bank entry accelerated the efficiency of the domestic banking sector, and thereby contributed to long-run economic growth. Mattoo, Rathindran, and Subramanian (2006) examined the effects of financial liberalization on per-capita GNP growth in 59 countries between 1990 and 1999 and found that openness in financial services had positive and significant effects on economic growth. Similarly, a number of studies have examined whether the level of development of financial intermediation and the degree of state ownership of banks were determinants of economic growth. Thus, for example, Levine, Loayza, and Beck (2000) examined the effects of financial intermediation on economic growth in 74 countries from 1960 to 1995 and found that greater financial intermediation development had a significantly positive impact on economic growth. La Porta, Lopez-de-Silanes, and Shleifer (2002) examined the ownership structure of banks in 92 countries and found that higher government ownership of banks resulted in lower per-capita GDP growth from 1960 to 1995, even when initial financial intermediation development had a positive and significant effect. They also found that higher government ownership of banks was associated with slower subsequent financial sector development and lower productivity growth. What distinguishes this research paper is that we take a close look at the Ethiopian banking sector to consider the effect of Foreign bank entry in Ethiopia i.e. whether Ethiopia would benefit from allowing foreign participation in the bank sector or not. And at the end the research attempts to address the following questions

1. What are the potential risks towards foreign bank entry in Ethiopia?
2. What are the potential benefits; if foreign banks are allowed to operate?
3. What are the potential costs; if foreign banks are allowed to operate in the bank sector in Ethiopia?
4. What are the potential efficiency reforms to the Ethiopian banking sector, if foreign banks are allowed operating with current conditions?

1.3. Research Objectives

1.3.2. General Objective

The main objectives of this study is to assess the effect of foreign bank entry in Ethiopia

1.3.3. Specific Objectives

The Specific objectives of the study are the following:

1. To examine the potential risks towards foreign bank entry in Ethiopia.
2. To determine the potential benefit if foreign banks are allowed to operate.
3. To determine the potential costs if foreign banks are allowed to operate
4. To examine the potential efficiency reform to the Ethiopian bank sector, if foreign banks allowed operating with current conditions.

1.4. Significance of the Study

Considering the current situations of the economy, the value of undertaking the research on this area is important and undeniable, accordingly, in this research the effect of foreign banks entry in the local economy viewed from a wider spectrum and some conclusions were drawn. Therefore, this study has greater importance in assessing the degree of the effect of the foreign bank entry in the Ethiopian market.

Further, the result of this study may provide the concerned bodies with insight how to manage the entrance of foreign banks in the best interest of the country as well as how to protect the country from the potential risk and potential cost. The findings may also serve as a basis for any further investigations that will be carried out regarding foreign banks entry in Ethiopia.

1.5. Limitation of the Study

Due to limitation of resources, even though the researcher needs to incorporate different variables, the research scope is limited to assessing Effect of Foreign Bank entry in Ethiopia in the bank sector from perspective of employees in these active bank institutions in the study period. In addition, the study is limited only to banking sector and may not generalize the impact and readiness on financial sector in general. With respect to geographic location the study specifically focuses on Addis Ababa branches of the sampled banks.

1.6. Organization of the Paper

Generally, this paper is organized into five chapters. The first chapter presents Introduction, background of the study, problem Statement, General and Specific objective of the study, significance, scope and Limitation of the study. The second chapter deals with the related literature review. The third chapter presents the research methods which is used in this study which includes; Source of Data, sample size and sampling methods, method of data collection, data quality assurance and etc. In the fourth chapter the researcher presents the analysis result and interpretation. The final i.e. fifth chapter presents the summary of major findings, conclusion and recommendation.

CHAPTER TWO

2. Literature Review

2.1 Foreign Bank Entry in the Domestic Banking Sector

The benefits and costs of foreign bank entry are investigated extensively in the literature. The World Bank (2002) summarizes the benefits as follows. 1) Foreign bank entry increases the efficiency of the domestic banking sector. Increased competition tends to reduce costs and to increase profits (World Bank, 2001; Claessens, Kunt, and Huizinga, 1998). 2) The allocation of credits to the private sector may be improved since it is expected the evaluation and pricing of credit risks to be more sophisticated (Clarke, Cull, and Soledad Martinez Peria, 2001; Barth, Caprio, and Levine, 2001). This may help foster higher growth (Levine, 1996). 3) The presence of foreign banks helps to build a domestic banking supervisory and legal framework, and enhance the overall transparency. 4) It is expected foreign banks to provide more stable sources of credit since they may refer to their parents for additional funding and they have easier access to international markets. Thus, domestic financial markets will be less vulnerable to domestic shocks. 5) Foreign banks may reduce the costs associated with recapitalizing and restructuring banks in the post-crisis period. The costs of foreign bank entry are specified as follows: 1) If the franchise value of domestic banks decreases with foreign bank entry, they may have an incentive to take on greater risks (Hellmann, Murdock, and Stiglitz, 2000). 2) With more advanced services and products, foreign banks attract the most profitable portion of domestic markets. Thus, riskier sectors will be served by domestic banks. 3) With increased foreign bank presence, access to credit may be impaired for some sectors of the economy. 4) Foreign banks may increase financial instability by pulling out of host countries or by contagion from problems in the home country. 5) Since foreign banks have different priorities and business focus, their lending pattern tends to ignore domestic priorities. Claessens, Demirguc-Kunt, and Huizinga (1998) examine the effects of foreign bank entry on the domestic banking sector. They show that in developing countries foreign banks tend to have greater profits, higher interest margins, and higher tax payments compared to domestic banks. But the opposite is true in developed countries. Another interesting conclusion is that both profitability and overhead expenses of domestic banks fall with foreign bank entry. In this study, we apply their empirical technique to a different data set. While their data cover 80 countries and the period of 1988-95, our data set

includes 29 countries and covers the period of 1995-2002. Thus, our study will be helpful to confirm their results. Demircuc-Kunt and Huizinga (1999) present similar results. They show that foreign banks have generally higher profits and margins compared to domestic banks in developing countries, while the opposite is true in industrial countries. Demircuc-Kunt, Levine, and Min(1998) show that foreign bank participation lowers the possibility that a country will experience a banking crisis. They indicate that the presence of foreign banks lowers overhead costs and profits of domestic banks. Foreign banks also increase overall economic growth by raising the efficiency of domestic banks.

There are also studies focusing on country-level experiences. Denizer (2000) investigates foreign bank entry in Turkey's banking sector. He shows that the net interest margin, overhead expenses, and returns on assets are related to foreign ownership. He also indicates that foreign bank entry has a strong competitive effect on the banking sector. It lowers the return on assets and overhead expenses. Hasan and Marton (2000) investigate the Hungarian banking sector during the transitional process. They conclude that banks with higher foreign bank ownership involvement are associated with higher efficiency. Goldberg, Dages, and Kinney (2000) study the role of foreign banks in determining the health of domestic financial systems in Argentina and Mexico. The health of banks, and not their ownership, is the critical determinant in the growth, volatility, and cyclicalness of bank credits. But diversity in ownership tends to contribute to greater stability of credit in times of crisis and domestic financial system weakness.

2.2. Why Foreign Banks Expand Abroad?

The expansion of foreign banks entry into domestic banking sector abroad is on the basis of new market seeking. It is on the premise that the gains obtained from domestic banking sector abroad may compensate any losses or decreases of earning at their home country. Furthermore, the most important attribute is that, foreign banks entry is inspired by the competitive advantages of the domestic banking sector abroad that possesses financial stability, higher expected returns and potential of economic growth (Clarke et al., 2003).

Besides that, foreign banks extend abroad with the customer following motives. Foreign banks follow their valuable conglomerate customers that expand their business abroad or overseas. The foreign banks do not want to lose their remarkable profit from their valuable conglomerate

customers in their home country. The foreign banks are unwilling to let the huge profit that can be generated from their valuable conglomerate customers to domestic banks abroad (Aliber, 1984).

2.3. Modes of Foreign Banks Entry

In facilitating such internationalization of banking activities, many foreign banks have expanded internationally by entering domestic banking sectors abroad through establishing foreign subsidiaries and branches, mergers or by taking over (acquisition) domestic banks abroad (Aliber, 1984). Hence, foreign banks are said of entering the domestic banking sector either via acquisition of domestic banks or through green field investment.

The extent to which foreign bank subsidiaries differ from domestic banks will also depend on their level of embeddedness in the multi-national banking organization they are part of. A useful distinction in this regard is the one between denovo foreign bank affiliates, so called Greenfield, and affiliates that are the result of a takeover of an already existing bank. Greenfields and takeovers may differ because they reflect differing entry strategies of the parent bank (Levine, 1997). A foreign bank unfamiliar with a country to which its wants to expand may first establish a green field to 'test the waters'. Buying an existing bank may on the other hand reflect a longer term or more definite commitment (Bonin et al., 1998).

Moreover, some parent bank establishes green field because they want to control all aspects of the new affiliate right from the beginning. Other banks put more emphasis on the need to be a real local bank, and are thus more in favor of taking over an existing bank (Levine and Zervos, 1998). In that case, however, the strategic direction and balance sheet composition of takeovers may for some time partly reflect the influence of the former management (Schranz, 1993). This will especially be the case when local management and staffs is not or only partly replaced (Rajan and Zingales, 1998). In general, the organization and corporate governance links between a parent bank and a takeover are likely to be looser than those between a parent bank and the green field it has established from scratch (Berger et al., 2000).

2.4. The Advantages of Foreign Banks Entry in Domestic Banks Financial Performance

Foreign banks entry leads to the introduction of efficient banking management practices, latest banking technologies and financial innovations previously unknown to domestic banks. These are beneficial to domestic banks since management team of domestic banks could learn and adopt those efficient banking management practices, latest banking technologies and financial innovations of foreign banks entry to improve the operations of their banks (Clarke et al., 2003). As such, increased competition stimulated by new entrants of foreign banks entry has push and initiate domestic bank to become more efficient in their banking business operations (Barth et al., 2004)

Foreign banks entry encourages improvement domestic banks efficiency through sound competition as foreign banks entry represents competitive competition for domestic banks. Hence, it might cause dynamic impact on domestic banks financial performance; profitability, net interest margin, non-interest income, overhead cost and loan loss provision (Claessens, 2001). However, it's depend on how well developed the host countries' banking sectors and economics are (King and Levine, 1993; Lensink and Hermes, 2004).

Developing and less developed countries are welcoming foreign banks entry into their domestic banking sector with the main objective for emerging their domestic banking sector development toward a greater banking sector. This is because foreign banks entry allows external capital to flow into domestic banking sector bring along their modern banking skills, new financial innovations, advance banking technology and recent system of banking operations into domestic banks sector (Bonin et al., 1998; Dages et al., 2000).

The presence of foreign banks entry is therefore potentially contributing exposure of innovation and development through fostering efficiency and productivity improvement, as well as market discipline to domestic banks operations and activities (Sengupta, 2007). As such, the main determination of permitting foreign banks entry into domestic banks sector is for the purpose of benefiting those banking advantages that bring along by foreign banks entry.

In emerging market economies, the entry of foreign banks will contribute to the stability of the banking system and function as a stable source of credit, especially during periods of crisis. Mathieson and Roldos (2001) who study whether the presence of foreign banks makes systemic

banking crises more or less likely to occur, and whether there is a tendency for foreign banks to ‘cut and run’ during banking crisis periods, pointed out that, in general, foreign banks entry can provide a more stable source of credit because branches and subsidiaries of large international foreign banks entry can draw on their parent institutions (which typically hold more diversified portfolios) for additional funding (Denizer et al., 2007).

In addition, large international foreign banks entry is likely to have better access to global financial markets. Thus the entry of foreign banks can improve the overall stability of the host country’s domestic banking system. Demirgüç-Kunt et al., (1998) has earlier noticed that, over the period of year 1988 to year 1995 and for a large sample of countries, foreign banks entry was generally associated with a lower incidence of local banking crises.

Furthermore, in a wider potential macro-economic scale, foreign banks entry with great expertise and experience of other financial activities, such as insurance, brokerage and portfolio management services, can help nurture the improvement of domestic financial system infrastructure and the financial markets development (Zajc, 2002). Excellent financial system infrastructure and sound financial market development is the essential attraction of foreign direct investment entrance to domestic economy (Hermes and Lensink, 2004). Subsequently, foreign direct investment could diversify the inflow of capital and funding that will increase the amount of fund available for facilitating domestic economic projects (King and Levine, 1993).

Enormous foreign direct investment that is significantly correlated with the excellent financial system infrastructure and sound financial market development will significantly influence the growth of GDP of a certain country. For instance, studies have shown that countries with well-developed and stability of financial institutions tend to experience more rapid rates of real GDP per capita growth (Levine, 1997; Levine and Zervos, 1998). Thus the overall economic success and development of a country is yield from a positive function and excellent development of its financial sector, its banking system stability in particular. Consequently, the entry of foreign banks brings large benefits to host countries’ financial systems stability and economies at large (King and Levine, 1993).

2.5. The Challenges of Foreign Banks Entry in Domestic Banks Financial Performance

Foreign banks entry is however not without risks and challenges that encounter to domestic banks financial performance. Those strong and great reputations of foreign banks entry have created higher unbalanced competition especially in domestic banks of less developed and developing countries (DeBrandt and Davis, 2000; Hasan et al., 2000; 2000, Denizer, 2007). The unbalance competition is due to the inability of domestic banks to innovate, imitate and compete with the foreign banks entry advance innovations, technology and system (Berger et al., 2000).

According to Claessens et al., (2001), the unbalanced competition has instigated certain unhealthy impact on the domestic banks financial performance; profitability. As such, according to Clark et al., (2003), as compared to domestic banks, the financial performance of foreign bank entry is more impressive in term of profitability in the domestic banking sector of less developed and developing countries. Consequently, the unbalanced competition has reasoned that domestic banks of less developed and developing countries were left behind (Lensink and Hermes, 2004).

Thus, though normally competition from foreign banks entry can persuade domestic banks to become more efficient and achieving excellent performance, but unbalanced competition can cause domestic banks from less develop and developing countries that are incompetent with the competitiveness of foreign banks entry are defeated in the competition and are left behind.

Furthermore, foreign banks entry does practice ‘cherry picked’ at the domestic economic sector where foreign banks entry is more concentrate on domestic blue-chipped profitable business organizations and tend to be less sensitive to those of less profitable business organizations. Hence, those domestic less profitable business organizations are left behind for domestic banks. In addition, according to Detragiache & Gupta (2006), foreign banks entry also chooses of low risk firms of domestic economic sector, and has left firms of riskier sectors of the domestic economy to domestic banks. As a result, domestic banks serve the domestic markets riskier sectors businesses organizations.

Subsequently, domestic banks have to compete with foreign banks entry for blue-chipped creditworthy domestic clients and struggle for attaining low risk firms of domestic economic

sector (Dages et al., 2000). As such, domestic banks have to take on greater cost by paying higher interest rate on deposits to attract domestic high net worth clients and low risk firms of domestic economic sector to compete with foreign banks entry. As a result, domestic banks pay higher interest rates on deposits but cannot charge higher interest rates on loans. Moreover, foreign banks entry also reduces and decrease market share of domestic banking sector. Thus, foreign banks entry may apparently decrease profits, net interest income and non-interest income of domestic banks (Kalluru and Bhat, 2009).

Foreign banks entry excellent financial performance is because foreign banks entry has generally operated based on a target market, focused on high value corporate clients as against the mass consumer and corporate customers by the domestic banks (Okuda and Suvade, 2007). Other factors that contributing to the better financial performance of foreign banks entry include their global network, accessibility to talents and experience in various markets as well as their superior level of information technology. There are therefore significant efficiency and Excellency gaps between foreign banks entry and domestic banks (Uiboipin, 2005).

The efficiency and excellency gaps situation has led to an increase in the operating expenses and decreased of net interest margin of domestic banks which adversely affected the domestic banks financial performance; profitability in terms of profit before tax (Claessens et al., 2001), ROA, non-interest income, and increment of overall overhead expenses of the domestic banks (Detragiache& Gupta, 2006; Isik, 2008; and Derviz & Podpiera, 2008). Thus, it is apparent that foreign banks entry may bring both advantages and disadvantages to domestic banks.

2.6. Ethiopian Government Concerns and Opposition to Liberalization

Given the evidence from the literature and our analysis discussed above of the importance of greater openness and foreign participation in enhancing financial intermediation and economic growth, it may be surprising that the Ethiopian government remains so strongly opposed to financial sector liberalization. It appears that the Prime Minister, his economic advisors, and the Cabinet of Ministers are particularly concerned about the potential impact of foreign bank entry on the development of the domestic banking sector, access to and the allocation of credit, domestic savings mobilization, the country's capital account, and the ability of the central bank to supervise foreign banks and the new products and services that they introduce into the market.

Ethiopia's Prime Minister, Meles Zenawi (2007), has expressed his personal views on financial sector reform and development in Africa in a partially completed manuscript entitled, *African Development: Dead Ends and New Beginnings*. His views on the past failures of financial reforms and the design of new reforms are of interest. In Section 17.2 of his Chapter 17, "Outcome of Economic Reform," he holds financial sector reforms responsible for the high incidence of non-performing loans and excess liquidity in many African countries. He attributes this failure to the pervasive lack of information in guiding bank operations (bank inability to assess credit), and the lack of demand for credit from private sector borrowers that has led to excess liquidity. He notes also that there have been high interest-rate spreads, high real rates of interest, and pervasive rent-seeking. Excess liquidity reflected the failure of banks to effectively mobilize savings and promote lending. In the case of Ethiopia, the Prime Minister and his government, as key stakeholders, have five main concerns, many of which are shared by other stakeholders, including the leadership of the private banks and the Ethiopian Bankers' Association:

The government believes that the development of a viable domestic banking sector will be threatened by foreign banks, because they have more capital, more experience, and better reputations. They argue that the Ethiopian financial sector is too young and inexperienced to compete (the infant industry argument).

- Ethiopian government officials also believe that entry by foreign banks will further skew credit allocation towards large-scale industrial, real estate and service enterprises (including trade) and away from agriculture, small-scale and cottage/micro enterprises (sectors which are the priorities for the government's development strategy). They contend that foreign banks will concentrate lending in major urban centers using foreign funds, contributing little towards the development of rural banking. Furthermore, they contend that foreign banks will "cherry pick" the best companies and sectors.
- Domestic savings mobilization has been identified as an area of concern to Ethiopian officials, who have suggested that foreign banks would lend in their home or other foreign currencies and would not be interested in mobilizing domestic savings.
- There is concern that foreign banks may serve as conduits for the inward and outward flows of capital (e.g., through capital and money-market transactions; credit operations; personal capital movements; etc.). This may cause foreign exchange and/or liquidity

shortages, with potentially adverse effects on the country's capital account. The concern becomes more pronounced in view of the limited regulatory capacity of the central bank.

- Finally, it is strongly believed that the authorities will be unable at present to regulate and supervise foreign banks effectively.

2.7. Potential Benefits and Qualifications to Liberalization

While the Ethiopian government's concerns about financial liberalization are understandable, there is nonetheless a compelling case that can be made in our view to pursue liberalization. The following are some of the important potential benefits that may be realized from liberalization and some qualifications to be taken into account:

Financial liberalization may have positive effects on the efficiency of the banking sector in the host market. This is because domestic banks are forced to compete with more efficient foreign banks and because skills and technology levels improve.

The entry of foreign banks through financial liberalization may improve bank supervision through regulatory spillover. According to Goldberg (2007, p. 10): "The entry of foreign banks in emerging markets that are healthier than domestic banks implicitly allows a country to import stronger prudential regulation and increase the soundness of the local banking sector."

The entry of foreign banks may also contribute to financial stability in host countries. This is because the cross-border flows are generally more volatile than locally generated claims by foreign branches and subsidiaries.

As a part of financial sector liberalization, the privatization of state-owned banks may be an important option to further enhance the efficiency of the banking sector. As discussed in Section 4, numerous studies have confirmed that state-owned banks are less efficient than private banks and that privatization generally has positive effects on bank performance.

The entry of foreign banks may have positive effects on employment and wages. While studies of manufacturing industries have confirmed that FDI generally had positive effects on employment and wages in host countries, since banks play an important role in financial intermediation, the effects of FDI for financial services on employment may be greater and broader than those of FDI for manufacturing sectors.

By the same token, financial services liberalization carries certain economic risks and uncertainties, some of which are consistent with the stakeholders' concerns noted above:

Financial liberalization may cause financial fragility rather than financial stability. For example, Demirgüç-Kunt and Detragiache (2001) examined the relationship between banking crises and financial liberalization (defined as interest rate liberalization) for 53 countries between 1980 and 1995. They found that banking crises were more likely to occur in countries whose financial system was liberalized. This is especially true in developing countries where the institutional environment is weak.

In their survey article, Prasad, Rogoff, Wei, and Kose (2007) suggest that the positive relationship between financial liberalization and economic growth was rather weak in the case of developing countries. But they found that financial liberalization could be beneficial under the right circumstances such as high quality of governance.

Mishkin (2007) has noted that if financial liberalization is not managed properly, it can lead to potentially highly disruptive financial crises. This was borne out in Tornell, Westermann, and Martínez (2003), who found that liberalization led to a higher incidence of crises. However, they also found that there was more rapid economic growth in countries in which there were severe credit market imperfections.

Foreign banks may not address directly issues of poverty alleviation and the access of low-income and rural-based savers and borrowers to financial services. Although financial liberalization itself may have positive effects on economic growth, only wealthy people may gain from financial development. However, according to Mishkin (2007, p. 263): “In countries with better financial development, the income of the poorest fifth of the population actually grows faster than average GDP per-capita.” This is because financial development enables the poor to access credit more easily.

It is evident from the preceding discussion that there may be significant economic benefits to be derived from financial sector liberalization, in particular from the entry of foreign banks and the privatization of state-owned banks. However, attention needs to be paid to the possible detrimental effects that may occur in the case of developing countries like Ethiopia. The question then is how the Ethiopian authorities should address issues of financial liberalization.

In undertaking liberalization, it may be important to give particular attention to the mode of entry and time frame so that the Ethiopian banking sector can enhance the quality of governance and develop its institutional framework, thereby providing insurance against financial crises. For example, government officials may choose to limit the degree of foreign ownership for a

specified period of time in an effort to help domestic firms to prepare for future competition and enhance the quality of governance. Similarly, adjustment measures and regulatory monitoring of foreign bank branches, subsidiaries, and Greenfield investments are essential in permitting foreign financial FDI.

It is also important for the Ethiopian economy to expand banking in rural areas through financial liberalization. It might be possible here to establish a specialized rural financial institution that would then take over rural lending activities from the state-owned banks through a privatization process. Ethiopia can improve the environment for economic growth if it develops policies that promote successful financial development and financial liberalization, instead of adamantly resisting liberalization.

CHAPTER THREE

3. Research Methodology

The purpose of this study is to assess the effect of foreign bank entry in Ethiopia.

3.1. Study Setting

The Study was conducted on the effect of foreign bank entry in Ethiopia. Banking in Ethiopia is a public-private enterprise and is dominated by the public owned commercial banks namely Commercial Bank of Ethiopia and Development Bank of Ethiopia. The banking sector in Ethiopia opened for private investors since the 90s. Some 18 private banks have since established and have been a significant engine for the growing economy currently. According to National Bank of Ethiopia in January 2018, we have a total of 18 banks and all of those Banks have their head office in Addis Ababa. Based on common limitation such as time and resource constraints and their impact on the study, the researcher has only considered head office higher officials; which includes General manager(CEO), Finance Department Head , Customer service Department Head , Internal Audit Department Head , Credit/ Loan Department Head ,IBD Department Head, Safety and Security Heads, IT Department Head and all of those positions deputies of all of those commercial banks in Ethiopia and the national bank of Ethiopia officials in the above list.

3.2. Research Approach

The study was conducted in the national Bank of Ethiopia i.e. the regulatory body of banks and commercial banks in Ethiopia where their head offices based in Addis Ababa. In order to attain the objective of the study and answer the research questions; the researcher was adopting both quantitative and qualitative (Mixed) research approach. And here the rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation (Creswell, 2003).

3.3. Study Population

All commercial banks which are active during the study period and National Bank of Ethiopia in Addis Ababa are the study population.

3.4. Sample Design and Procedure

From the total population the researcher selected data by using a stratified sampling technique. In this study the researcher have taken 19 strata's i.e. 18 commercial banks which include 2 government owned banks namely Commercial bank of Ethiopia and Development bank of Ethiopia and the remaining 16 banks are private banks and the remaining national bank of Ethiopia is a regulatory body in the financial sector specifically banks. To determine the sample size for the study the researcher employed a sample determination formula developed by Cochran in 1963.

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where n_0 is the sample size, Z^2 is the abscissa of the normal curve that cuts off an area α at the tails ($1 - \alpha$) equals the desired confidence level, e is the desired level of precision, p is the estimated proportion of an attribute that is present in the population, and q is $1-p$. Therefore, this research

$$n_0 = 1.96^2 * ((0.5) * (0.5)) / (0.05)^2 = 384.16 \sim 385$$

Since the population is small then the sample size can be reduced slightly. This is because a given sample size provides proportionately more information for a small population than for a large population. The sample size (n_0) can be adjusted using the formula

$$n = \frac{n_0}{1 + \frac{(n_0 - 1)}{N}}$$

$$\text{Therefore} = 385 / (1 + ((385-1)/323)) = 170.1162791 \underline{\underline{172}}$$

Therefore, the total sample for this study was 188 which includes 10% contingency, since the researcher believe some questioners may be rejected due to various reasons which includes non-response and incompleteness, so the researcher increased the sample size by 10% to have a good precision for the result which obtained from the study.

3.5. Data Collection Instrument and Administration

Here the researcher used both primary and secondary data's and the primary data were collected from the concerned bodies in the head office of that active commercial bank in the study period and national bank of Ethiopia. Primary data were collected by using a pre designed questioners which will be field by those bank officials and the primary data also supplemented by the secondary data collected from different organizational reports, previous study and proceedings relevant to the study.

3.6. Data Collection Procedures

After permission was secured from concerned authorities in those commercial banks and the national bank; the data were collected by 4 data collectors who have data collection work experience by giving the necessary training. Names of the bank and those personals that give the response for completing the questioner were not listed on the questioner to keep confidentiality.

3.7. Data Management

The collected data we rechecked by principal investigator (the Student Researcher) on daily basis for any incompleteness and /or inconsistency. When there is any incomplete and /or inconsistency appears, correction was made by returning back to those data collectors for which incompleteness appears. Data entries were attempted by a pre designed data base using SPSS. The data bases were created based on data type and size. The researcher conducted a visual check; data lists and data cleaning were given due attention as it is the means for identifying the errors.

3.8. Data Processing Procedures

After the researcher completed the data collection, data entry and data cleaning for this study; the researcher used Statistical package for social science (SPSS) version 20 to get the required data analysis results for study and the researcher also presented results by using charts, tables and different kinds of statistical data presentation techniques. And according to the analysis result the researcher try to infer statistically accepted inferences by giving the answer for those research questions raised in the study.

3.9. Ethical Consideration

Permission was sought from each of those commercial banks and the national bank of Ethiopia in this study the researcher first seek permission by explaining the purpose and the conduct of the study through a generic letter written by concerned offices. In addition to this verbal consent was given from members of data collector's team at the respective facilities in this study.

CHAPTER FOUR

Data Analysis, Results and Discussion

4.1. Introduction

This chapter presents the data analysis, the research findings (results), and based on the results the researcher gives discussion on the findings and also gives some interpretation of the result. In order to presents findings and the discussion about the effect of foreign bank entry in Ethiopia; the researcher uses different form of tables and figures and qualitative analysis done in the process.

4.2. Response Rate

A total of 188 questionnaires were administered to those officials in 18 commercial banks in Ethiopia and the National Bank (i.e. the regulatory body of the bank sector in Ethiopia) and from those questioners the researcher collects a total of 152 complete questioners and the remaining 36 questioners were not collected due to refusal to give response for the questionnaires. This gave a response rate of 80.86% According to Mugenda the statistically significant response rate for analysis should be at least 50% (Mugenda, 2003).

Table 4.1: Response Rate

	No of Questioner	Percent
Completed	152	80.86%
Not Completed	36	19.14%
Total	188	100%
Source: Research data (2018)		

4.3. General Information

Table 4.2. General Information of respondents

		Gender				Total	
		Male		Female			
		Count	%	Count	%	Count	%
Age Bracket	Less than 30Years	0	0%	0	0%	0	0%
	31-35 years	0	0%	0	0%	0	0%
	36-40Years	19	19%	8	16%	27	18%
	41 - 45 Years	43	42%	26	52%	69	45%
	Over 45 Years	40	39%	16	32%	56	37%
Educational Background	Certificate	0	0%	0	0%	0	0%
	Diploma	0	0%	0	0%	0	0%
	BA/BSC Degree	47	46%	27	54%	74	49%
	MSc/ MA	55	54%	23	46%	78	51%
	Other	0	0%	0	0%	0	0%
Your Position in this bank	General Manager	9	9%	1	2%	10	7%
	Deputy Credit/ Load Department Head	7	7%	2	4%	9	6%
	IBD Head	4	4%	4	8%	8	5%
	Deputy IBD Head	5	5%	2	4%	7	5%
	Safety and security Department Head	6	6%	2	4%	8	5%
	Deputy Safety and security Department Head	5	5%	2	4%	7	5%
	IT Department Head	6	6%	1	2%	7	5%
	Deputy IT Department Head	3	3%	4	8%	7	5%
	Other, Please specifay	7	7%	1	2%	8	5%
	Deputy General Manager	3	3%	5	10%	8	5%
	Finance Department Head	7	7%	5	10%	12	8%
	Deputy Finance Department Head	8	8%	5	10%	13	9%
	Customer service Department Head	12	12%	2	4%	14	9%
	Deputy Customer service Department Head	5	5%	4	8%	9	6%
	Internal Audit Department Head	5	5%	3	6%	8	5%
	Deputy Internal Audit Department Head	7	7%	2	4%	9	6%
	Credit/ Load Department Head	3	3%	5	10%	8	5%
	Total	102	67%	50	33%	152	100%

From Table 4.2, we can see that from the total 152 respondents at 67% or 102 of them are Male respondents and the remaining 33% or 50 of respondents were Females. This implies the gender distribution in those banks officials in Addis Ababa is not balanced i.e. there is a high variation between Male and Female proportion in those higher official positions in the bank sector in Ethiopia.

From a total 152 respondents 45% or from a total of 152 respondents 69 of them are found at the age bracket 41 to 45 years, 37% that is from a total of 152 respondents 56 of them are found at the age bracket over 45 Years and the remaining 18% or 27 out of 152 respondents are found in the age bracket 36 to 40 Years. This indicates most of bank officials in Addis Ababa/ Ethiopia are matured with appropriate work experience and therefore it can be relied on the relevant information they give on foreign banks entry effect in Ethiopia.

The educational background of respondents; 51% or from a total of 152 respondents 78 of them have 2nd Degree (MSc/ MA) holders and the remaining 74 out of 152 respondents or 49% of this research respondents have 1st Degree; therefore, this indicates most of higher officials in Ethiopian banking sector are high level professionals by their education, this suggests our respondents give relevant and accurate information needed for the study on the effect of foreign bank entry in Ethiopia.

From Table 4.2. Above the researcher also found the respondent’s position in those banks, i.e. 10 out of 152 respondents or 7% of them are Chief executive officer, 6% or 9 of them are Deputy Credit/ Load Department Head, 5% or 8 of them are IBD Head, 5% or 7 of them are Deputy IBD Head, 5% or 8 of them are Safety and security Department Head, 5% or 7 them are Deputy Safety and security Department Head, 7 are IT Department Head, 7 are Deputy IT Department Head, 8 are Deputy General Manager, 12 are Finance Department Head, 13 are Deputy Finance Department Head, 14 are Customer service Department Head, 9 are Deputy Customer service Department Head, 8 are Internal Audit Department Head, 9 are Deputy Internal Audit Department Head, 8 are Credit/ Load Department Head, and the remaining 8 are Other employees which are currently work as advisory position holders in those banks.

4.4. Work Experience

Table 4.3: work Experience of respondents

		Gender				Total	
		Male		Female			
		Count	%	Count	%	Count	%
How long have you been working in the financial institution	< 5 Years	0	0%	0	0%	0	0%
	6-10 Years	27	26%	11	22%	38	25%
	11-20 Years	24	24%	14	28%	38	25%
	Over 20 Years	51	50%	25	50%	76	50%
Total		102	100%	50	100%	152	100%

From Table 4.3, we can see that from a total 152 respondents 76 of them or 50% of them fall at a work experience bracket over 20 years, 38 or 25% of respondents fall at work experience bracket 11 to 20 years and the remaining respondent fall at a work experience bracket 6-10 years i.e. 38

out of 152 respondents. In addition to this the researcher also found the male and female distribution for those bank officials with over 20 Years' experience is almost the same i.e. this experience bracket takes 50% of those officials and when we see other experience brackets, in 6 to 10 Years' experience, male officials are 4 % higher than females and in 11 to 20 Years female officials are also higher by 4%, therefore this indicate in terms of percentage they are almost similar in each of the experience bracket but in their numbers the male are more dominant in taking the department head and senior management positions in the banks in Ethiopia. In addition to this from Table 4.3.we also found 75% of those senior management have experience of 11 Years and above and this indicates those respondents are well experienced and they have good knowledge on the bank sector and also they understand what is the current situation of our banks as well as what will happen if foreign banks enter in Ethiopia bank market, therefore they gave the correct and accurate information the researcher needed for the study on the effect of foreign banks in Ethiopia.

4.5. Feeling of Senior managers about foreign bank entry in Ethiopia

From the below table 4.4, the researcher found that most of the senior management of those banks are not in a good mood i.e. they are unhappy i.e. from the total of 152 respondents 52% or (79) of them are feel bad (41 or 27%) and Stressed, and when we see the remaining respondents feeling 35 or 23% from the total respondents they are indifferent and the remaining 38 or 25% of the total respondents feel good. Therefore, senior managers in the bank sectors are more or less they are not feeling good.

Table 4.4: Feeling of senior managers

How did you feel when if foreign banks entry in Ethiopia

	Frequency	Percent	Valid Percent	Cumulative Percent
Bad	41	27.0	27.0	27.0
Stressed	38	25.0	25.0	52.0
Valid Indifferent	35	23.0	23.0	75.0
Good	38	25.0	25.0	100.00
Total	152	100.0	100.0	

4.6. Assessing reliability

The reliabilities of potential benefit, potential costs, potential risks, potential efficiency reform to the general economy, potential efficiency reform to the bank sector, and impact of foreign banks on the performance of Ethiopian domestic banks due to foreign bank entry in Ethiopia were assessed with Cronbach's Alpha. Table 4.5, report means, standard deviations, correlations, and reliability values for each of constructs. The reliability values for all constructs are all greater than .70, which are considered acceptable.

Table 4.5: Item-Total Statistics for reliability

	<i>Scale Mean if Item Deleted</i>	<i>Scale Variance if Item Deleted</i>	<i>Corrected Item-Total Correlation</i>	<i>Squared Multiple Correlation</i>	<i>Cronbach's Alpha if Item Deleted</i>
Potential benefit to the Ethiopia current situation					
<i>Introduce new financial innovation</i>	127.2667	155.499	.478	.	.853
<i>Accelerate the economies of scale</i>	127.1067	157.626	.281	.	.856
<i>Develop the financial market</i>	127.9067	141.025	.575	.	.847
<i>Improve the financial system infrastructure</i>	127.9600	141.475	.486	.	.851
<i>Attracts foreign direct investment</i>	127.3400	158.360	.254	.	.856
Potential costs to the Ethiopia current situation					
<i>Foreign banks may reduce costs</i>	128.7400	153.764	.185	.	.861
<i>Domestic Banking as an infant industry becomes less competitive</i>	127.2267	160.445	.059	.	.859
<i>Retains credit to small firms</i>	127.8400	139.531	.590	.	.846
<i>Lack of domestic strong supervisory body</i>	127.0667	157.660	.280	.	.856
Potential risks towards foreign bank entry					
<i>Lack of interest by foreign banks to mobilize domestic capital</i>	127.1933	158.023	.232	.	.857
<i>The infant industry argument</i>	127.5400	151.686	.482	.	.851
<i>Skews credit away from small and medium enterprise</i>	127.4600	153.431	.485	.	.852

<i>Limited supervisory capacity</i>	127.2200	158.361	.229	.	.857
<i>Fear of capital outflow</i>	127.1667	155.375	.258	.	.856
Potential efficiency reform to the general economy					
<i>Improve financial regulation</i>	127.0133	161.543	-.029	.	.860
<i>Introduce other financial activities</i>	127.2667	155.512	.477	.	.853
<i>Attract a foreign direct investment</i>	127.4067	151.411	.347	.	.854
<i>Enhance the overall stability</i>	127.5600	148.302	.530	.	.849
	<i>Scale Mean if Item Deleted</i>	<i>Scale Variance if Item Deleted</i>	<i>Corrected Item-Total Correlation</i>	<i>Squared Multiple Correlation</i>	<i>Cronbach's Alpha if Item Deleted</i>
Potential efficiency reform to the bank sector					
<i>Lower possible banking crises</i>	127.5067	155.030	.364	.	.854
<i>Provide a more stable source of credit</i>	128.4067	144.001	.534	.	.849
<i>Introduce new products and services</i>	128.7400	144.328	.526	.	.849
<i>Enhance the competitive environment</i>	128.8600	144.712	.473	.	.851
<i>Introduce a better supervision</i>	127.5000	158.077	.125	.	.859
<i>Introduce better disclosure</i>	127.7067	156.558	.274	.	.856
<i>Transfer of know how</i>	127.4867	152.198	.550	.	.851
<i>Transfer of good banking practice</i>	127.6533	154.483	.460	.	.853
<i>Encourage consolidation of banking service</i>	127.7200	156.445	.287	.	.856
Impact of foreign banks on the performance of Ethiopian domestic banks					
<i>Foreign banks reduce local banks market share</i>	127.6733	154.718	.383	.	.854
<i>Foreign banks attracts qualified staffs</i>	127.6267	153.511	.438	.	.853
<i>Foreign banks reduce local bank credibility</i>	127.3800	154.761	.232	.	.858
<i>Foreign banks reduce local bank total growth</i>	128.2067	145.064	.446	.	.852
<i>Foreign banks reduce local bank total growth asset</i>	127.7333	140.143	.619	.	.845
<i>Foreign banks reduce local banks lending growth</i>	127.1467	158.126	.165	.	.858

4.7. Effects of Foreign bank entry in Ethiopia

In this study the researcher sought to look the effect of foreign banks entry in Ethiopia current situation and the bank sector, the respondents were instructed to respond to the statements on a 5 point Likert scale and indicate the extent they agree with the statements that is: 5-Strongly agree, 4-Agree, 3-Neutral, 2-Disagree, 1-Strongly disagree. A mean (M) score of 0-1.5 means that the respondents strongly disagreed, between 1.50 to 2.50 means they disagreed, 2.50 to 3.50 means the respondents were neutral, 3.50-4.50 means they agreed, and a mean above 4.50 means the respondents strongly agreed

4.7.1. Potential benefit of foreign bank entry in Ethiopia current situation

From result Table 4.6 below, the researcher identifies the potential benefits of those foreign banks if they are allowed to enter to Ethiopian market i.e. as per this survey result, for all potential benefits identified by previous researchers on entry of foreign banks, respondents are strongly agreed i.e. their mean scores greater the 4.5, so if government allows foreign banks to operate in Ethiopia, we will get the following benefits: they will introduce new financial innovations, they accelerate the economies of scale, there will be a development in the financial market, there will be an Improvement in the financial system infrastructure and this all leads the attraction of foreign direct investment (FDI). When we see the rank on those benefit we get from the entry of foreign banks; The most important (1st) benefit; it accelerates the economies of scale ($M=4.5132$; $SD=.50148$), the aggregate result from this survey respondent have pointed out that foreign bank with a scale of 'agreeably' will accelerate the economies of scale, if allowed to operate with current situations in Ethiopia, the 2nd benefit is the introduction of new financial innovations ($M=4.3553$; $SD=.48018$) i.e. the result in Table 4.6 indicates that, if Ethiopia allows foreign banks to operate in this country they potentially bring new financial innovation to the financial market, since those banks have various exposure in various economy they operate i.e. there is relativity exposure of foreign banks with respect to domestic financial sector that gives the advantage to introduce new financial innovation. In addition, foreign bank with origin of developed countries could potentially bring the said benefits comparing the host country like Ethiopia which is found in the developing economy. The 3rd in the score is, they Attracts foreign direct investment (FDI) ($M=4.2697$; $SD=.44529$) i.e. foreign banks presence may increase the amount of funding available to domestic projects by facilitating capital inflows, and diversifying the capital and funding basis. This perhaps could be

utilized to potential venture businesses which currently unable to be financed due to the procedures in use. In addition, currently there is an issue on foreign currency shortage and most multinational companies are not willing to operate in countries with foreign currency shortage if Ethiopia allows foreign banks entry there will be an increase the country stock of foreign currency and this will lead those multinational companies since they will get enough money to for their importable items/ inputs, due to this our government will also collect much amount as tax on the imported items. The 4th scored benefit due to entry of foreign banks will be, foreign banks entry Develop the financial market ($M=3.7237$; $SD=1.35782$) i.e. foreign banks entry develop the financial market in a way that help to expand the inter-bank market and attract business from customers that would otherwise have gone to foreign banks in other countries. Moreover, those foreign banks potentially bring the necessary skilled human resources in this market from their home country. As per the participant's responses in this study, the last benefit we get from the foreign bank entry is Improve the financial system infrastructure ($M=3.6711$; $SD=1.52149$) i.e. The result in this study indicates foreign bank with better practice and know-how spillover the trained to domestic financial sector to fill the gap in their development. Supporting this foreign banks could make improvement in the financial sector includes accounting and transparency, financial regulation, and through the increased presence such supporting agents as rating agencies, auditors, and credit bureaus.

Table 4.6: Potential benefit of foreign bank entry in Ethiopia current situation

Statistics

		<i>Variables</i>				
		<i>Introduce new financial innovation</i>	<i>Accelerate the economies of scale</i>	<i>Develop the financial market</i>	<i>Improve the financial system infrastructure</i>	<i>Attracts foreign direct investment</i>
<i>N</i>	<i>Valid</i>	152	152	152	152	152
	<i>Missing</i>	0	0	0	0	0
<i>Mean</i>		4.3553	4.5132	3.7237	3.6711	4.2697
<i>Median</i>		4.0000	5.0000	4.0000	4.0000	4.0000
<i>Mode</i>		4.00	5.00	5.00	5.00	4.00
<i>Std. Deviation</i>		.48018	.50148	1.35782	1.52149	.44529
<i>Minimum</i>		4.00	4.00	1.00	1.00	4.00

4.7.2. Potential costs of Foreign banks entry to the Ethiopia current situation

The respondents rate the possible potential costs to Ethiopian current situation and here the researcher summarize the result in the below Table 4.7, if foreign banks are allowed to enter in Ethiopian bank market, the 1st potential cost comes lack of domestic strong supervisory body (M= 4.5526, SD = .49887), previous research also reviles the positive relation between the factors for the need of strong supervisory body as foreign owned banks immerged in the market. In view of this respondents in this study Ethiopia lacks strong supervisory body and establishing this supervisory body will cost us, next to this there will be a risk for domestic banks since our domestic banking is infant industry i.e. the possibility of less competitiveness as risk factor to domestic banking sector observed as serious risk factor in other transition countries and the applicability is also accepted by our respondents with mean and standard deviation score of M= 4.3816 and SD = 0.48738, therefore this result highlight that if foreign banks allowed to Ethiopian bank market ,domestic bank face stiff competition with those very giant international banks, if government allow early market entry for those foreign banks, this will exposes to a risk that domestic financial institution would not be able to withstand in the increased competitive pressure and might even risk facing bankruptcy. Such a banking failure might have spillover effects on other banks and could possibly endanger stability of the Ethiopian financial market. The 3rd potential cost of foreign bank entry will be “retains credit to small firms”, for this specify matter, the summary of response given by the respondents in this study, the mean is M = 3.7763 with a standard deviation SD = 1.41514, this response indicates there is a fear by those bank officials foreign banks may choose only the best clients with a potential of growth like i.e. there focus area might be medium and large firms and they will ignore those small firms since they would have little interest with those small domestic firms which may require them to hire additional expertise in dealing with those small firms to analyze the cost and benefit to work with them. Here those foreign banks may likely to have little interest or expertise in dealing with smaller domestic companies which may not satisfy international accounting standard due to this those small firms will come to domestic banking sector with their high risk, in addition to this domestic banks will not get a chance to work with those large companies and in foreign trade, since the majority of those large firms may prefer those foreign banks which operates in various countries. It is not agreed by those respondents, “foregone banks may reduce costs” with mean M = 2.8618 and standard division of SD= 1.29722.This implies that entry of foreign banks

possible leads to increase in cost which implies an increase in competition to domestic market and due to this those domestic banks which are in the infant stage may incur additional operating expenses to have advanced technology, high qualified/ international expats in the bank industry, promotion/ ad to attract medium and large enterprises.

Table 4.7. Potential costs of foreign banks entry to the Ethiopia current situation

Statistics

	<i>Foreign banks may reduce costs</i>	<i>Domestic Banking as an infant industry becomes less competitive</i>	<i>Retains credit to small firms</i>	<i>Lack of domestic strong supervisory body</i>	
<i>N</i>	<i>Valid</i>	152	152	152	152
	<i>Missing</i>	0	0	0	0
<i>Mean</i>	2.8618	4.3816	3.7763	4.5526	
<i>Median</i>	3.0000	4.0000	4.0000	5.0000	
<i>Mode</i>	4.00	4.00	5.00	5.00	
<i>Std. Deviation</i>	1.29722	.48738	1.41514	.49887	
<i>Minimum</i>	1.00	4.00	1.00	4.00	

4.7.3. Potential risks towards foreign bank entry

In Table 4.8, the result of this study also aligned with previous studies on potential risks towards foreign bank entry, here all potential risk towards foreign bank entry have a mean score of greater than 4 i.e. respondents in this study agree on the potential risks towards foreign bank entry specified by previous studies. According to the views of the respondents in this study the risks are ranked. The Potential risk “fear of capital outflow” is identified by respondents as the 1st potential risk towards forging bank entry with a mean score of M= 4.4539 and Standard deviation SD= 0.82862, here the result indicates that almost all respondents agree on the fear of capital outflow as the major risk towards foreign bank entry , since those foreign banks are channels for inward and outward flows of capital and in this causes foreign exchange and/or liquidity shortages, with potentially adverse effects on the country’s capital account, since there will be high capital outflow from the country by those foreign banks. The 2nd potential risk is lack of interest by foreign banks to mobilize domestic capital with Mean M= 4.4276and standard deviation SD = 0.53490 i.e. The result indicates that there is risk of mobilizing domestic capital by foreign banks, if they are allowed to function in Ethiopia, here the basic fact is those banks

are well developed and their intent in most of the time is on activities which are profitable for them, and those foreign banks also have other opportunities like loan to profitable companies in their home country and other countries which support their interest and they may lack interest in deposit mobilization. The 3rd potential risk towards foreign bank entry is; limited supervisory capacity Mean $M= 4.4013$ and standard deviation $SD = 0.49179$ i.e. the result indicates that, due to the higher capacity and largely diversified activities of those foreign banks, the regulatory body in the bank sector i.e. national bank of Ethiopia may encounter limitation on supervisory capacity since some of the activities of those foreign banks need extra expertise and technology which leads to high capital investment to have the required HR and technologies. The 4th potential risk is, the skewing of credit away from small and medium enterprise with Mean $M= 4.1645$ and standard deviation $SD = 0.63501$, this result indicates, most of the time those foreign banks focus area is large scale firms which operates in forging trade and with those firms which operates in activities which requires high investments and return like real estate business. In addition to this those foreign banks also wants to operate in urban centers which have infrastructure like Telecommunication, road and electricity. Therefore, they do not want to make the bank business to the rural are of the country which requires additional efferent to have customers. Finally, the infant industry argument with mean $M= 4.0855$ and standard deviation $SD= 0.77155$ is considered as the 5th potential risk. This indicates, the concern of the policy maker, with respect to infant industry argument, has also got an emphasis by the survey respondents. The officials believe that the development of a viable domestic banking sector will be threatened by foreign banks, because they have more capital, more experience, and better reputations. As compared to those foreign banks, Ethiopian financial sector is too young and inexperienced to compete (the infant industry argument).

Table 4.8. Potential risks towards foreign bank entry

		<i>Statistics</i>				
		<i>Lack of interest by foreign banks to mobilize domestic capital</i>	<i>The infant industry argument</i>	<i>Skews credit away from small and medium enterprise</i>	<i>Limited supervisory capacity</i>	<i>Fear of capital outflow</i>
<i>N</i>	<i>Valid</i>	152	152	152	152	152
	<i>Missing</i>	0	0	0	0	0
<i>Mean</i>		4.4276	4.0855	4.1645	4.4013	4.4539
<i>Median</i>		4.0000	4.0000	4.0000	4.0000	5.0000
<i>Mode</i>		4.00	4.00	4.00	4.00	5.00
<i>Std. Deviation</i>		.53490	.77155	.63501	.49179	.82862
<i>Minimum</i>		3.00	3.00	3.00	4.00	2.00

4.7.4. Potential efficiency reform to the general economy

Result in Table 4.9, discloses all potential efficiencies identified by other researchers also confirmed in this study. Here the mean score for all variables is greater than 4 which indicates, the current bank officials agree on those efficiency reform to the general economy if foreign banks enter in to Ethiopian bank industry. The 1st potential efficiency reform to the general economy is, “improve financial regulations” with a mean score of M= 4.6053 with a standard deviation of SD =0.49041 which indicates, if foreign banks enter in to the bank sector in Ethiopia, the current financial regulation will be amended and replaced by the improved version, since those foreign banks have various experience, expertise and they also operates beyond borders, so the regulatory body (NBE) will work closely to government to improve the financial regulation since there is a stiff competition among the domestic and foreign banks and those foreign banks come up with various activities and systems, so there will be a need to improve the financial regulation as per the situation happened when foreign banks enter in to the market. The 2nd is “Introduce other financial activities” with a mean score of M=4.3553 and a standard deviation SD= 0.48018, this result indicates there are financial activities which are not provided by the domestic banks and if foreign banks enter in to market those activities will be given to customers by those foreign banks and those domestic banks also adopt those to satisfy their customers. The 3rd is “Attraction of foreign direct investment” with a mean score M= 4.2171 and standard deviation SD= 1.04164, the result indicates if foreign banks enter in to market there

will no issue on hard currency and those multinational companies also needs to come to Addis to make more business, since if there is a need to have loan or any other banks service by those FDI actors. The 4th potential efficiency reform will be “Enhance the overall stability” with a mean score of M= 4.0526 and standard deviation of SD = 0.94055, which indicates, there will be overall stability if those foreign banks enter in to market.

Table 4.9: Potential efficiency reform to the general economy

Statistics

	<i>Improve financial regulation</i>	<i>Introduce other financial activities</i>	<i>Attract a foreign direct investment</i>	<i>Enhance the overall stability</i>
<i>N</i>	<i>Valid</i>	152	152	152
	<i>Missing</i>	0	0	0
<i>Mean</i>	4.6053	4.3553	4.2171	4.0526
<i>Median</i>	5.0000	4.0000	5.0000	4.0000
<i>Mode</i>	5.00	4.00	5.00	4.00
<i>Std. Deviation</i>	.49041	.48018	1.04164	.94055
<i>Minimum</i>	4.00	4.00	2.00	2.00

4.7.5. Potential efficiency reform to the bank sector

In Table 4.10, we have found that, transfer of know how (M=4.1250, SD=0.64400), is the first potential efficiency reform to the bank sector, this indicates foreign banks have various experience, expertise and technology, so if Ethiopia allow foreign banks they will transfer their vast knowledge which comes from various countries experience since they operate in various countries Next potential efficiency reform to the bank sector will be “Introduce a better supervision (M= 4.1118, SD= 0.83428”, since those foreign banks operates in various country in the world and the level of control in each of those country is deferent and also if banks are operate in different country there should be a mechanism to track inflow and outflow of capitals, therefore to do such monitoring there must be an introduction of better supervision. The 3rd is lower possible banking crises with mean M= 4.1067, and SD = 0.65689, here the result indicates if foreign banks enter in to market there will be a possibility of lower possible banking crises, since those foreign banks are will experience and they also know how to manage risks. The 4th potential efficiency reform is Transfer of good banking practice (3.9605, SD=0.57407), here if foreign banks enter in to Ethiopian bank market, there will be good banking practice since those foreign banks operates in various country. The 5th is, introduce better disclosure(M= 3.9079,

SD=0.64444), here the response indicates there will be an introduction of new financial and nonfinancial disclosures, since in various country there are many types of disclosures, Foreign bank with a better technology and know-how assess the quality of feasible business and the technology provides better service in assessing risk business. The final agreed response is, encourage consolidation of banking service (M=3.8947, SD=0.63201), this indicates Foreign bank with diversified resources benefits from economies of scale impose a cost reduction in the domestic sector. In the remaining potential reforms, the result in table 4:10 indicates, respondents in this study are neutral for the potential efficiency reform to the bank sector called Provide a more stable source of credit (M=3.1908, SD= 1.23810), here, the output indicates foreign banks may or mayn't bring stability in credit to domestic bank sectors in Ethiopia, in previous studies there are arguments which say foreign banks create this by referring their parents for additional funding and have easier access to international markets. Thus domestic financial market will be less vulnerable to domestic shocks. Their entry also reduces the influence of the government on the domestic sector, which may reduce the importance of direct credit policies. These spillover effects contribute to more efficient domestic banking practice, which may help to reduce costs but in other way round if the foreign banks focus area is only on the large firms, they may not be willing to give loan to those small firms and those small firms will directly come to those domestic financial institutions to have that loan and due to the large in number of firms in the small and medium category, domestic banks will not be the stable source of credit with the existing domestic shock, the next potential efficiency reform to the bank sector is Introduce new products and services (M=2.8882, SD= 1.23175); indicates respondents are neutral on this regards i.e. introduction of new banking technology and financial innovations is relatively easy for foreign banks to introduce new products and services to the local market, but due to the infrastructural problems they may not be in the position to bring new products and services. In addition to this introducing new products and services to customers may cost those foreign banks more due to the customer perception, i.e. in developing countries customers' perception has reached highest in the prompt and accuracy in transactions of the bank and lower in the service of modern equipment and décor. (Mohammad Abdula Muyeed, 2012). The last efficiency reform where respondent's neutral in their view is Enhance the competitive environment (M=2.7434, SD=1.30965). In the presence of foreign banks domestic banks pressured to improve the quality of their service so as to retain their market share. In particular, foreign banks presence may put

old-style banking practice under pressure, and also those foreign banks will come to the market with huge capital and multiple services, due to this the domestic banks will lose their market share and the competitive environment will be one-sided.

Table 4.10 Potential efficiency reform to the bank sector

Statistics

	<i>Lower possible banking crises</i>	<i>Provide a more stable source of credit</i>	<i>Introduce new products and services</i>	<i>Enhance the competitive environment</i>	<i>Introduce a better supervison</i>	<i>Introduce better disclosure</i>	<i>Transfer of know how</i>	<i>Transfer of good banking practice</i>	<i>Encourage consolidation of banking service</i>
<i>N</i>	<i>Valid</i>	150	152	152	152	152	152	152	152
	<i>Missing</i>	2	0	0	0	0	0	0	0
<i>Mean</i>	4.1067	3.1908	2.8882	2.7434	4.1118	3.9079	4.1250	3.9605	3.8947
<i>Median</i>	4.0000	3.0000	3.0000	3.0000	4.0000	4.0000	4.0000	4.0000	4.0000
<i>Mode</i>	4.00	4.00	3.00	3.00	5.00	4.00	4.00	4.00	4.00
<i>Std. Deviation</i>	.65689	1.23810	1.23175	1.30965	.83428	.64444	.64400	.57407	.63201
<i>Minimum</i>	3.00	1.00	1.00	1.00	3.00	3.00	3.00	3.00	3.00

4.7.6. Impact of foreign banks on the performance of Ethiopian domestic banks

Table 4.11, indicates that impact of foreign banks on the performance of Ethiopian domestic banks are ranked, the 1st Impact is foreign banks reduce local growth with (M= 4.4605, SD= 0.67971). The result indicates that foreign banks possibly reduce market share of local domestic banks. These indicate that the foreign banks can exert reduction in market share of the loan growth of domestic banking sector. If those foreign banks are allowed to enter in the market there will be high competition faced by those banks currently operating in Ethiopia, and this competition may weaken those domestic banks in providing loan to their customers, since there will be high amount of loan need by those customers and this affects those domestic banks due to the smaller base of their loan portfolio and it leads to high risk since they have fewer possibilities to diversify their risk. The 2nd Impact is foreign banks entry to Ethiopia is a reduction in local bank credibility with (M= 4.2434, SD= 0.68074), this study result reveals that foreign banks potentially reduce the creditability of local banks since the service provided by those foreign banks is much outstanding as compared to the local banks, this is due to their repetition in various country, there capital, there risk diversification, the usage of latest technology and

various infrastructures, and there high base of loan portfolio. The 3rd impact is Foreign banks entry to the Ethiopian bank industry is foreign banks attract qualified staffs with Mean Score M= 3.9868 and Standard Deviation SD= 0.68074, this result indicates that due to the entry of those foreign banks in the market the bank industry will pay higher wages, due to this qualified staffs will be attracted. The 4th Impact of foreign banks to Ethiopian domestic banks will be foreign banks reduce local banks market share, with Mean score of M= 3.9408, and standard deviation SD= 0.65340 i.e. this result indicates foreign banks possible reduce market share of local domestic banks, since they have huge capital and high technology and when they come to the bank market they simply share the local banks market share, here from this study the last impact recognized by the respondents is; foreign banks reduce local bank total growth assets with a mean score of M= 3.8816 and Standard deviation of SD= 1.32192, this result indicates foreign bank entry in Ethiopia will decrease the local bank total growth asset, since they share local banks customers and there focus is giving large firms and firms that operate in foreign trade. But respondents are neutral on foreign banks reduce local bank total growth (M= 3.4276, SD= 1.35491), from this result we can say entry of those foreign banks in the bank industry in Ethiopia may or may not have impact in the overall local banks total growth i.e. from there entry there might be a tendency of growth due to competition or they may be highly discouraged by the competition with those banks comes from the developed countries.

Table 4.11: Impact of foreign banks on the performance of Ethiopian domestic banks

Statistics

	<i>Foreign banks reduce local banks market share</i>	<i>Foreign banks attracts qualified staffs</i>	<i>Foreign banks reduce local bank credibility</i>	<i>Foreign banks reduce local bank total growth</i>	<i>Foreign banks reduce local bank total growth asset</i>	<i>Foreign banks reduce local banks lending growth</i>	
<i>N</i>	<i>Valid</i>	152	152	152	152	152	
	<i>Missing</i>	0	0	0	0	0	
<i>Mean</i>		3.9408	3.9868	4.2434	3.4276	3.8816	4.4605
<i>Median</i>		4.0000	4.0000	5.0000	4.0000	4.0000	5.0000
<i>Mode</i>		4.00	4.00	5.00	5.00	5.00	5.00
<i>Std. Deviation</i>		.65340	.68074	.98328	1.35491	1.32192	.67971
<i>Minimum</i>		3.00	3.00	2.00	1.00	1.00	3.00

4.8. The Effect of foreign banks entry and Potential efficiency reform to the bank sector

In this section, the researcher has done the regression analysis. However, there are some limitations and requirements that should be taken into consideration to ensure the accuracy and correctness of the regression analysis, as follows:

- 1) Normal distribution should be considered in distributing data.
- 2) Multi collinearity of the study's independent and dependent variables.

In cases where these terms are not applicable, the researcher should use non-parametric tests.

Normal Distribution Test

To test the normal distribution of the data, the researcher has applied both the Skewness-Kurtosis test and Kolmogorov-Smirnov test. Table below descriptive statistics table shows that the skewness and kurtosis figures a range of ± 0.197 and ± 0.391 with a level of significance of ≤ 0.05 . This result indicates that the data of the study variables have normal distribution generally (Hair et al., 2013).

Descriptive Statistics

	N		Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error	Statistic	Std. Error
Potential Benefit	152	.197	-.383	.197	-.773	.391
Potential Cost	152	.197	-.344	.197	-.615	.391
Potential Risk	152	.197	.289	.197	-.681	.391
PER	152	.197	-.264	.197	-.625	.391
PEFBS	152	.197	.740	.197	-.187	.391
Effect of FBI	152	.197	-.086	.197	-1.022	.391
Valid N (listwise)	152					

The below Table show us the Kolmogorov-Smirnov test which indicates that there are differences with statistical significance for all dependent and independent variables that are included in the study with a level of significance ≤ 0.05 . Therefore, the data of this study is considered to have a normal distribution.

Tests of Normality

	Kolmogorov-Smirnov ^a		
	Statistic	df	Sig.
Effect of FBI	.136	152	.000
Potential Benefit	.115	152	.000
Potential Cost	.147	152	.000
Potential Risk	.206	152	.000
PER	.187	152	.000
PEFBS	.139	152	.000

a. Lilliefors Significance Correction

Multi collinearity Test

To test the variables' independence and non-interference with one another, the researcher used Variance Inflation Rate (VIF) and Tolerance. To verify the variables independence, the calculated values of tolerance should be greater than 0.20 and VIF values less than 10 (Hair et al., 2013). Referring to the below Table result table show us a VIF and tolerance value of less than 10 and greater than 0.20 respectively for all variables of this study, this confirms the independence of the study variables. Therefore, based on this result the researcher applies the regression analysis test to answer the main question of the study and test its hypotheses

Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta				Tolerance	VIF
1	(Constant)	-.032	.450			-.071	.943		
	Potential Benefit	.215	.087	.226		2.468	.015	.464	2.154
	Potential Cost	.083	.084	.084		.988	.325	.534	1.873
	Potential Risk	.354	.114	.245		3.108	.002	.628	1.593
	PER	.034	.083	.031		.410	.683	.686	1.458
	PEFBS	.313	.088	.279		3.542	.001	.627	1.594

a. Dependent Variable: Effect of FBI

Table 4.12: Regression analysis result on effects of foreign bank entry on the performance of domestic banks

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.953	.667		-1.430	.155
Potential Benefit	-1.110	.158	-.510	-7.037	.000
Potential Costs	1.037	.158	.460	6.578	.000
Potential Risk	-.490	.174	-.148	-2.822	.005
Potential Efficiency reform to the General Economy	1.628	.180	.745	9.055	.000
Potential Efficiency reform to the Bank Sector	.074	.133	.029	.559	.577

a. Dependent Variable: Foreign bank entry having effect on the performance of domestic banks in Ethiopia

Result in table 4.12, indicates, the independent variables potential benefit, Potential cost, potential risk and potential efficiency reform to the general economy have significant association with the dependent variable performance of domestic banks in Ethiopia; since the p-value for those effects of foreign bank entry less than or equal to 0.05 and the remaining potential efficiency reforms due to the entry of foreign banks in Ethiopian market listed in table 4.12 show insignificant relationship with the performance of domestic/ local banks in Ethiopia and the resulting regression equation is as follows;

$$Y = -0.953 - 1.110X_1 + 1.037X_2 - 0.490X_3 + 1.628X_4 + 0.074X_5 + e$$

Where Y = Performance of domestic banks in Ethiopia due to foreign bank entry in the bank market

X_1 = Potential Benefit

X_2 = Potential Costs

X_3 = Potential Risk

X_4 = Potential Efficiency reform to the General Economy

X_5 = Potential Efficiency reform to the Bank Sector and

e = the residual amount.

The regression equation above shows as by taking all factors into account constant at zero, Performance of domestic banks in Ethiopia due to foreign bank entry in the bank market will have a value of -0.953. The findings presented also show that taking all other independent variables at zero, a unit increase in Potential Costs due to the entry of foreign banks in Ethiopian bank industry leads an increase in the performance of those banks, by taking all other independent variables constant at zero a unit decrease in potential risk due to foreign banks entry will leads to a 0.490 decrease in the performance of domestic/ local banks, by considering all other independent variable at zero a unit increase in Potential Efficiency reform to the General Economy will leads to 1.628 increase in the performance of domestic banks, finally a unit increase by Potential Efficiency reform to the Bank Sector will leads to a 0.074 increase in the bank performance .

Table 4.13 ANOVA result for performance domestic/Local banks in Ethiopia

ANOVA^a

<i>Model</i>	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>	
<i>1</i>	<i>Regression</i>	<i>190.079</i>	<i>5</i>	<i>38.016</i>	<i>86.697</i>	<i>.000^b</i>
	<i>Residual</i>	<i>64.019</i>	<i>146</i>	<i>.438</i>		
	<i>Total</i>	<i>254.099</i>	<i>151</i>			

a. Dependent Variable: Foreign bank entry having effect on the performance of domestic banks in Ethiopia

b. Predictors: (Constant), Potential Efficiency reform to the Bank Sector, Potential Efficiency reform to the General Economy, Potential Risk , Potential Costs , Potential Benefit

Table 4.13; show the P-value of 0.000 indicates that the regression relationship is significant in predicting how the five independent variables (Potential Benefit, Potential Costs, Potential Risk, Potential Efficiency reform to the General Economy, and Potential Efficiency reform to the Bank Sector) influence the performance of those domestic/Local banks in Ethiopia. Since the F critical at 5% level of significance is 2.24. Since F calculated is 39.780 is greater than the F critical (value = 2.24) thus showing that the model is significant.

Table 4.14: Model Summary for Dependent Variable Performance of domestic or local banks due to the entry of foreign banks in Ethiopia

Model Summary

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
<i>1</i>	<i>.865^a</i>	<i>.748</i>	<i>.739</i>	<i>.66219</i>

a. Predictors: (Constant), Potential Efficiency reform to the Bank Sector, Potential Efficiency reform to the General Economy, Potential Risk , Potential Costs , Potential Benefit

From table 4.14above; R-Square which is the coefficient of determination is a commonly used statistic to evaluate model fitness. The adjusted R^2 , is also called the coefficient of multiple determination, is the percentage of the variation in the dependent variable explained uniquely or jointly by the independent variables. 73.9% of the variations in domestic/local banks performance will be attributed to the combined effect of the predictor variables. This means that 26.1% of the changes in the changes can be attributed by other factors.

CHAPTER FIVE

Conclusion and Recommendations

5.1. Conclusion

Scholars have long debated the impact of foreign investment on the economies of least developed countries. Many argue that foreign investment is beneficial for the investment receiving country (host). On the other hand, others argue that dependence on foreign capital is detrimental, here in this study the researcher wanted to explore the effect of foreign banks entry in Ethiopia, by focusing only the foreign bank entry effect on the local/ domestic banks, in this research the researcher gives answers for the research questions; What are the potential risks towards foreign bank entry in Ethiopia?, What are the potential benefits to Ethiopia current situation, if foreign banks are allowed to operate?, What are the potential costs to the Ethiopia current situation, if foreign banks are allowed to operate in the bank sector in Ethiopia? And what are the potential efficiency reforms to the Ethiopian bank sector, if foreign banks allowed operating with current conditions?

From the research findings, the potential risk towards foreign banks entry includes, if Ethiopia allows foreign banks entry in Ethiopia bank industry, there will be capital outflow, foreign banks lack interest in mobilizing domestic capital, domestic banks may out of the business since they are infant as compared to those foreign banks which have high capital, experience and expertise, in the current situation the regulatory body i.e. NBE have a limited supervisory capacity to control foreign banks since some of the activities of those foreign banks need extra expertise and technology which leads to high capital investment to have the required HR and technologies, in addition to the above potential risks, those foreign banks may not interested to work with small and medium enterprises, i.e. most of the time they are interested to work with large scale firms which operates in foreign trade and those firms which operates in activities which requires high investments and return like real estate business.

From this study findings, the potential benefit towards foreign banks entry in Ethiopia bank industry includes, they accelerates the economies of scale, they introduce new financial innovations i.e. they potentially bring new financial innovation to the financial market, since

those banks have various exposure in various economy they operate, they attract foreign direct investment (FDI) i.e. foreign banks presence may increase the amount of funding available to domestic projects by facilitating capital inflows, and diversifying the capital and funding basis. This perhaps could be utilized to potential venture businesses which currently unable to be financed due to the procedures in use. In addition, currently there is an issue on foreign currency shortage and most multinational companies are not willing to operate in countries with foreign currency shortage if Ethiopia allows foreign banks entry there will be an increase in the country stock of foreign currency and this will lead those multinational companies to operate in Ethiopia since they will get enough money for their importable items/ inputs, due to this our government will also collect much amount as tax on the imported items and this also a stepping step towards the registration of WTO which requires liberalization of bank and telecommunication, the other benefit is the development of the financial market i.e. foreign banks entry develops the financial market in a way that help to expand the inter-bank market and attract business from customers that would otherwise have gone to foreign banks in other countries. Moreover, those foreign banks potentially bring the necessary skilled human resources in this market from their home country or other countries they operate and as per the participant's responses in this study, the last benefit we get from the foreign bank entry is it improves the financial system infrastructure i.e. the result in this study indicates foreign bank with better practice and know-how spillover the trained to domestic financial sector to fill the gap in their development. Supporting this foreign banks entry could make improvement in the financial sector includes accounting and transparency, financial regulation, and through the increased presence such supporting agents as rating agencies, auditors, and credit bureaus.

The possible potential costs to Ethiopian current situation due to foreign bank entry in Ethiopian market includes, lack of domestic strong supervisory body i.e. previous research also reviles the positive relation between the factors for the need of strong supervisory body as foreign owned banks immerged in the market since they use sophisticated technology, In view of this respondents in this study Ethiopia lacks strong supervisory body and establishing this supervisory body will cost us, the next potential cost is , the local or domestic banks will be less competitive as compared to those giant foreign banks due to their capital, experts , there network, there diversification etc. Therefore, if government allows early market entry for those foreign banks, this will exposé to a risk that domestic financial institution would not be able to withstand

in the increased competitive pressure and might even risk facing bankruptcy. Such a banking failure might have spillover effects on other banks and could possibly endanger stability of the Ethiopian financial sector. The other potential cost due to foreign bank entry will be “retains credit to small firms”, for this specific matter, foreign banks may choose only the best clients with a potential of growth like; their focus area might be the large firms and they will ignore those small firms since they would have little interest with those small domestic firms which may require them to hire additional expertise in dealing with those small firms to analyze the cost and benefit to work with them, in addition to this domestic banks will not get a chance to work with those large companies and in foreign trade, since the majority of those large firms may prefer those foreign banks which operate in various countries to have the required foreign currency and bank service in their trade.

From this research finding, it can be concluded that the potential efficiency reform to the bank sector due to the foreign bank entry in Ethiopia includes, domestic/ local banks will benefit from the transfer of know how i.e. foreign banks have various experience, expertise and technology, so if Ethiopia allows foreign banks they will transfer their vast knowledge which comes from various countries experience to those local banks, the next potential efficiency reform to the bank sector will be “Introduce a better supervision, since those foreign banks operate in various country in the world and the level of control in each of those country is different and also if banks are operate to operate in different country there should be a mechanism to track inflow and outflow of capitals, therefore to do such monitoring there must be an introduction of better supervision by the NBE and this will support the national bank to strength the current supervision, the other potential reform to the bank sector will be, lower possible banking crises, here those foreign banks are well experienced and they also know how to manage risks. There is also a good transfer of banking practice by those foreign banks since they have various expertise during their operation in various countries. They also introduce better disclosure and they encourage consolidation of banking service.

5.2. Recommendation

Banking markets are becoming increasingly international on account of financial liberalization and overall economic and financial integration in various countries and to be member of WTO one of the requirement is the liberalization of the banking sector, Therefore, the researcher recommend the following points

- To reap the benefits of foreign bank entry and minimize its potential costs, policymakers need to pay attention to the timing of the liberalization process and ensure adequate regulation and supervision is in place before they allow the foreign banks in the market.
- National bank of Ethiopia (NBE) and other governmental bodies needs to build the capacity of their staffs and their procedures to accommodate the need of additional expertise and techniques during supervision of the bank sector after the foreign banks enter in to the market.
- The local/ domestic banks need to upgrade themselves technologically and expert wise to cop up with those giant foreign banks with huge capital, latest technology, network and experts before the foreign banks enter in to the market

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Annex -1.Questionnaires

Addis Ababa University

College of Business and Economics

Masters of Science in Accounting and Finance

Questionnaire on “Effect of Foreign Bank Entry in Ethiopia.”

Dear Respondents,

This questionnaire is designed to explore the effect of foreign banks entry in Ethiopia. This study is conducted in partial fulfillment of the requirements for the Master’s degree in Accounting and Finance at Addis Ababa University. Its main objective is to assess the effect of Foreign bank entry in Ethiopia.

Your response is vital to the outcome of the study and you are requested to completely and objectively answer all questions. The research is going to be carried out based on your responses and other relevant data that could support it. It forms a major part of the research and the information you will enable the researcher to critically analyze to answer research questions where the researcher raised in this study.

Your cooperation to respond genuinely is very important to this study because it represents in the sample. Please answer all questions. Space is provided at the end of the questionnaire for you to add further explanations or comments. I would promise that all information you provide would be strictly confidential.

Please tick () or provide your own answers where applicable.

Thank you in advance for your indispensable cooperation to spare invaluable time and energy to complete these questionnaires

Name: Direslign Dagnaw/ MSc student at AAU Telephone: +251923251900

PART1. General Information and Demographic Background of Respondents

1.1. Gender

- Male
- Female

1.2. Age Bracket

- Less than 25 Years
- 26-30 Years
- 31-35Year
- 36-40Years
- Over 40Years

1.3. Educational Background

- Certificate
- Diploma
- BA/BSC Degree
- MSc/ MA
- Other Specify _____

1.4. Your Position in this bank

- General Manager
- Deputy General Manager
- Finance Department Head
- Deputy Finance Department Head
- Customer service Department Head
- Deputy Customer Service Department Head
- Internal Audit Department Head
- Deputy Internal Audit Department Head

- Credit/ Load Department Head
- Deputy Credit/ Load Department Head
- IBD Head
- Deputy IBD Head
- Safety and security Department Head
- Deputy Safety and Security Head
- IT Department Head
- Deputy IT Department Head
- Other, Please Specify _____

1.5. How long have you been working in the financial institution?

- < 5Years
- 5 to 10 Years
- 10 to 20 Years
- > 20Years

1.6. How did you feel when if foreign banks entry in Ethiopia?

- Bad
- Stressed
- Indifferent
- Good

PART 2:

2.1. How would you rate the potential benefit to the Ethiopia current situation, if foreign banks are allowed to operate?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Disagree” to “Strongly Agree” that is: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree5 = Strongly Agree.

	1	2	3	4	5
Introduce new financial innovation					
Accelerate the economies of scale					
Develop the financial market					
Improve the financial system infrastructure					
Attracts foreign direct investment					

2.2. How would you rate the potential costs to the Ethiopia current situation, if foreign banks are allowed to operate?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Disagree” to “Strongly Agree” that is: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5 = Strongly Agree.

	1	2	3	4	5
Foreign banks may reduce costs					
Domestic Banking as an infant industry becomes less competitive					
Retains credit to small firms					
Lack of domestic strong supervisory body					

2.3. The policymakers in Ethiopia have identified the following potential risks towards foreign bank entry. How would you rank the potential risks?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Disagree” to “Strongly Agree” that is: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5 = Strongly Agree.

	1	2	3	4	5
Lack of interest by foreign banks to mobilize domestic capital.					
The infant industry argument					
Skews credit away from small and medium enterprise					
Limited supervisory capacity					
Fear of capital outflow					

2.4. How would you rate the following potential efficiency reform to the general economy, if foreign banks are allowed to operate with current conditions?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Disagree” to “Strongly Agree” that is: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5 = Strongly Agree.

	1	2	3	4	5
Improve financial regulation					
Introduce other financial activities					
Attract a foreign direct investment					
Enhance the overall stability					

2.5. How would you rank the following potential efficiency reform to the bank sector, if foreign banks allowed operating with current conditions?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Disagree” to “Strongly Agree” that is: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5 = Strongly Agree.

	1	2	3	4	5
Lower possible banking crises					
Provide a more stable source of credit					
Introduce new products and services					
Enhance the competitive environment					
Introduce a better supervision					
Introduce better disclosure					
Transfer of know how					
Transfer of good banking practice					
Encourage consolidation of banking service					

2.6. What will be the impact of foreign banks on the performance of Ethiopian domestic banks, if allowed to operate within the coming 5 years?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Disagree” to “Strongly Agree” that is: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5 = Strongly Agree.

	1	2	3	4	5
Foreign banks reduce local banks market share					
Foreign banks attracts qualified staffs					
Foreign banks reduce local bank credibility					
Foreign banks reduce local bank total growth					
Foreign banks reduce local bank total growth asset					
Foreign banks reduce local banks lending growth					

2.7. Foreign bank entry having an effect on the performance of domestic banks in Ethiopia

Strongly Disagree, Disagree, Neutral, Agree Strongly Agree

Any other comment/ suggestion; please State

.....
.....

Annex -2- List of Banks in Ethiopia

No	Bank Name
1	Awash International Bank
2	Commercial Bank of Ethiopia
3	Development Bank of Ethiopia
4	Dashen Bank
5	Wegagen Bank
6	Bank of Abyssinia
7	United Bank
8	Nib International Bank
9	Cooperative Bank of Oromia
10	Lion International Bank
11	Zemen Bank
12	Oromia International Bank
13	Bunna International Bank
14	Berhan International Bank
15	Abay Bank S.C
16	Addis International Bank S.C
17	Dehub Global Bank S.C
18	Enat Bank S.C