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COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

**Challenges and Prospects of Foreign Bank Entry in
Ethiopia's Banking Sector**

**A Thesis Submitted to the College of Business and Economics in Partial
Fulfillment of Requirements for the Degree of Master of Science in
Accounting and Finance**

By

Abrham Tamiru Tesfaye

Advisor

Abebaw Kassie (PhD)

May 2023

Addis Ababa, Ethiopia

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Declaration

I, the undersigned hereby declare that the thesis entitled “Challenges and Prospects of Foreign Bank Entry in Ethiopia’s Banking Sector” is my original work. I have carried out this study independently with the supervision and guidance of the research advisor, Abebaw Kassie (Ph.D.). Any sources used in this thesis have been properly acknowledged. Moreover, this study has not been submitted for the award of any Degree in this or any other institution.

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Certification

This is to certify that Abrham Tamiru Tesfaye has done a study entitled “Challenges and Prospects of Foreign Bank Entry in Ethiopia’s Banking Sector”. This study is his original work and all the sources of materials used for the research project paper have been properly acknowledged.

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Addis Ababa University
College of Business and Economics
Department of Accounting and Finance
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Acknowledgement

Everyone that assisted me with my master's thesis deserves a huge thank you. Without their assistance, I could not have succeeded.

I would first like to extend my heartfelt gratitude to my adviser, Abebaw Kassie (PhD), for his priceless guidance and beneficial comments throughout my study. I am also deeply grateful to my friend Aboneh Teshome for his insightful contributions and recommendations during the course of my study. Additionally, I am thankful for the assistance of my colleague Serkalem Dendana. I would also like to thank my mother, Emiwodish Nigussie, for her unwavering moral support and everything she has done for me. It means a lot to have her by my side as I accomplish my master's degree.

Finally, my deepest appreciation goes to all the participants, including my family and friends, who enthusiastically shared their experiences and opinions, which clearly contributed to m 'the theme was successful. Gratitude for your time and work

Abstract

The Ethiopian government is moving toward opening the financial sector for foreign investors. This is with an anticipation to encourage competition and provide better services for consumers. While foreign banks can have a positive impact on the economy, they can slow economic growth and displace local banks so this study aimed to explore the challenges and prospects of foreign bank entry in the Ethiopian banking sector. To achieve this, a comparative study using five financial indicators was conducted with African countries with high and low GDP than Ethiopia. A mixed approach was used, and a survey questionnaire was distributed to 135 respondents with proportional quota sampling. Data from 17 commercial banks, the National Bank of Ethiopia, and the senior management of the bank were collected to analyze the data using descriptive statistics such as graphical representation, mean, standard deviation, frequency and percentage. The study found that the presence of foreign banks will contribute to the growth of the Ethiopian economy through financial innovation, technology and access to credit. However, they also presented significant challenges to their performance. The study also revealed that in terms of financial indicators, the Ethiopian banking sector is better than African countries. Thus, the entry of foreign banks can enhance the financial strength of domestic banks, but necessary preparations such as strategic adaptation, capacity building and training and development are needed beforehand they have been involved.

Keywords: Foreign Banks, Domestic Banks, Benefits, Challenges, Financial Indicators

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List of Acronyms

CEO	Chief Executive Officer
GDP	Domestic Product
NBE	National Bank of Ethiopia
NIM	Net Interest Margin
NPL	Non- Performing Loan
M & A	Merger and Acquisition
ROA	Return on Asset
ROE	Return on Equity

Chapter One: Introduction

1.1 Historical Background: Banking in Ethiopia

McGillivray, representative of the National Bank of Egypt, and Emperor Menelik II have reached a deal that serves as a metaphor for Ethiopia's adoption of modern banking. After the agreement was made, the first bank, Bank of Abyssinia, was inaugurated in February 1906. Within 15 years of its establishment, Bank of Abyssinia had opened branches in different parts of the country. One branch was opened in Harar in 1906, two years after the bank's establishment in Addis Ababa. Another branch was opened in Dire Dawa two years later, and then Gore in 1912, Dessie and Djibouti in 1920, and Mac Gillivray were appointed as the governor in 1919 and he was succeeded by H Goldie, Miles Backhouse, and CS Collier. Bank of Abyssinia faced difficulty in convincing people to use its new banking service, and also had to spend a lot of money on installation and travel expenses. As a result, the bank never made any money until 1914, when profits started to appear. The bank discontinued operations in 1931, and the Bank of Ethiopia immediately took its place (National Bank of Ethiopia, 2012). The Bank of Ethiopia, a joint-stock company that was set up in 1890 with an authorized capital of £750,000. Private Citizens were supposed to become shareholders, but the government was supposed to have control over the bank's management. However, the subscription process for the bank failed to attract the interest of the public, and only half of the authorized capital was paid up at the time of its establishment. The government held 18,003 shares, nearly 95.4% capital of the firm, and another 874 shares were in the hands of the public (Arnaldo Mauri, 2010).

The Bank of Ethiopia takes over the Bank of Ethiopia's business operations. It was authorized to issue notes and coins and had branches in various parts of Ethiopia. However, during the Italian invasion of Ethiopia in 1935, the branches of the main Italian Banks (Banca d'Italia, Banco di Roma, Banco di Napoli, and Banca Nazionale Del Lavoro) were established in Ethiopia, but all operations ceased soon after liberation. Barclays Bank arrived in Ethiopia in 1941 alongside the British military and started offering financial services in Addis Ababa until leaving in 1943. The State Bank of Ethiopia served as the nation's central bank and went into full operation in April 1943. It served as the Ministry of Finance's representative and had the authority to print coins and banknotes. The Bank was given exclusive authority to create money and conduct currency

transactions between 1945 and 1949. Additionally, the Bank carried out all commercial banking activity (National Bank of Ethiopia, 2012).

The State Bank of Ethiopia was established in Khartoum, Sudan, and operated as a transit office until 1963. The Ethiopian National Bank and the Ethiopian Commercial Bank were established under the Ethiopian Banking Law of 1963. The Ethiopian National Bank began operations in January 1964, followed in January 1964 by the Ethiopian Commercial Bank. The original capital of the Bank increased to 5 million Ethiopian birr in 1968. The Bank ceased operations in 1998 (ibid). There were various financial institutions operating in Ethiopia during the 1950s and 1960s. The Imperial Savings and Home Ownership Public Association specialized in providing loans for the construction of residential houses, while the Investment Bank of Ethiopia replaced the Agricultural Bank in 1951. In 1970, the Agricultural and Industrial Development Bank Share Company was established to take over the assets and liabilities of the former Development Bank and Investment Corporation of Ethiopia. The government extended its control over the whole economy and nationalized all large corporations in 1974, leading to the merger of the three private owned banks - Addis Ababa Bank, Banco di Roma and Banco di Napoli - to form the second largest Bank in Ethiopia, called Addis Bank. Prior to the merger, early 1975 saw the first nationalization of foreign ownership of these banks. Commercial Bank of Ethiopia commenced its operation with a capital of Birr 65 million, 128 branches and 3,633 employees in 1980 (ibid). The Ethiopian government established a free-market economy system following the demise of the Dergue regime in 1991. Monetary and Banking proclamation No.94/1994 established the Ethiopian National Bank as a judicial entity, separate from the government, and laid out its main functions (National Bank of Ethiopia, 2012). The first private bank, Awash International Bank, was founded in 1994 shortly after the proclamation. Dashen Bank, established on September 20, 1995, was the next private bank to open. The five private banks that have opened since 1998 are United Bank, Lion International Bank, Cooperative Bank of Oromia, Zemen Bank, and Oromia International Bank (ibid). Ethiopia has 29 commercial banks and 1 development bank. All of these institutions are currently active and serving residents (National Bank of Ethiopia, 2022).

Table-1.1: List of Banks in Ethiopia

No.	Bank Name	Year Est.
1	Nib International Bank	1999
2	Abay Bank	2010
3	Addis International Bank	2011
4	Awash International Bank	1994
5	Bank of Abyssinia	1996
6	Berhan International Bank	2010
7	Bunna International Bank	2009
8	Commercial Bank of Ethiopia	1963
9	Cooperative Bank of Oromia	2005
10	Dashen Bank	1995
11	Debub Global Bank	2012
12	Enat Bank	2013
13	Lion International Bank	2006
14	Oromia International Bank	2008
15	Hibret Bank	1998
16	Wegagen Bank	1997
17	Zemen Bank	2009
18	Development Bank of Ethiopia	1901
19	ZamZam Bank	2021
20	Hijra Bank	2021
21	Siinqee Bank	2021
22	Shabelle Bank	2021
23	Amhara Bank	2021
24	Ahadu Bank	2022
25	Goh Betoch Bank SC	2021
26	Tsedey Bank	2022
27	Tsehay Bank	2022
28	National Bank of Ethiopia	1963
29	Sidama Bank Sc	2022
30	Gadaa Bank Sc	2022

Source: (National Bank of Ethiopia)

1.2 Background of the Study

A nation's financial industry is significant for its economy, and recent research highlights the necessity of a robust fiscal strategy to stimulate the progression of the economy. (Amanuel, 2009). The financial industry has undergone significant transformations in recent years due to technological advancements and relaxed regulations. As a result, banks are no longer generating as much revenue from traditional banking operations, leading to global mergers and acquisitions as a survival strategy (Jabsheh & Chemingui, 2005).

The World Bank (2010) argues that although trade and investment liberalization can help increase the efficiency of domestic economic systems, additional steps are needed to attract new investors and business owners. Countries should also implement complementary legal reforms in order to reduce barriers to competition. It is done to make it easier for foreign companies to operate there. By removing restrictions on the amount of capital that firms can invest and by removing barriers to competition, economic liberalization also aims to move decentralized economic systems effectiveness.

A foreign bank opens a branch or subsidiary in the country, which can help the bank compete more effectively with domestic banks. This can be good for foreign banks in developing countries because foreign banks outperform domestic banks. In addition, the advantage of the bank being from a neighboring country can be substantial (Claessens & Horen, 2013). In accordance with Claessens, Demirgüç-Kunt, and Huizinga (2000), Higher interest rates and inflation can boost bank earnings and margins for international banks, but they can also raise operational expenses.

Opening up the banking sector to foreign banks will allow new services and products to be available to consumers, which will improve access to foreign capital and help boost inter-bank competition. This will lead to increased mobilization of funds for companies and households (Dirirsa, 2018).

Foreign banks have been operating in Ethiopia since the early 20th century, with the establishment of the Bank of Abyssinia in 1906. The bank initially encountered several challenges, such as struggling to encourage people to use its banking services and facing high costs for setting up and traveling to branches. Despite these difficulties, the bank was able to open branches in various parts of Ethiopia, including Harar and Dire Dawa. However, Italian banks also operated in Ethiopia for a short time during the Italian invasion in 1935, but their operations ceased with the brief occupation of the country. Barclays Bank was another foreign bank that entered Ethiopia in 1941, but it exited after only two years in 1943. (National Bank of Ethiopia, 2012).

After the long time, the Ethiopian government is moving toward the opening of foreign sector to foreign investor, which is a major issue for all local banks. This allows them to compete more

effectively and provide better services to their customers. Foreign banks are permitted to operate in Ethiopia under four business mechanisms. In addition to opening offices and subsidiary arms in Ethiopia, foreign banks would also be permitted to buy shares in already-existing local banks. It is also possible to utilize commercial representative offices (Endale, 2022).

According to Kebede (2017), foreign banks have an opportunity to compete in Ethiopia's banking sector, which could pose challenges for the country's state-owned commercial and private banks. This study thus focuses on the challenges and prospects of foreign bank entry in Ethiopia's banking sector.

1.3 Statement of the Problem

Banking is an essential part of the economy; playing a major role in moving money around and helping businesses get the financing they need to grow. Banks also provide services to companies and people outside of their home country, expanding their reach into international trade (Mishkin, 2004). By opening subsidiaries and branches abroad or by acquiring already-existing foreign banks, banks have grown globally. The internationalization of the banking sector has been spurred by the liberalization of financial markets worldwide (Claessens, Demirgüç-Kunt, & Huizinga, 2000).

To make things easier for companies and individuals to obtain financial goods and services from around the world, trade in financial services must be liberalized. This will help to increase competition and enhance capital allocation (The World Bank, 2010).

Financial market liberalization boosts competition, which reduces profits and lowers franchise values. Lower franchise values also mean less incentive to make responsible loans, which exacerbates the moral hazard issue. With enough competition, banks will find gambling appealing (Hellmann, Murdock, & Stiglitz, 2000). If economic liberalization is allowed, new companies from other countries will enter the market and compete with existing businesses. This will create new and efficient markets, as well as more opportunities for companies to expand their product portfolio (Johansson, 2009). Foreign banks may have a positive effect on the economy by creating a market segmentation that allows for better competition. However, if

foreign banks drive out local banks, this could lead to poorer competition and less economic growth (Detragiache, Gupta, & Tresse, 2010).

When foreign banks operate in a developing country, they can often make competition harder for local banks, by raising costs and reducing profits. But as the participation of foreign banks increases, the capital market becomes tighter and the influence on banks decreases (Hermes & Lensink, 2001). When the national economy is strong, there may be less presence of foreign banks, as they may be more focused on more profitable businesses. Banks in developed countries do well, and generally do business better than international banks. This is because a foreign bank may have worthless or obsolete assets, limiting the return on assets (Babatin & Shaheen, 2021).

Since Ethiopia is a developing country, the issue of foreign bank entry is up for discussion as the Ethiopian government is also opening up the digital financial services industry to international investment to help liberalize the sector. Recent official policy documents indicate that the government is moving towards opening up the financial services industry to foreign banks and investors (Aman & Partners, 2022).

According to Business Information Ethiopia (2022), Most Ethiopians do not have access to financial services. This can be due to various reasons, such as lack of financial products and services, lack of financial literacy, lack of infrastructure or this provides an opportunity for foreign banks to enter the Ethiopian market and provide financial solutions to cater to Ethiopian consumers address specific needs. With most Ethiopians unbanked, banks in the country may struggle to expand their customer base and increase profitability. Furthermore, the limited availability of financial products and services may make it difficult for banks in the country to offer innovative solutions that meet the unique needs of Ethiopian customers.

In Ethiopia, research papers have been written discussing the benefits of allowing foreign banks to enter the banking sector. These papers, such as Dirirsa (2018), Hurisa (2017), Kebede (2017), and Raba (2017) suggest that this will lead to new innovative banking services and products, an improved financial sector, more credit supply than before, increased access to foreign capital, increased competition among banks, and improved fund mobilization efforts and Efficiency. Additionally, admitting foreign banks will help to enhance financial regulation, promote new financial activities such as investment banking, and attract foreign direct investment.

Other benefits that foreign banks may offer to Ethiopia's economy include stabilizing the nation's financial system and diverting deposits away from faltering institutions. Stabilizing the country's financial system can help to diversify available lending and to stabilize the overall economy. Foreign banks also typically have better lending policies and fewer problematic loans, which makes them a more reliable source of financing. However, foreign banks can add greater volatility to the lending market because they can more quickly discover new investment opportunities (Ensermu, 2019).

When foreign banks enter the Ethiopian market, they may face challenges related to their ability to analyze the profitability of their customers and their capital constraints, according to some studies. However, foreign banks can also have a competitive advantage over domestic banks due to their technical and knowledge-based capabilities (Dirirsa, 2018).

Another challenge for Ethiopian local banks are that the rivalry between international banks may lead to money being lost by local banks in the near future, and could lead to disruptions in the banking system. Furthermore, this competition may only favor the most profitable parts of the economy (Raba, 2017). This implies that foreign banks may prioritize offering financial services to profitable businesses and industries, disregarding smaller businesses and individuals who may not generate as much profit. As a result, it may result in market imbalances and obstruct some economic sectors' growth and advancement.

In addition to the challenges mentioned above, the study also found that when foreign banks enter the market, the performance of domestic banks decreases. Domestic banks perform significantly worse when foreign banks hire skilled people from domestic banks, lose market share, and delay the overall growth of the banks. To be effective, management staff should have experience working with banks from other countries with similar regulatory environments (Amanuel, 2009).

Generally, the primary purpose of a financial institution is to provide loans and other economic offerings to customers. Therefore, assessing the performance of financial systems in countries examines the important role of firms and individuals in lending and identifies important aspects of the economic growth process (Aisen & Franken , 2010). To measure their performance, banks use numerous metrics which include go back on investment, return on property and asset

satisfactory. Adequate capital is another important degree to make certain that banks have enough liquidity to fulfill their financial responsibilities.

The statements above demonstrate that there have been studies conducted on the challenges and opportunities of foreign banks entering the Ethiopian banking sector. However, the researcher is not aware of any prior study that has compared the ROA, capital adequacy ratios, and other quantitative measures of Ethiopian banks with those of other African nations in relation to the entrance of foreign banks. Therefore, the researcher opines that this study can fill a knowledge gap in the field by elaborating on the challenges and prospects involved in foreign bank entry into the Ethiopian banking industry.

1.4 Research Questions

While conducting this study, the researcher queried and attempted to find answers the following questions:

- What are the challenges that Ethiopian local banks face when foreign banks enter the market?
- What are the opportunities of a foreign bank entering the market?
- What effect will foreign banks have on the performance of the domestic banking sector?
- At what level is the NBE supporting the local banks so that they can prepare in response to foreign bank entry?
- What is the way that foreign banks will enter the Ethiopian Banking sector?

1.5 Objective of the Study

1.5.1 General Objective

The general objective of this study is to investigate the challenges and prospects of foreign bank entry in Ethiopia's banking sector.

1.5.2 Specific Objectives

In order to accomplish the general objective stated earlier, this study was carried out with the following particular objectives:

- To identify the challenges Ethiopian local banks will have when foreign banks enter the market.
- To identify the potential opportunities when a foreign bank enters the Ethiopia's banking sector.
- To examine the effect of the performance of foreign banks on the domestic banking sector.
- To assess the extent to which the NBE is assisting local banks so that they can get ready for the entry of foreign banks.
- To identify the foreign bank's mode of entry into the Ethiopia's banking sector.

1.6 Significance of the Study

Foreign banks have become significantly essential in global trade, leading several countries to relax their financial policies to accommodate them. According to studies, foreign banks' involvement has advantages for the entire financial sector, including greater access to foreign funds, intensified competition among banks, and better quality services and products.

In Ethiopia's current unstable economy, the government is allowing foreign banks to enter the local banking system. This study is expected to help National Bank of Ethiopia to establish directives regarding foreign bank entry, so that the economy of Ethiopia can be protected. Foreign bank entry has the opportunity to make the financial sector more stable by providing new innovative technologies and increasing competition. At the same time, domestic banks face some challenges when foreign banks enter the market. Therefore, this study will also benefit Ethiopian commercial banks to prepare for the adverse effects of foreign bank entry. Furthermore, this study aimed to ensure that local banks are offering modern banking services and products that foreign banks may offer.

The study is expected to help the Ethiopian government to make better economic decisions by comparing the performance of banks in African countries with higher and lower GDP levels than Ethiopia. This information will help determine whether the entry of foreign banks contributes to Ethiopia's economic growth. Since more than the Ethiopian adult population is unbanked, foreign banks will have an opportunity to penetrate the Ethiopian market. However, this will also be a challenge for local banks, as this population is largely un-banked.

This study will help future researchers to better understand the implications of foreign bank entry into the Ethiopian unbanked society. Overall, this study aimed to identify the challenges faced by local Ethiopian banks when a foreign bank enters the market and takes any remedial action before it affects the local market. Additionally, this study will help whether a foreign bank offers prospects to local Ethiopian banks.

1.7 Scope of the Study

The study aimed to examine the challenges and prospects of foreign bank entry into Ethiopia's banking sector in Addis Ababa. Addis Ababa was chosen as the location for the study as all banks' headquarters are located there, and it is believed that bank guidelines and manuals are prepared by professional staff in these headquarters. However, the study excluded some banks that have only recently been established and haven't yet demonstrated their financial stability and performance. Additionally, a development bank from Ethiopia was also excluded due to its unique features compared to other commercial banks.

Data for the study were gathered from executive managers and department directors at the bank who have strategic decision-making responsibilities and are thought to have more expertise in the banking sector and the study's subject. Examining the bank's existing situation in 2023 and forecasting future changes, particularly in respect to the admission of international banks, were the study's main goals. The study also gathered secondary data from the past three years (2019-2021) for comparative analysis to assess if Ethiopia's banking industry is outperforming African countries in the absence of foreign banks. However, the years 2022 and 2023 were left out since the chosen African nations' supervisory reports were not available during those years. The study is specifically focused on assessing the challenges and prospects of foreign banks entering

Ethiopia's banking sector, in response to the Ethiopian government's decision to allow foreign investors to enter the Ethiopian banking sector.

1.8 Organization of the Study

This thesis consists of five chapters. The subsequent chapter, which is chapter two, focuses on conducting a literature review that investigates the challenges and prospects encountered by foreign banks, incorporating relevant theories, concepts, and empirical evidence. Chapter three covers the research methodology and design, encompassing data collection, sample selection, and methods for analysis and interpretation. Chapter four entails the presentation of an analysis based on the data gathered from surveys. Lastly, Chapter five furnishes a summary, conclusion, and recommendations for the study.

Chapter Two: Literature Review

3.1 Introduction

This chapter presents literature reviews divided into two sections: Theoretical Review and Empirical Review. The Theoretical Review section presents various definitions, theories, challenges, and benefits related to foreign bank entry. The Empirical Review section includes both international evidence, including African countries, and local evidence from different scholars regarding the challenges and prospects of foreign bank entry in the domestic banking sector.

3.2 Theoretical Review

3.2.1 Definitions

A bank is a commercial that lends money and takes deposits according to the law (Szulczyk, 2014). A bank is empowered to lend money to a receiver or liquidator appointed under the Winding-up act and to take security in connection therewith (Patterson, 1917).

Banking as the provision of loans and deposits; the former produce interest income for the bank, while the latter create interest expense for the bank (Choudhry, 2018). Banking is precisely that of providing financial products and services to the public, outside of a traditional and supervised regulatory framework (Faggini, Gallegati, Kirman, & Lux, 2016).

A foreign bank is institution that has branches or representatives in other countries and its principal office or head office is located in another country. Foreign banks are subordinate to both domestic and foreign banks. A bank may choose to open foreign bank branches to meet the needs of multinational corporate customers. A foreign bank branch is a type of foreign bank that is obligated to follow the regulation of both the home and host countries (Kebede, 2017).

International banking (cross-border operations of banks) is an old practice, dating back to banking's origins. Multinational banking (banks operate physically in more than one country) has been popular for a long time, with growth occurring in the second half of the 20th century (Mayoukou & Ruffini, 2016).

3.2.2 Financial Liberalization

Financial liberalization is letting the market decide who gets and gives credit, as well as at what cost. Deregulation of interest rates, unlimited entrance into the banking enterprise, bank autonomy, non-public possession of banks, the abolition of credit obstacles, and the liberalization of world capital flows are all aspects of complete monetary liberalization. The primary goal of monetary liberalization is to build a financial device this is more effective and may help the enlargement of corporations within the non-public zone. By expanding loan availability and introducing more competition into the banking industry, efficiency may be raised. Concerns have been raised regarding how the fast expansion of international bank activities may affect domestic banking markets (Hermes & Lensink, 2001).

Due to the need for banks to operate as efficiently as possible in order to compete in competitive marketplaces, the margin market has seen consolidation. Governments have recently shown a willingness to liberalize their financial markets, which has increased the entry of international banks. This is because it is believed that there would be more gains from foreign bank participation than losses (Kloosterman, 2011).

Foreign investors had long been barred from participating in Ethiopia's financial industry, but a new legislation recently passed permits them to operate in the provision of digital financial services. Given the country's history of steady expansion in the traditional banking and microfinance sectors, this is a significant development (Aman & Partners, 2022). This new legislative framework may pave the way for more foreign investment in Ethiopia's economy, which might spur economic expansion and raise the standard of life for Ethiopians.

3.2.3 The Eclectic Theory

The predominant theoretical framework for comprehending globalization, multinational firms, and international commerce is the eclectic paradigm. However, changes in globalization of the economy and the rise of alliance capitalism have had an impact on how multinational businesses conduct their business (Cantwell & Narula, 2003).

The "eclectic theory" is the term given to the OLI paradigm, which was initially applied to evaluate multinational corporations. This framework takes into account the following inquiries: Why do some businesses manufacture abroad? How do they effectively compete with regional businesses? Where in the world do they produce? According to the Dunning's eclectic theory, a multinational corporation exists when there are three components: internalization, a geographical advantage, and ownership benefits. Location advantages are essential but insufficient for the formation of a global corporation. Internalization is the crucial component that brings the multinational corporation to completion (Mayoukou & Ruffini, 2016).

In an effort to offset their disadvantages relative to local banks, foreign banks must take use of ownership advantages, according to the eclectic framework. This is due to the benefit that international banks have over local ones in that they can learn and adapt more rapidly (Williams, 1997).

3.2.4 Internationalization

The Coasian theory of the firm, which contends that market failures can occur not just in the home market but also across borders, is the foundation of the internalization thesis. Location theory gives the where, whereas the Coasian method explains the how and why of production decisions. By having complementary assets, companies can lower the cost of contract negotiations according to the Coasian method. By employing an internal market, one may avoid the four types of market expenses that come with an external market: brokerage fees, obligation definition fees, scheduling risk, and taxes. The Internalization Theory of Industry upholds the conventional belief that markets are not always ideal and those companies always behave in their own best interests (Williams, 1997).

Many studies on how firms internationalize have been conducted in the recent years. This is due to the rise in international trade, money flows, and foreign direct investments, as well as the current active development of international banking. International banks have only been operating in transitional economies for a few decades now, following a considerable financial market liberalization and entrance barrier removal (Wadaki, 2013).

A bank can wish to enter new markets for one of three major reasons, according to research in international business. These justifications consist of the opportunity for greater earnings, enhanced reputation, and the capacity to profit from market inefficiencies. However, the bank's present situation should be taken into account before deciding to grow (Sist, 2018).

Foreign banks in foreign nations lack the necessary resources to support the branches opened by incoming business. This means that customers setting up operations abroad only encourage banks to internationalize if the level of financial innovation and sophistication there is lower than in the client's home country. Since it essentially acts as an extension, one would anticipate that the services and management of the bank's international activity would be similar to those of its domestic operations if the host country's financial expertise is higher than that of the home country. An obvious motive, particularly for banks with a small home market, is to enter other geographic markets when one believes that the limitations of the one's home market are strained or that one's options for growth are restricted. The way the domestic banks generate money is impacted by their need for goods that are unavailable on the domestic market. Since interest on loans is typically the primary source of income for banks, it makes logical for them to maximize profits from greater spreads elsewhere. This may also be viewed as a cost difference, and relative cost differences can be used to one's advantage in both local and international trade. International trade in commodities and services is traditionally explained by the rule of comparative advantage, which makes a strong case for how trade may increase welfare. A potential motivator for internationalization is the native economy's growth rate in comparison to other economies. It is possible to take advantage of differences in economic structure and financial systems, and various economic cycles may also serve as a driving force for internationalization efforts. Higher loan growth, more loans, and a better capitalization of the balance sheet are all potentially implied by higher economic growth in foreign nations (Slager, 2006).

Internationalization has always been a major driver for banks to conduct business outside of their native nations, whether it is local or international. This is due to four key factors: There are four types of regulation: domestic regulation, international regulation, deregulation and privatization. Domestic regulation encourages banks to expand internationally. Foreign bank admission and behavior are restricted. The impact of regulatory discrimination across nations can encourage banks to do business through operations in other nations that provide more regulatory latitude

than their home country. The rules controlling banks' admission into the market may also act as a barrier to entry, particularly for financial intermediaries. The bank may have a strong incentive to get around these restrictions if some of the financial intermediary's clientele is from the foreign nation. This is because market dominance and concentration in the banking sector can encourage global activity. First off, a bank's predicted earnings growth may be constrained by growing banking activity concentration, and a rise in domestic market share may be challenging given rival banks' large market shares. Then, it is simpler to accomplish earnings growth outside of the country, in markets where local restrictions do not apply (ibid).

3.2.5 Benefits of Foreign bank Entry

A. Competition and cost-effectiveness

Foreign banks could encourage domestic banks to compete, which might boost the standard of financial services provided by all parties. Domestic banks may become more effective and cost-effective as a result of this competition, which might raise the quality of these services for all customers (Amanuel, 2009).

B. Transferring knowledge and experience

The economies where foreign banks operate are impacted in a number of ways. They can also aid in transferring knowledge and experience from international firms to local businesses in the host nation, which can improve employment, exports, or tax income. This has prompted several countries to relax restrictions on foreign investment and open up new areas to it. However, there is a widespread belief that foreign banks improve business performance in the host nation by reducing financing costs (Mucheru, 2013).

C. Improve efficiency

Different international financial institutions have the potential to introduce innovative technologies and managerial expertise in the local marketplace, ultimately enhancing the effectiveness of the banking sector. Research conducted by the Reserve Bank of India observed a correlation between the deployment of foreign banks and heightened productivity within domestic banks - a tangible example of this phenomenon (Gormley, 2007).

D. Promoting trade

Overseas financial institutions are of great importance for commerce. Their presence can bolster the availability of outside funding for exporting companies and address the issue of asymmetrical information. This illustrates that firm in emergent countries export at a higher rate when non-domestic banks are operating, especially when the parent bank is situated in the importing nation. However, developed nations, which possess more established financial markets and easier access to data, are not affected to the same degree by the existence of foreign banks. Consequently, financial globalization can be a force for positive change by fostering genuine integration through the physical presence of global organizations. (Horen & Claessens , 2017).

E. Access to global financial markets and technologies

According to Kebede (2017), more access to global financial markets than domestic banks can be provided by foreign banks, which can foster the development of new financial products and technologies as well as boost efficiency and competitiveness in the domestic banking industry. There is evidence to show that bringing foreign banks into countries has been a beneficial development, with banks frequently improving in terms of quality and performance. Computerized accounting was invented by foreign banks and afterwards adopted by numerous local institutions. Additionally, they joined the SWIFT network, which facilitated communication with other banks. Foreign banks were the first to use contemporary budgeting and planning technologies, which increased the appeal of university degrees for banking industry personnel. The banking industry's workforce had more possibilities to further their education, and banking as a career grew more appealing. Foreign banks started using credit cards and ATMs often, and local bankers started receiving credit risk training

F. Support for local manufacturers

By giving them better knowledge and competence in internal payment systems and by boosting foreign currency inflows into the country, international banks are anticipated to help local manufacturers, especially export/import enterprises and Multinational Corporation (Kebede, 2017).

3.2.6 Challenges of Foreign bank Entry

A. Competition and potential market dominance

In the market for services like foreign currency trades and letters of credit, international banks are increasingly challenging domestic banks. Prices for these services have decreased as a result, particularly for letters of credit. The waiting period for letters of credit has been cut in half to one day as certain neighborhood banks are being pressured to minimize inefficiencies in order to remain competitive. One worry is that foreign banks would monopolize the domestic market and drive out less capable or innovative institutions. Governments and central banks are also worried that, in times of local hardship, depositors may place greater trust in large multinational banks than in smaller domestic banks. However, a foreign bank's abroad activities may be increased in times of economic hardship in order to stabilize revenues at home (Kebede, 2017).

B. Reduced interest rate margins and profits

Because businesses are attempting to extract more money from their clients, more competition may result in reduced interest rate margins and profits. This may result in a reduction in the amount that consumers can borrow, which would then result in a reduction in the amount of money that businesses can make (Amanuel, 2009).

C. Loan capabilities and potential dominance

Since foreign banks frequently have higher loan capabilities than local ones, this can boost the amount of credit available to enterprises. Because enterprises may develop more easily as a result, real growth may be higher. Foreign institutions with higher lending knowledge may be able to assist in keeping firms viable during times of financial crisis when bankers are hesitant to make loans. Foreign banks outperform their domestic rivals in terms of productivity, with greater assets, loans, and deposits per employee. In comparison to state-owned banks, they also provide smaller interest rate spreads (Mucheru, 2013).

D. Dependence on foreign banks

Governments and monetary authorities are uneasy about the potential sharp rise of international banks in the local economy, which could create a reliance on them that may harm during financial adversity. Further, international banks may put their own advantage before the economy, possibly aggravating economic quandaries in the nation. (Kebede, 2017).

E. Impact on financial stability

There is likelihood that banks from other countries might favor their own interests instead of the local economy. This could escalate the economic difficulties that the nation is already facing. Also, the prevalence of foreign banks in the local market can create a situation of reliance on them, which may be detrimental during economic downfalls. Inadequate scrutiny from local authorities exacerbates the instability of the economy. So, it is crucial to be mindful of foreign banks' activities and put sturdy measures in place to prevent any undesirable impact on the economy. (Kebede, 2017).

F. Lack of supervisory body

Numerous developing nations face a major hurdle when foreign banks attempt to penetrate their market. The issue stems from the dearth of a competent regulatory body, a situation that may result in regulatory arbitrage. Under such circumstances, foreign banks may exploit loopholes in regulatory mechanisms to engage in risky lending or other kinds of financial malfeasance. Also, the absence of a watchdog could compromise the transparency and accountability of foreign banks, posing a challenge for upholding compliance with local regulations. As a result, developing countries must prioritize the formation of an effective regulatory body. Such a measure would enable adequate surveillance of foreign banks and promote safe and responsible operations. (Berger, Hasan, & Zhou, 2009).

3.2.7 Entry Mode of Foreign Banks

The literature on international business explores several entrance strategies that banks might use to get into overseas markets. Fintech is one among the more recent strategies, as are more conventional ones like asset and loan consolidation. Various approaches can be used to access cross-border markets depending on the time period (Sist, 2018).

The term "fintech" refers to the use of modern technologies to improve traditional financial services, such as developing new software applications, creating new applications for existing technologies, or adopting new methods to drive accuracy and efficiency surface block chain, artificial intelligence (AI), machine learning, and other big data Strategies used by fintech companies to disrupt the financial services industry and facilitate market entry by competitors (Corporate Finance Institute, 2022).

M&A activity has recently attracted global attention due to its impact on the global financial landscape. M&A activities have expanded due to deregulation, globalization, advances in information processing and communication technologies, financial technologies and other changes in market conditions. A reaction to this activity has been the entry of new banks into the market (Jabsheh & Chemingui, 2005).

There are now fewer small banks in the globe as a result of the consolidation of numerous banks, which has changed market shares. Increased branch counts and new entrants into the local credit markets have been made possible by the deregulation of the banking sector. Due to the increased competition, maintaining banks' market shares has become increasingly challenging (Bonaccorsi & Gobbi, 2001).

3.2.8 Modern Banking Service and Products

In the past twenty years, banks have seen a significant shift, becoming one of the most competitive industries in the world. Banks must continue to succeed by luring new clients with a range of offerings. In addition to meeting customers' basic banking needs, banks are increasingly providing cutting-edge goods that cater to the demands of contemporary customers. Banks now provide a wide range of goods and services, and they are continually modifying their selection to meet the shifting demands of their customers. Banks are progressively offering financial services including credit cards, loans, and technical services (Technofunc, 2013).

According to Technofunc (2013), modern banking services and products include various types of accounts such as savings accounts, current accounts, fixed deposit accounts, and recurring deposit accounts. Savings accounts are designed for individual depositors and may be run with or without a checkbook. Withdrawals can be processed using a withdrawal slip. Current accounts

are typically used by people and small companies to hold their money. These accounts are designed for individuals or businesses that need more space to store money and run regular operations. Fixed deposit accounts allow customers to allocate a fixed amount for a specified period, while the bank pays interest monthly, quarterly, semi-annually, or annually if customers withdraw their money before the end of the specified period, they will receive down payment plus any applicable interest. A recurring deposit involves a depositor making a monthly payment for a set number of years, with a minimum amount. Interest is calculated and paid based on the account balance each month. If the account is closed, interest is paid based on the final balance, but not for the incomplete quarter.

Banks provide credit cards and various bank accounts to assist individuals in paying for things, which benefits both the banks and the economy. Banks encourage credit card usage by offering different rates and rewards, which can aid in the growth of the economy. However, improper credit card usage can be detrimental. Overall, responsible credit card usage can benefit the economy, but caution is necessary. In addition, banks provide many financing alternatives, along with home equity loans, strains of credit, and unique credit playing cards is becoming particularly popular because of the one-time fee, the capacity to deduct the hobby from taxes (Technofunc, 2013).

Customers also can do banking thru numerous channels including ATMs, smart playing cards, on-line banking and cellular banking. ATMs allow customers to perform any banking hobby day or night time, nearly everywhere in the international. Customers are incentivized to utilize banking channels more frequently, and transaction costs are decreased as a result. Numerous locations have ATMs, which can assist banks in making money through fees. Smart cards have microchips built into them and may be used to make payments online. They are particularly helpful for applications that let the card hold a value, such as payroll cards and establishments that rent movies and groceries. Payroll cards allow employers to load salary payments onto employee smart cards through a bank, allowing employees to receive their money even if they do not have a bank account. Customers may do financial operations from their own computers thanks to online banking. As a result, clients may additionally conduct transactions while not having to visit a bank branch, and carrier is to be had around-the-clock, every day of the 12 months. The fact that internet banking is not limited by way of a financial institution branch's

obstacles is every other motive why many clients find it more convenient than conventional banking. As greater people rely on cellular phones and related technologies for their economic necessities, mobile banking is turning into increasingly more common. Customers may additionally use their cellular devices to view their account facts, make bills, and acquire account updates (ibid).

3.2.9 Measurement of Financial Performance

Financial performance is a thorough assessment of a business's position across several areas, including assets, liabilities, equity, costs, revenue, and overall profitability. It is measured using a number of business-related formulae that enable users to compute precise information on the prospective effectiveness of a firm (Corporate Finance Institute, 2022).

As a bank grows its capital reserves and invests its retained earnings to increase future profitability, profitability is its main line of defense against unforeseen losses. The bank's return on equity (RoE) must be higher than its cost of equity in order to produce shareholder value, as this is the basic objective of any profit-seeking business. Traditional economic indicators and market-based measures are two of the numerous performance metrics employed by academics and practitioners alike. The most widely used industry-wide performance metrics in banking are the cost-to-income ratio, return on equity, and return on assets (RoA, RoE). In addition, the ability to generate income is often measured by net interest margin. While RoE is occasionally broken down into individual drivers and is known as the "DuPont Analysis," RoA is defined as the net income for the year divided by total assets. The net profit margin is the first component, while the financial leverage multiplier is the final one. Cost-to-Income Ratio Ratios, which are derived by dividing operating expenses by operating revenues, demonstrate the institution's capacity to make a profit from a certain income stream. Finally, the Net Interest Margin, which is defined as Net Interest Income divided by Assets or Interest Bearing Assets, serves as a stand-in for the ability of banks' intermediation role to generate income (European Central Bank, 2010).

The bank consultants that were questioned appeared to employ a limited definition of performance metrics, centering their study on efficiency indicators (both conventional and capital-adjusted). They see revenue, asset quality, and capital sufficiency as supplemental metrics. In order to grade banks holistically, rating agencies adopt a more all-encompassing

strategy. They view all forms of prudential returns (capital, asset quality, and liquidity) as crucial to gauging a bank's success. Additionally, they give revenue/cost composition and efficiency indicators the same weight (ibid).

For banks to sustain possible losses without becoming dangerously weak or insolvent, capital adequacy is a crucial need. Equity capital, or how much a bank has invested in its own assets, is calculated as the equity capital divided by the total assets of the bank. Regarding how much credit risk is present and how that risk is quantified by the liquidity coverage ratio; the quality of a bank's assets is also a crucial consideration (Analystprep, 2021).

3.3 Empirical Review

3.3.1 International Evidence

The study found an inverse relationship between the performance of domestic banks and the entry of foreign banks, which shows that competition and efficiency effects on banks only happen if a certain minimum threshold of foreign bank entry has been attained. The results show a positive relationship between the presence of foreign banks and net interest rate margins, operating costs, and loan loss provisions, but a negative correlation between profits and non-interest rate revenue. This demonstrates that, while the introduction of foreign banks decreases profits and raises costs for domestic banks in least - developed countries, it has a positive effect on profitability in industrialized countries but not in emerging ones (Hermes & Lensink, 2001).

In developing nations, foreign banks perform better than local banks, and the contrary is true in wealthy nations. This shows that the profitability and margins of domestic banks may suffer if a foreign bank operates in a nation. By incorporating any improved banking methods and procedures used by new overseas competitors, domestic banks may be able to save expenses. Increased inflation and interest rates result in larger operational expenses as well as higher bank margins and profits. In addition, comparatively greater interest and non-interest revenue as well as poorer profits are related to increases in overhead. The profitability and margins of domestically held banks are often lower in nations where foreign ownership of banks is more popular. More important than their market share is the sheer quantity of competitors. This shows that foreign banks' presence has an immediate effect on local bank competitiveness rather than

waiting until they have a sizable market share. Foreign entrance may diminish the charter values of domestic banks, making them more susceptible, in part through boosting competition and cutting earnings of local banks. This might cause the financial system to become unstable, especially if domestic prudential controls and oversight are weak (Claessens, Demirgüç-Kunt, & Huizinga, 2000).

Claessens & Horen (2013) state that a different research also discovered that foreign banks often outperform local banks in emerging nations, nations with weak institutions, and nations where foreign banks don't play a significant role. Furthermore, the profitability of foreign banks is adversely affected by the home country's proximity. Impact-wise, it demonstrates how international banks may obstruct the growth of the domestic financial industry in underdeveloped nations with weak institutions. When looking at how international banks affect financial stability, it is discovered that where there was a global financial crisis, foreign banks restricted loans more than domestic banks in nations where they played a little role, but not when they were dominant or supported domestically. These results demonstrate the importance of taking bilateral ownership into account when examining the effects of foreign bank presence while accounting for variability.

In the developed host country, there is a correlation between the presence of foreign banks and increased financial competition. Commercial banks have a stronger connection to this. This study looked at how the presence of foreign banks affected European banking competition, and the findings indicate a strong correlation between bank capitalization and competitiveness in the industrialized host nations. The study also discovered a positive, statistically significant relationship between banking competitiveness and the financial environment, such as stock market capitalization. The results between the presence of foreign banks in host economies with developed economies and those in transition are comparable, indicating that there is less rivalry in host economies with transitional economies than in host economies with established economies. However, it is impossible to determine with certainty whether this variation in competitiveness is caused by various degrees of competition or various developmental phases (Kloosterman, 2011).

According to a research by Chen, Nazir, Hashmi, and Shaikh (2019), there is competition among banks, foreign banks entering the market, and risk-taking behavior as evidence from throughout the country. An adverse relationship between risk-taking behavior and foreign banks was discovered by this study. This means that while the introduction of foreign banks initially reduces risk-taking behavior to some extent, the increased competition that follows leaves the host nation's finances vulnerable. Some banking regulations have a substantial impact on lowering risk-taking behavior globally. In particular, restrictions on bank activities and capital regulation stringency reduce the level of risk. The entry of foreign banks is overall a blessing in underdeveloped markets, but it has the potential for risk. Researchers need to study how foreign bank penetration on risk-taking behavior, bank efficiency, and, in particular, how to achieve the optimal level of performance when foreign ownership and different banking regulations are taken into consideration.

Additionally, what motivates bank competitiveness was studied. The impact of entrance and activity rules, as well as foreign banks, on the financial sector's competitive environment was investigated through the analysis of certain international data. It has been discovered that banking systems with greater foreign bank entrance and less activity regulation are more competitive. Contrary to what was assumed in the majority of earlier empirical studies on banking sector competition, there is little evidence that banking system concentration has a detrimental impact on competitiveness. The results also show that contestability is a crucial element in determining successful competition, especially when international banks are allowed to participate and activity limits are lifted (Claessens & Laeven, 2004).

The cross-border movement of bank capital prompts important inquiries concerning the dominant position that foreign banks hold in the domestic banking industry. This knowledge is crucial for helping decision-makers comprehend the advantages of financial globalization and assures better regulatory authority policy consequences (Wu, Chen, Jeon, & Wang, 2017).

The competitiveness of banks in a nation is impacted by its institutional and regulatory framework. For instance, countries with stricter capital requirements typically have more vigorous competition among banks. Foreign banks often have less of an impact in nations with strong external control and oversight. The financial cycle has an impact on banks' ability to

compete, with competition increasing during booms and decreasing during recessions (Aisen & Franken, 2010).

A. Saudi Arabia

The study discovered that domestic banks perform better in terms of returns than international banks, with local banks also performing better in terms of margins. The study also discovered that local banks have a larger capacity for profit generation than international banks since they are better equipped to benefit from their assets. According to the study, domestic banks are better able to comprehend their successful assets, which can encourage them to invest more in them. When it comes to profiting from sales, foreign banks perform worse than local banks, and they could also be unable to provide the same degree of supplementary services. In the end, the research revealed that Saudi Arabia's local banking sector is unaffected by international banks (Babatin & Shaheen, 2021). The study employed a quantitative research approach, which utilized numerical data to examine how foreign banks affect the domestic banking industry in Saudi Arabia. From 2014 until 2018, a team of writers gathered data about the financial performance of three prominent domestic banks and three significant overseas banks situated in Saudi Arabia. Through their analysis of this information, they computed several financial indicators, such as the return on assets (ROA), return on equity (ROE), and net interest margin (NIM).

B. Turkey

According to a research, Turkey's banking sector deregulation raised earnings for local commercial banks and decreased costs. After accounting for inflation, it was shown that the presence of more foreign banks had a bigger positive effect on profitability. The return on assets was inversely correlated with both metrics of foreign bank penetration. This shows that despite their small size, the introduction of international banks had a significant competitive impact in Turkey. All performance metrics utilized in this study were explained in large part by market structure. It would seem that the market would benefit from additional competition (Denzir, 2000). The research methodology employed in the study is quantitative, indicating that the author utilized numerical data to evaluate the effects of foreign bank entry on Turkey's banking industry. The author gathered financial performance data for 17 domestic banks and 10 foreign

banks in Turkey between 1980 and 1990, and used this information to compute various financial indicators such as ROA, ROE, and NIM.

C. Germany

Other situations have revealed the importance of unconventional elements like a nation's openness to international banks or the volatility of the actual bilateral exchange rate. Nevertheless, these variables had no appreciable effect on the German banking sector. The measurement of the interest rate margin was the only variable that made a discernible difference. This suggests that any changes in the actual bilateral exchange rate will be easily managed by the German banking sector. (Wezel, 2004). The methodology employed in the study was quantitative research, which involved analyzing numerical data to determine the factors and risks associated with foreign bank entry into emerging economies. The author acquired a dataset of German bank foreign direct investment (FDI) flows into emerging economies between 1994 and 2001, and employed regression models to identify the key determinants and risks of foreign bank entry.

D. India

Evidence was gathered from India to evaluate the effects of foreign bank entrance on developing markets. A redistribution of loans has been linked to the entry of new foreign banks, which isn't necessarily helpful for the vast majority of domestic enterprises. The ten percent of businesses who were the most successful and were close to a new foreign bank branch received greater loans, but on average, businesses were 7.6 percentage points less likely to get any kind of long-term credit once a foreign bank entered the market. This modest increase in loan amounts appears to be the result of fresh loans from foreign banks that are predominantly directed at the most successful businesses. Furthermore, rather than changes in loan demand, the drop in domestic credit appears to be caused by changes in the loan supply. Instead of the demand for loans, changes in the loan supply appear to be what drives credit. Following credit liberalization, the distribution of credit may be improved by removing informational barriers and domestic banks' expenses associated with screening prospective borrowers. By doing so, measures that raise the costs for banks to get information about businesses may increase the number of

businesses that foreign banks are ready to support and lessen the possibility of a systematic decline in loans from local banks as a result of greater competition (Gormley, 2007).

E. Kuwait

The anticipated financial liberalization and admission of international banks are predicted to reveal a rentier-dominated environment in Kuwait, which would have a detrimental effect on Kuwaiti banks. However, the industry's openness will boost its preparation and competitiveness and encourage people to form strategic partnerships. High markups are seen to be effectively solved by mergers and free market competition. However, it has been discovered that mergers are only effective when they are a part of a larger strategy that aims to strike a balance between strengthening current product lines and diversifying banking activities, as part of a medium-term plan designed to extensively reorganize both distribution channels and means of production. The central monitoring authorities must create and execute a flexible and adaptive strategy for regulatory reform in order to enable banks to compete and keep up with these global financial trends (Jabsheh & Chemingui, 2005). The study utilized a qualitative research method, which involved analyzing non-numerical data to examine the challenges and opportunities of liberalization in the banking industry of GCC. The authors conducted a literature review and interviewed several experts in the field, in addition to using secondary data sources like statistics and reports to validate their findings.

F. Egypt

Research suggests that a strong financial system can have a crucial impact on promoting growth and productivity. Egypt has recently implemented several successful economic reforms. The results of the chi-square test show that there is monotonic competition in the Egyptian banking sector, with private and foreign banks performing better than public sector banks but the difference in performance is not statistically significant. Another test shows that private banks generally outperform government banks, but only slightly more effectively. Domestic banks are less effective than international banks but more effective than the latter. Lastly, the study shows that private, government, and international banks demonstrate maximum production efficiency (Poshakwale & Qian, 2009). The study is a quantitative research approach that utilized a dataset of Egyptian bank data from 1992 to 2007. Several methods were employed to analyze the data.

The authors utilized the DEA method to evaluate the effectiveness of Egyptian banks by considering various inputs and outputs such as capital, employees, and loans. They also employed the Tobit regression method to examine the connection between the banks' efficiency and economic growth, using bank profitability as the dependent variable and efficiency as the independent variable.

G. Kenya

According to the survey, international banks contribute to local commercial banks' increased profitability, which raises Kenyan banks' total profitability. This is most likely a result of the technological transfers, efficiency gains, and enhanced competitive settings that foreign investors provide to Kenyan banks. Additionally, given that costs often increase when allowing international investors to participate, it's probable that the admission of foreign banks will have an impact on the prices of the services used by local commercial banks (Wadaki, 2013).

Mucheru (2013) asserts that the implementation of an expert database management system helped foreign banks gain a better knowledge of their clients. This gave them access to VIP clients, irrespective of their nationality or industry. This boosted competition in Kenya's banking industry, encouraging local banks to innovate.

H. Tunisia

In a study titled "Effects of Financial Liberalization on the Tunisian Banking Industry: A Non-Parametric Approach," the effectiveness of state and private banks in various nations is compared. In general, it concludes that private banks are more effective than banks in the public sector. This is most probable because private banks tend to be smaller, have higher levels of foreign equity participation, and have less loan-related difficulties. The efficiency gap between domestically held public banks and privately owned international banks has not, however, been as successfully closed by reforms (Cook, Hababou, & Roberts, 2001).

Another research discovered that bank mergers provide them the ability to maintain market shares and compete with international banks that could be able to enter the domestic market as a consequence of financial deregulation (Kammoun & Ammar, 2013).

I. Ghana

According to a research, the presence of international banks in Ghana over time has a favorable impact on domestic banks' return on assets. Domestic banks have adopted new technology to enhance their performance as a result, having a technology spillover effect. Due to the fact that the presence of these companies does not always have a negative influence on domestic banks, it is crucial that Ghanaian governments attempt to recruit foreign-owned banks to their banking market (Acheampong, 2013).

Ghana's local banks are less profitable than foreign banks, which is consistent with the theory of the global advantage. This shows that because of their comparative advantage in terms of global knowledge, foreign banks are better equipped to produce interest revenue on loans and investments. In addition, the study discovered that the profitability of Ghanaian domestic banks is significantly influenced by bank size and liquidity (Osei-Assibey, Bekoe, & Armah, 2022).

J. Tanzania

Study shows that foreign banks in Tanzania have a high ratio of ROA to ROE. This may be due to the circumstance that foreign banks achievement economies of scale more regularly than local banks, giving them a competitive advantage in handling costs. It may be conditional from these results that international banks in Tanzania are more effective than their domestic counterparts (Dr Lotto , 2016).

Kilindo (2010) states, foreign banks' entry had a favorable effect on local banks' profitability, non-interest revenue, and overhead costs, but had less of an effect on loan loss reserves. This shows that the admission of foreign banks increases the effectiveness of the domestic banking sector. Additionally, the arrival of foreign banks may have encouraged local banks to serve more creditworthy clients or sparked a tightening of provisions governing all banks, which causes domestic banks to disclose higher reported provisioning for bad debt. Greater foreign bank presence is also correlated with lower interest margins, albeit these correlations are not very strong. Since local banks are under pressure to increase the quality of their services in order to maintain their market share, the loosening of limitations on international banks' entry will benefit

domestic welfare. Positive knock-on effects from foreign banks' arrival include the provision of new financial services, which encourage domestic banks to provide similar services.

K. Zimbabwe

A research was done to analyze Zimbabwe's banking industry's effectiveness. According to the findings, domestic banks were less expensive than overseas banks. This indicates that domestic banks are more effective than their international competitors (Abel & le roux, 2017). The ownership structure of a bank has little bearing on its profitability. This runs counter to the notion that banks with foreign ownership are more lucrative than those with domestic ownership. This demonstrates that locally held banks are more adaptable to changing financial environments and can maintain their profitability (Musikavanhu, Matandare, & Zhou, 2018).

3.3.2 Local Evidence

Some people feel that bringing international banks into Ethiopia will boost fund raising efforts, expand access to foreign money, and introduce new goods and services to the country's banking industry. However, given that foreign banks now have access to more money, technology, and expertise than local banks, some individuals' worry that domestic banks will struggle at this time. Additionally, foreign banks are notorious for skimming, which impacts the performance of domestic banks by concentrating on collecting international trade financing operations in the banking industry. Before permitting their admission, the National Bank of Ethiopia is thought to have a duty to assist in enhancing domestic banks' capability and performance (Dirirsa, 2018).

According to Raba (2017), foreign banks can assist encourage financial innovation and growth in Ethiopia, as well as provide access to international capital. However, this might contribute to the survival of domestic banks, which may suffer large expenses in the short run. Furthermore, it may cause shocks from other nations, destabilize local credit, and serve fewer productive sectors. As a result, it may be desirable to enable international banks to enter Ethiopia gradually, with considerable capacity building for all parties. Merger and acquisition types of entrance may be more successful than resource mobilization, and subsidiary entry may be preferred to resource mobilization. Multinational corporations frequently invest through foreign banks, which can improve access to global money. Additionally, there are spillover effects, when local banks pick up new abilities and technologies that might aid in their competition on the global stage.

However, if foreign banks were permitted to enter the market, domestic banks would suffer greatly because they are now not up to pace. As a result, aggregate credit would be less stable, which might be unstable in the case of shocks.

The study claims that multinational banks have subsidiaries or branches in other nations, which may expose them to shocks from their home country or other countries in which they conduct business. Other concerns include that foreign banks may adversely influence a country's capital account and foreign exchange position. While certain important policy actions may be implemented to improve financial inclusion and access to finance for the majority. More than half of the respondents concurred that the arrival of foreign banks may surprise the nation. Due to competition from international banks, domestic banks may face high costs in the short term. This might provide a problem for them. Given the current economic environment, it may be difficult to develop and execute efficient regulation and supervision systems while creating a level playing field for local and international banks (ibid).

Amanuel (2009) claims, a large majority of respondents think that the advantages of adopting new financial innovation outweigh the risks. In order to support their claims, they outlined the advantages and hazards and ranked them as follows: Benefits always outweigh dangers. With the exception of one change, the reducing of banking crises, the majority of respondents feel that foreign banks can bring efficiency reform to the financial industry as a whole. Most respondents believe that increasing the capital of community banks is important when it comes to banking crises and financial liberalization. The inflow of foreign banks appears to have a negative impact on the performance of domestic banks. The introduction of foreign banks also shows significant negative effects such as lower credit growth, lower overall growth, and lower confidence. The respondents further listed the following as necessary for foreign investment diversity impact has decreased: strengthened the regulatory powers of the executive branch to encourage and enhance the literacy of entrepreneurs to attract attention, and privatize state-owned banks.

According to Ensermu (2019), the key argument against the assumption that foreign banks are more inclined to move their money to more profitable markets during a crisis is that local financial institutions would not be able to resist increasing competitive pressure. Financial integration enables money to move from capital-rich to capital-poor nations, hence the presence of international banks may help keep lending rates stable. However, international banks may

potentially be more robust to adverse shocks since they have sounder lending policies and accrue fewer bad loans. On the other side, because they may more quickly locate alternative investment possibilities, international banks may increase lending volatility. To reduce the impact of foreign bank presence on the domestic economy, local banks in Ethiopia should use the following four strategies: merger and acquisition, niche, do nothing, and joint venture. The best course of action is through merger and acquisition.

Additionally, as the nation attempts to transition its economy from one based on agricultural to one based on industry, many established small or big firms can help the country's current financial infrastructure. Foreign banks have cutting-edge technology and financial systems. Both are in need of working capital so that these international banks can offer sufficient access to loans. As opposed to this, if there is enough and fair competition, businesses will become more efficient since ineffective businesses would leave the market. Therefore, the admission of foreign banks may boost the capacity and efficiency of local banks. For a country like Ethiopia, where the majority of its goods are imported, having enough hard currency is crucial. In addition, since the majority of the raw materials used by our manufacturing enterprises are imported, allowing these foreign banks to enter the market may help to resolve the problems with foreign exchange that are common in many nations. Foreign banks' admission will increase economic activity and financial sector expansion to world-class levels. Allowing international banks does not always have benefits; it also has drawbacks. These multinational banks have a tendency to fail occasionally, which means that when they do, the host nation's economy may be impacted by the crisis on the other side of the globe. In addition, due to their advanced technology and unproven foundation, foreign banks may become independent of the government once they take control of the nation's financial system; failure to oversee and manage foreign banks may result in misconduct by foreign banks, harming the financial industry (Limeneh, 2017).

Kebede (2017) discusses that Ethiopian banks provide customers with outstanding value for their money and have the ability to create new goods and services. Local banks would find themselves competing with international banks, nevertheless, if foreign financial institutions were granted access to the market. Considering local banks are still developing and may not possess the same extent of experience and knowledge as their global counterparts, this might be a difficulty for them. Also, local banks' technological capabilities could not match those of international

institutions. If foreign banks are permitted to enter the market, financial sector policy does not make domestic banks as competitive as they are. The majority of people believed that if foreign banks entered the market, it would hurt administrative or governmental entities and result in costs including diminished growth, less credibility, and capital flight. However, even while the majority of respondents believe that foreign banks joining the market might have positive consequences; those advantages far exceed any possible drawbacks. This would be advantageous for the whole banking industry in Ethiopia,

Another research discovered that admitting foreign banks into the nation would hasten economic expansion and enhance a number of macroeconomic indicators. Local banks might be better positioned to compete with multinational banks due to the fact they would be capable of provide higher offerings and appoint greater modern-day technologies. The presence of establishment banks is supposed to reduce the demand for foreign money and make loans to small agencies more reachable. The majority of people believe that local banks are prepared and capable of competing with international banks and that foreign participation should take the form of a joint venture (Hurisa, 2017).

It is emphasized that there are possible concerns connected with foreign banks joining the market, such as capital outflows and the lack of interest demonstrated by domestic banks in capital mobilization, as well as potential advantages related with their entry into the Ethiopian banking industry. As a result of NBE's restricted capability for supervision, it should be emphasized that some operations carried out by foreign banks could necessitate large expenditures in both human capital and technological infrastructure. The majority of firms in Ethiopia are small and medium enterprises, hence it is also indicated that international banks would not be eager to cooperate with them. Additionally, it is asserted that the existence of foreign banks will enhance the money available for homegrown initiatives and contribute to the diversification of Ethiopian firms' sources of capital (Dagnaw, 2019).

A research found that the primary advantages of international banks joining Ethiopia's banking industry were the addition of trained labor, the development of the financial system's infrastructure, and a decreased chance of banking crises. However, there are other disadvantages involved with foreign banks entering the market, such as the possibility that they would only chose the best clientele and keep those that they did (ibid).

Kassa (2008) states, foreign banks tend to earn more money than domestic banks, even though domestic banks appear to have higher net interest margin and non-interest income ratios in the region. This is because domestic banks have higher overhead and loan loss provisioning, resulting in foreign banks having higher net profit before tax. Research shows that although the average net interest margin and non-interest income are lower than African counterparts, the ratio of overhead costs and loan loss provisioning is significantly lower than the regional average. However, the domestic banking sector's net profit before tax ratio is higher than the regional average. Nevertheless, the issue of foreign participation in local financial markets is still controversial, and some countries like Ethiopia reject an open policy due to possible risks.

According to a financial examination, the government-owned bank CBE had the greatest RoE (return on equity) of all the banks examined, however this was because of the bank's substantial use of borrowing. Zemen Bank has a greater seniority than the other banks under investigation because it recently shown a RoE equivalent to other banks after reporting a single year of negative profitability. The Return on Equity (RoE) of Dashen Bank has increased over time. This demonstrates the high level of return it offers to its stockholders. The bank with the lowest average return on equity (RoE), Wegagen Bank, also had the most consistent profitability during the four-year study period. Although no bank in Ethiopia has trouble fulfilling its cash needs in terms of liquidity, there are still significant areas where the banks' performance might be enhanced. In addition to the possible impact on profitability, liquidity is evaluated from the standpoint of banks that are having trouble satisfying their cash demands (Haile, Getacher, & Tesfay, 2014).

3.4 Literature Gap

Several international studies have been conducted on the challenges and prospects of foreign banks entering into local domestic banks. Local studies, however, don't appear to be able to assess whether the entry of foreign banks will boost Ethiopia's economy by comparing Ethiopian banks' performance to that of banks in other African nations. In addition, local studies do not investigate whether local banks use modern banking services and products or not, which may be beneficial for foreign banks if local banks do not provide all modern banking services.

This study will attempt to fill gaps in current knowledge by comparing the overall financial performance of other countries' banks with local Ethiopian banks to examine whether the entry of foreign banks would benefit the Ethiopian economy. Furthermore, this research will make sure that whether Ethiopian local banks are providing all modern bank services and products, by further explaining challenges and prospects of foreign bank entry in Ethiopian banking sector.

Chapter Three: Research Methodology and Design

3.1 Introduction

This chapter systematically addresses the research design and method in order to achieve the research objectives or resolve the research problem. The aim of this study is to assess the possible challenges and prospects of foreign banks entering the Ethiopian banking industry.

3.2 Research Design and Approach

This study utilized both quantitative and qualitative methods to analyze questionnaire responses regarding the challenges and prospects for foreign banks entering the Ethiopian banking sector. The quantitative approach assessed the overall impact of foreign banks on the Ethiopian banking sector, while the qualitative approach provided more detailed information on the effects of foreign bank entry on the Ethiopian banking sector. A descriptive research design was applied to investigate the extent of the challenges and opportunities for foreign banks in the Ethiopian banking sector. Furthermore, the findings obtained through the qualitative approach were elaborated upon.

3.3 Data and Data Source

The study utilized primary and secondary data sources. The primary data was obtained through questionnaires from Executives and Department Directors working in Banks Headquarters, and interviews were conducted with National Bank of Ethiopia department directors. The questionnaires comprised both open and closed-ended questions, allowing for comprehensive information gathering. Secondary data sources included annual reports from the National Bank of Ethiopia and other central banks, as well as local bank's annual reports, reference books, the internet, and previous research.

3.4 Population and Sampling Size

The population for the study was divided into two groups, based on their area of activities. As a result, the population was divided into National Bank of Ethiopia (NBE) and Commercial banks. Based on the organizational structure of Ethiopian banks outlined on their website and in their

2022 annual report, the entire population amounts to 567. Development Bank of Ethiopia is not included, as it has unique features. A proportional quota sampling method utilized to select the population for the study. Proportional quota sampling is a sampling technique where groups of people are divided based on their percentage in the population of study, which allows for accurate representation of the population based on their characteristics (Nikolopoulou, 2022).

With a total population of 567, the central bank has the lowest share at around 4% and the rest or commercial banks have the highest share at 96%. To determine the sample of interest from 561, the following formula is used according to Yamane (1967):

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

Where:

- n = sample size required
- N = number of people in the population
- e = allowable error

From the total population 547 employees (table-1) and allowable error assumed to be (e=7%). From them by the above given formula we can get the following sample size.

$$n = \frac{567}{1 + 567(0.07)^2}$$

$$n = 150$$

Therefore from the sample size the central bank (NBE) were 7 respondents whereas the rest banks remained 143. Since the rest Banks or commercial banks are also sub grouped it is proportionally distributed as of Table-1 listed below.

Table-3.1: Sample Selection

N o.	Bank Name	Executives	Directors	Population	Sample
1	National Bank of Ethiopia	6	19	25	7
2	Nib International Bank	7	22	29	8
3	Abay Bank	5	15	20	5
4	Addis International Bank	4	9	13	3
5	Awash Bank	14	33	47	12
6	Bank of Abyssinia	14	39	53	14
7	Berhan International Bank	7	21	28	7
8	Bunna Bank	6	26	32	8
9	Commercial Bank of Ethiopia	16	20	36	10
10	Cooperative Bank of Oromia	13	42	55	15
11	Dashen Bank	13	36	49	13
12	Debub Global Bank	4	14	18	5
13	Enat Bank	6	12	18	5
14	Lion International Bank	7	14	21	6
15	Oromia International Bank	8	16	24	6
16	Hibret Bank	14	31	45	12
17	Wegagen Bank	9	24	33	9
18	Zemen Bank	5	16	21	6
	Total	158	409	567	150

Source: Own survey, 2023

3.5 Data Collection Method

As indicated in the data and data source section of the methodology, for this study both primary and secondary data were gathered. The primary data were gathered through questionnaires and Interviews from the sampled management staff which is believed to be high professional staffs. The questionnaire, which was used as per Hurisa (2017) and modified, consists of two parts. The first part was about the informant's general background to know how much experienced and professional they are in subject matter. Therefore, in this part the sampled employees answered questions related to their educational background, job status, work experience, age and gender. The second part of the questionnaire was about the matter of the study asking about challenges and prospects of foreign bank entry in Ethiopian local Banks. In this part management staffs were asked about the benefit of foreign bank entry; challenges of foreign bank entry; in what

level of support that NBE is supporting the local banks is so that they can prepare in response to foreign bank entry; and other questions related to foreign bank entry.

The opinions of National Bank of Ethiopia directorates on the discussion topics were gathered during the interview. This was useful in acquiring further information for analysis to gain a deeper understanding of the new insight. Additionally, secondary data was obtained from records and other relevant documents pertaining to the factory mentioned in the data sources section. Special attention was given to supervisory reports from foreign banks in order to gain a better understanding of their impact on Ethiopia's economy. This data proved valuable in enhancing our understanding of the topic.

3.6 Methods of Data Analysis

The study employed qualitative and quantitative techniques to examine data. The software STATA was utilized to scrutinize and construe the data through tabulation, frequency distribution, and statistical analysis. Questionnaires were analyzed using tabulation and frequency distribution, while descriptive analysis was employed for the collected data. Additionally, data obtained from interviews provided more comprehensive insights, which helped in comprehending the issue and devising appropriate solutions.

3.7 Reliability Test

Reliability refers to the consistency of data collection and analysis procedures when applied by different individuals or multiple times. To evaluate the validity of a questionnaire and the concepts it measures, a reliability test was conducted using Cronbach's Alpha coefficient. An acceptable alpha coefficient ranges from 0 to 1, with a minimum value of 0.7. In essence, the questionnaire's questions may be consistent with the study's goals.

As a result, the reliability test confirmed that all the items in the pilot questionnaire were reliable, as evidenced by the score of 0.73. Consequently, the responses obtained for all the variables used in this study were deemed reliable enough for data analysis.

Table-3.2: Reliability Test

Cronbach's Alpha	N of Item
0.7305	42

Source: Own computation, 2023

3.8 Scale used for Interpretation

The following criteria, as shown below, are used to express the degree of mean values based on the criteria to scale rating of class interval (Table 3.3)

Table-3.3: Likert scale threshold

Range	Interpretation
1 --- 1.8	Very High
1.8 --- 2.6	High
2.6 --- 3.4	Neutral
3.4 --- 4.2	Low
4.2 --- 5	Very low

Source: (Best & Khan, 1997) and amended by Researcher

Chapter Four: Data Analysis and Findings

4.1 Introduction

This chapter includes the analysis of the data, the research results, and a discussion and interpretation of the findings based on the standard set in chapter three by Best and Khan (1997). To discuss the challenges and prospects of foreign bank entry in Ethiopia, the researcher utilizes various tables, figures, and qualitative analyses completed during the research process.

4.2 Response rate

While collecting primary data, the researcher distributed 143 questionnaires in selected private and government banks. Out of these, 135 questionnaires (or approximately 94.41%) were collected and analyzed, while the remaining 5.59% were either not returned or considered invalid (as shown in Table 4.1). Additionally, the researcher made efforts to interview all seven directors of the National Bank of Ethiopia, but only four were available for the interview.

Table-4.1: Response Rate

Bank Names	Expected Questioners	Returned and Valid Questioners	Percentage
Nib International Bank	8	8	100
Abay Bank	5	5	100
Addis International Bank	3	3	100
Awash Bank	12	12	100
Bank of Abyssinia	14	9	64
Berhan Bank	7	7	100
Bunna International Bank	8	8	100
Commercial Bank of Ethiopia	10	10	100
Cooperative Bank of Oromia	15	15	100
Dashen Bank	13	10	77
Dehub Global Bnak	5	5	100
Enat Bank	5	5	100
Lion International Bank	6	6	100
Oromia Bank	6	6	100
Hibret Bank	12	12	100
Wegagen Bank	9	9	100
Zemen Bank	6	6	100

Source: Own survey, 2023

4.3 General information about the respondents

The general information includes the respondent's gender, age, education qualification, occupation with management experience, and total work experience at a financial institution. Accordingly, as present in table 4.2 below, 85.19% of the 135 respondents are male, while the remaining 14.81% are female. The majority of responses (58.52%) are in the 35 to 45 age bracket. On the other side, the proportion of responders who are under 35 and over 55, respectively, is 11.85% and 3.70%.

Table-4.2: Background of the Respondents (Age and Gender)

Gender	Age				Total
	<35	35-45	46-55	>55	
Male	14	65	32	4	115
	12.17%	56.52%	27.83%	3.48%	100.00%
Female	2	14	3	1	20
	10.00%	70.00%	15.00%	5.00%	100.00%
Total	16	79	35	5	135
	11.85%	58.52%	25.93%	3.70%	100.00%

Source: Own survey, 2023

Table-4.3: Background of the Respondents (Education and Occupation)

Educational Background	Your Position in this bank		
	Executive Manager	Department Director	Total
BA/BSC Degree	2	18	20
	10.00%	90.00%	100.00%
MSc/MA	16	99	115
	13.91%	86.09%	100.00%
Total	18	117	135
	13.33%	86.67%	100.00%

Source: Own survey, 2023

As per the data presented in Table 4.3, it can be inferred that a broad group of the participants (86.67%) occupy top-tier roles in the company as directors, while the remaining chunk of 13.33% function as executive managers. Further scrutiny of the details brought to light that the majority of the respondents, precisely 85.19%, are holders of a master's degree, whereas only 14.81% had a bachelor's degree. These numbers indicate their elevated and specific skills, corresponding to their field of work. A deeper look at Tables 4.4 and 4.5 indicates that 34% of

the respondents are relatively new to their current work roles, with less than five years of experience. In contrast, only a negligible 3.7% of the participants have been in their respective positions for over 20 years, underlining that the study participants are a more youthful lot with minimal decade-long professionals. Note-worthily, some directors belong to the less than five years of experience group, while executive managers typically stood at an experience range of 5 to 10 years.

Lastly, 57.78% of the respondents had work experience in the banking sector between 10 to 20 years, indicating their expertise in properly tackling the research questionnaires. It is clear that the majority of the respondents have more than adequate qualifications and knowledge to offer valuable responses that could benefit the concerned parties.

Table-4.4: Background of the Respondents (Occupation and Management Experience)

Your Position in this bank	Work experience in this management				Total
	<5	5-10	10-20	>20	
Executive Manager	0	11	7	0	18
	0.00%	61.11%	38.89%	0.00%	100.00%
Department Director	47	33	32	5	117
	40.17%	28.21%	27.35%	4.27%	100.00
Total	47	44	39	5	135
	34.81%	32.59%	28.89%	3.70%	100.00%

Source: Own survey, 2023

Table-4.5: Background of the Respondents (Occupation and Bank Related Experience)

Your Position in this bank	Work experience in the financial institution			Total
	5-10	10-20	>20	
Executive Manager	2	4	12	18
	11.11%	22.22%	66.67%	100.00%
Department Director	9	74	34	117
	7.69%	63.25%	29.06%	100.00%
Total	11	78	46	135
	8.15%	57.78%	34.07%	100.00

Source: Own survey, 2023

4.4 Perceptions of Foreign Bank Entry

The respondents were asked to assess their perceptions regarding the arrival of foreign banks. Consequently, the table below illustrates how sensitive the respondents' perceptions are towards the entrance of foreign banks into Ethiopia's banking system.

Table-4.6: Perceptions foreign bank entry

Feeling about the entrance of foreign banks	Freq.	Percent	Cum.
Bad	3	2.22	2.22
Stressed	12	8.89	11.11
Indifferent	30	22.22	33.33
Good	90	66.67	100.00
Total	135	100.00	

Source: Own survey, 2023

Table 4.6 shows that the majority of respondents (66.67%) feel positive about the entrance of foreign banks, while 22.22% feel indifferent, 12% feel stressed, and only 2% feel negative.

In general, the data indicates that most respondents are accepting the idea of foreign bank entrance in Ethiopia's banking sector. This outcome may be attributed to the potential advantages that foreign banks can offer, such as technological advancements, decreased unemployment rates through higher salaries, increased credit availability, and contributing to the economic development of Ethiopia. Consequently, the banking sector seems prepared to embrace competition from foreign banks.

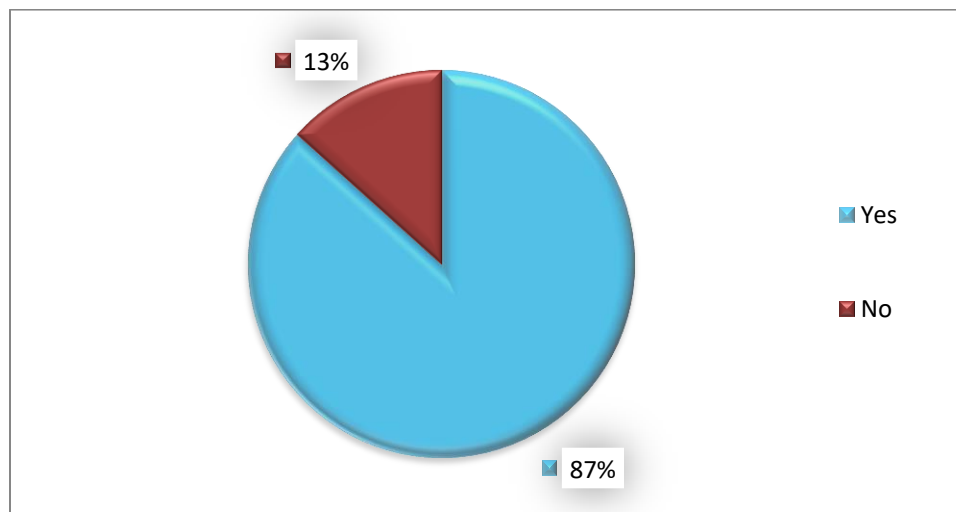
4.5 Perceptions towards the Role of Foreign Banks in Economic Growth

The survey asked participants for their views on the potential impact of foreign banks' entry into the local market in Ethiopia on the country's overall economic growth. As Figure 4.1 shows, 86.67% of all respondents agreed with the statement and 13.33% disagreed.

Consistently, results from interviews with directors suggest that the entry of foreign banks would bring in more investments by promoting savings and introducing collateral-free borrowing, which would be advantageous for the lower and middle economic classes. It was also anticipated that the capacity and quality of lenders would improve in the Ethiopian banking sector, leading to a banking culture, introduction of new types of loans, technological advancement, decrease in unemployment, increase in foreign exchange, economically inclusion for all , modernization, increased capital, increased FDI and access to more productive financial services. The majority of respondents, according to the findings, think that the entry of international banks will strengthen Ethiopia's economy. This is as a result of the advantages described in the preceding

sentence. This indicates that the penetration of international banks will either directly or indirectly assist to the expansion of the Ethiopian economy.

Figure- 4.1: Perceptions towards the Role of Foreign Banks in Economic Growth



Source: Own survey, 2023

4.6 Benefits of foreign bank entry

The survey revealed that foreign bank entry in Ethiopia's banking sector has the potential benefits of introducing financial innovation, accelerating economies of scale, developing the financial market, improving financial regulation, obtaining higher efficiency, and reducing costs for clients. Majority of the respondents had a positive response towards these benefits.

Consistently, the interview results from directors showed that the entry of foreign banks into the banking sector would bring about various benefits such as increased efficiency, better credit accessibility, more job opportunities, transfer of skills and knowledge, improved technology, enhanced confidence in foreign investment, better service quality, cultural development, and increased exposure. Additionally, local banks would benefit from the increased competition, become more skilled, and new loan systems and products would be introduced. The regulatory framework would also be improved, along with better interest rates for lending and deposits and a new monitoring system would be implemented.

Table-4.7: Benefit of Foreign Bank Entry

Benefits	Mean	Std. Dev	Min	Max	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Introduce new financial innovation	1.541	.557	1	3	66	65	4	0	0	135
Accelerate the economies of scale	2	.753	1	5	33	73	26	2	1	135
Develop the financial market	1.704	.587	1	4	48	80	6	1	0	135
Improve the financial system infrastructure	1.689	.717	1	5	59	61	14	0	1	135
Attracts foreign direct investment	1.815	.725	1	4	48	66	19	2	0	135
Improve financial Regulation	2.126	.717	1	4	23	76	32	4	0	135
Quality of service	1.578	.592	1	4	63	67	4	1	0	135
Availability of more credit supply	1.948	.84	1	4	42	67	17	9	0	135
Modern technology will be introduced	1.504	.584	1	4	72	59	3	1	0	135
Higher efficiency will be obtained	1.77	.634	1	4	45	77	12	1	0	135
Foreign banks may reduce costs to clients	2.252	.928	1	4	31	53	37	14	0	135

Source: Own survey, 2023

4.6.1 New financial innovation

In order to evaluate the potential benefits of foreign banks, the participants were requested to rank the benefit of introducing new financial innovation to the industry. According to the data presented in Table 4.7, the mean value of responses was 1.54 with a standard deviation of 0.5657. This requires that the average score falls within the range of 1 to 1.8, which suggests a curiously positive response based on the Likert scale threshold criterion outlined in chapter three. Hence, over 95% of the respondents agreed (48.15%) or strongly agreed (48.89%), while only 2.96% had a neutral opinion.

The findings indicate that if foreign banks enter Ethiopia's banking industry, they may introduce new financial innovations as a result of their diverse experiences, technological advancements,

payment system innovations, competition, and financial globalization. This suggests that the entry of foreign banks presents an opportunity for the banking sector to introduce innovative financial advancements.

4.6.2 The acceleration of economies of scale

According to the standards for scrutinizing data, a numerical range of 1.8 to 2.6 is designated as a positive reaction. Out of all respondents, 19.26% remained unresponsive, while 54.07% of those who exhibited agreement or strong agreement displayed optimistic views. A mere 2.22% of incidents represented negativity. The results mentioned above implies that foreign banks will enhance the economies of scale in developing countries like Ethiopia, given their expertise and experience in different financial services including capital markets, insurance, microfinance, and portfolio management.

4.6.3 Financial market development

The majority of respondents, comprising 59.26%, agreed that the entrance of foreign banks would improve Ethiopia's financial market, while 35.56% strongly agreed with this statement. Only 4.44% of the respondents remained neutral, and a mere 0.74% strongly disagreed. The results suggest that the entry of foreign banks could potentially develop the financial market, with a mean of 1.74 and a standard deviation of 0.587. The average score is within the range of 1 to 1.8, indicating a favorable response based on the established standard.

Additionally, the survey participants held the belief that the introduction of foreign banks would bring in new skills, decrease the rates of unemployment, offer novel capital market know-how, and contribute to cultural advancement. These possible reasons are responsible for the outcomes mentioned in the previous paragraph. Consequently, this implies that the arrival of foreign banks presents an occasion to improve the financial sector's growth.

4.6.4 Financial System infrastructure improvement

Only 10.37% (more than 80%) expressed a neutral attitude, while only 0.74% strongly disagreed. The majority (more than 80%) agreed (43.70%) or strongly agreed (45.19%). This result with mean 1.689 and standard deviation of 0.717 indicates that the presence of foreign banks will help

improve the performance of the financial system. This means that the mean scores range from 1 to 1.8, indicating a very positive response.

Furthermore, the respondents stated that the introduction of foreign banks would increase the operational efficiency of local banks, elevate the quality of service, introduce new channels, and improve financial regulations and transparency. These factors combined are the reasons why the majority of respondents gave a positive response. Therefore, it can be inferred that the entry of foreign banks will contribute to the improvement of the financial system infrastructure in Ethiopia.

4.6.5 Foreign direct investment attractions

Based on the analysis findings, the mean response value of the participants was 1.815, accompanied by a standard deviation of 0.725. Such results signify that the average rating falls between the range of 1.8 to 2.6, indicating a favorable response from the respondents. An intriguing aspect is that majority of the participants either strongly agreed (35.56%) or agreed (48.89%), whereas a minute percentage had a neutral opinion (14.07%) or disagreed (1.48%).

Upon further examination, it was discovered that if foreign financial institutions were introduced in Ethiopia, there would be a rise in capital and a resolution to the shortage of foreign currency. This would benefit importers and improve capital adequacy. As a result, it is not unexpected that the majority of respondents expressed a favorable opinion. These revelations demonstrate that such progression could create a chance for local banks to obtain benefits from foreign direct investment.

4.6.6 Financial regulation improvement

As per the survey, the observation has been made that the entrance of a bank from overseas can upgrade the system of financial control. The majority of the participants, comprising 56.30% of agreeing and 17.04% of strongly agreeing, consented to this. Only 2.96% stood against, while 23.70% remained indeterminate. The outcomes revealed that the average score was 2.126, with a standard deviation of 0.717. The mean score was confined between 1.8 and 2.6. This indicates an

affirmative reaction to the statement. The conclusions cited above could be ascribed to the motives presented by the respondents.

They stated that the entry of a foreign bank could strengthen the competitiveness of the capital market, escalate the transparency, enhance predictability regarding regulatory actions, enhance mutual cooperation with overseas authorities, and encourage better dissemination of information. This is a conclusive sign that the entry of a foreign bank into the banking industry could lead to the advancement of financial regulation in Ethiopia.

4.6.7 Quality of service

The individuals were requested to evaluate the advantages foreign banks would provide in terms of quality service upon entering the market. An overwhelming majority of over 90% expressed positivity by either consenting (49.63%) or strongly consenting (46.67%). A mere 2.96% held a neutral stance and a measly 0.74% denied the assertion. The outcome proposes that foreign banks have the capacity to augment the worth of service, as substantiated by the mean score of 1.578 and the standard deviation of 0.592. The mean score falls under the spectrum of 1 to 1.8 to assist in inferring that conclusion.

This conclusion may be due to the fact that foreign banks have the capacity to enhance technology, introduce new advanced mediums, offer novel educational experiences, and heighten efficacy and productivity- all of which contribute to a higher quality service. Thus, this postulates that the introduction of foreign banks would provide the opportunity to ameliorate service quality.

4.6.8 Availability of more credit supply

Table 4.7 presents an average response rate of 1.948 with a standard deviation of 0.84. The likert scale shows this average score falls within the 1.8 to 2.6 range, indicating a positive response. The majority of participants, a notable 80.74%, agreed (49.63%) or strongly agreed (31.11%), whereas only 6.67% disagreed and 12.59% remained neutral. These findings suggest foreign bank entry would enrich credit supply availability.

The respondents noted that foreign bank entry could increase capital, provide non-collateral loans, and offer suitable consumer loans. These factors may validate the results mentioned above and present an opportunity for expanding credit supply.

4.6.9 Introduction to modern technology

Out of all the respondents, 53.33% strongly agreed, 43.70% agreed, and 2.22% were neutral and only 0.74% disagreed. This suggests that foreign banks will introduce modern technologies, with an average score of 1.504 and a standard deviation of 0.584. Since the mean score falls between 1 and 1.8, this indicates a very positive response according to the standard.

The above results can be attributed to the fact that foreign banks bring more experience, invest in high-tech products, offer new financial innovations with highly qualified personnel, and introduce advanced systems and channels. Hence, the introduction of foreign banks into the banking industry will provide a potential benefit by bringing in modern technologies.

4.6.10 Efficiency Enhancement

According to the results of the study, an overwhelming majority of participants (90.37%) either concurred (57.04%) or strongly supported (33.33%) the notion that foreign banks entering the market will result in increased efficiency. A small minority (8.89%) remained impartial with their opinion and just a meager 0.74% rejected the idea. The mean response reported was 1.77, which falls within the 1 to 8 ranges, and came with a standard deviation of 0.634.

The above outcomes showcase a positive reaction and a resolute conviction that foreign banks will be a boon to efficiency in the banking industry. This can be attributed to the possibility of foreign banks bringing in investments and realizing greater profitability, a claim supported by evidence from nations adjacent to ours. Therefore, these outcomes suggest that the entry of foreign banks would present a favorable prospect for achieving superior efficiency.

4.6.11 Cost reduction

The respondents were requested to estimate the advantage of foreign financial institutions in decreasing expenses for patrons. The announcement garnered a substantial reaction, as indicated

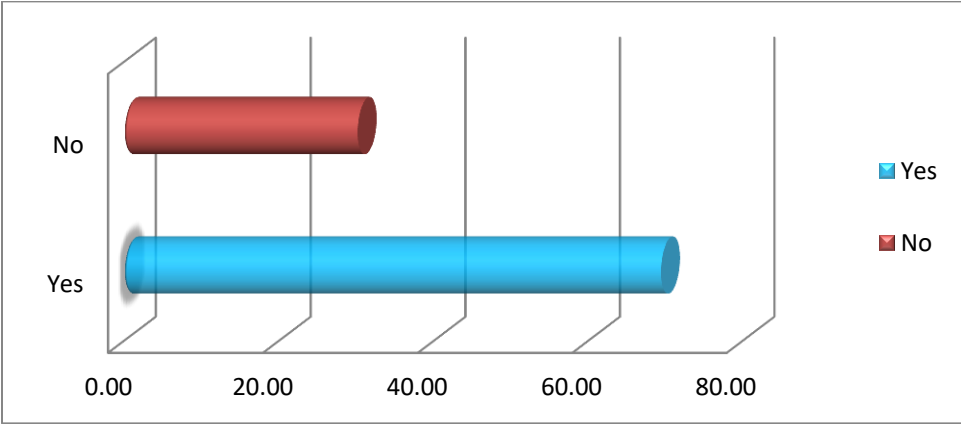
by the mean rating falling within 1.8 and 2.6, with an average response score of 2.22% along with a typical deviation of 0.928. Over fifty percent of the subjects agreed (39.26%) or ardently concurred (22.96%), while 27.41% sustained a neutral stance and 10.37% objected.

Additionally, the study contributors maintained the view that overseas banks could provide fresh avenues, sophisticated technologies, and computerization for the speedy and productive dissemination of knowledge. Such aspects could make for potential reasons to lessen expenses for clients. These discoveries imply that foreign financial institutions have the possibility of providing monetary benefits to patrons.

4.7 Difficulties of foreign bank entry on Ethiopia's economic expansion

Inquiring about the impact of foreign banks in Ethiopia's economic growth, a survey was conducted to gather subjects' thoughts. In figure 4.2, most of the respondents, precisely 69.63%, affirmed that it would lead to difficulties, while the remaining 30.37% indicated opposite viewpoints. Diverse reasons could be attributed to this outcome, including intensified rivalry from foreign banks in the local market, the absence of a robust internal supervisory entity, and restricted availability of credit for small ventures, amongst other probable factors. Hence, this suggests that foreign banks' intervention might pose a hurdle in Ethiopia's path to economic progress.

Figure- 4.2: Difficulties of foreign bank entry on Ethiopia’s economic expansion



Source: Own survey, 2023

4.8 Challenges of foreign bank entry

According to the survey, the entry of foreign banks into Ethiopia's banking industry will potentially result in challenges such as increased competition in the domestic market, decreased competitiveness of the domestic banking sector as it is still developing, and the absence of a strong domestic supervisory body. Most of the participants in the survey responded positively towards these challenges.

Consistently, additional challenges were proposed by directors as a result of interviews. These entail the high cost of investment, which may discourage future investment, the presence of tough competition, lack of awareness leading to failure, the need for policy development to reduce disadvantages, potential capital outflows for foreign banks, and consideration of which type of bank to enter. Another significant challenge is determining the optimal mode of entry since a wrong decision may result in foreign banks losing interest or greater challenges for Ethiopia's economy as a whole. Managing the level of entrance will also poses a challenge.

Table-4.8: Challenges of Foreign Bank Entry (Mean and Standard Deviation)

Challenges	Obs	Mean	Std. Dev.	Min	Max
Increase in competition to domestic market	135	1.748	.74	1	5
Domestic Banking as an infant industry becomes less competitive	135	2.319	1.063	1	5
Retains credit to small firms	135	2.815	1.031	1	5
Lack of domestic strong supervisory body	135	2.378	.984	1	5
Local banks could be in danger of going bankrupt.	135	2.926	1.055	1	5

Source: Own survey, 2023

Table-4.9: Challenges of Foreign Bank Entry (frequency)

Challenges	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Increase in competition to domestic market	51	73	6	4	1	135
Domestic Banking as an infant industry becomes less competitive	33	52	26	22	2	135
Retains credit to small firms	14	39	45	32	5	135
Lack of domestic strong supervisory body	26	54	34	20	1	135
Local banks could be in danger of going bankrupt.	14	30	51	32	8	135
Total	138	248	162	110	17	675

Source: Own survey, 2023

4.8.1 Increase in competition to domestic market

According to the information exhibited in table 4.9, a substantial proportion of members (91.85%) agreed (54.07%) or strongly agreed (37.78%) with the influx of foreign monetary establishments. Moreover, only a meager fraction (4.44%) remained indifferent, while an even lesser percentage (2.96%) held divergent opinions and an insignificant part (0.74%) opposed this move with great intensity. The mean value of the respondents' feedback is gauged at 1.748, while the standard deviation is 0.74. Based on the established criteria, this mean score indicates an overwhelmingly affirmative response to the given argument.

Furthermore, the participants recognized that the proficiency and cutting-edge technology of foreign financial institutions may motivate domestic banks to improve their performance. As a result, these aspects are accountable for heightening the rivalry between these two groups, which could pose a difficulty for the native banks in the future. Given all of these factors, it is apparent that the arrival of overseas banks in the domestic industry could generate intense competition.

4.8.2 Domestic banking's less competitiveness

More than 50% of the people who participated in the investigation gave their agreement (38.52%) or strong confirmation (24.44%), but almost 20% remained neutral, while 16.30% disagreed, and only 1.48% expressed a strong disagreement. The previous mentioned events indicate that the arrival of overseas banks could adversely affect the local banking sector since it is still in its infancy. This could substantially decrease its competitiveness. The high level of positive affirmative responses is demonstrated by a mean score of 2.319 with a variation of 1.063, and the mean score falling between 1.8 and 2.6.

According to the poll respondents, this could be attributed to the limits of local banks in the early stages of their development because they are not established rivals in the business sector, and have an insufficient regulatory framework. This means that domestic banks may find it quite challenging to maintain their competitiveness with the entry of foreign banks.

4.8.3 Credit retention for small businesses

As per the inquiry, individuals were requested to assess the obstacles that concern credit retention for small firms when foreign banks enter the market. The statistical figures display that 10.37% of the respondents acknowledged the issue, while 28.89% strongly agreed, and 23.70% disagreed, and 3.7% strongly disagreed. A large chunk, that's 33.33%, conceded their uncertainty about the matter. With a mean value of 2.815 and a standard deviation of 1.031, the respondents' reaction was impartial, given that their average score falls within the range of 2.6 to 3.4.

Respondents have expressed concern that foreign banks may exclusively work with prominent customers such as exporters, leaving domestic banks with greater exposure to risky enterprises. The survey results indicate a neutral response because respondents are uncertain about the future, as local banks can also retain and attract prominent customers to compete with rivals. Therefore, these findings suggest that there may be a risk that foreign banks will not extend credit to smaller businesses, which could pose a challenge.

4.8.4 Bank supervision

The results of the survey showed that the majority of participants, specifically 59.26%, agreed or strongly agreed with the statement. Merely a limited number of 25.19% were ambiguous in their answer, when compared to 14.81% who had an opposing response. Not to mention, only 0.74% were strongly against the idea altogether. Moreover, the average response of 2.378 along with a standard deviation of 0.984 reveals an impressive level of conformity with the given statement, since the typical score lies between 1.8 and 2.6.

Furthermore, it was revealed that most respondents believed that the National Bank of Ethiopia was not providing any special assistance, aside from holding meetings with CEO's before creating policies. A minority of those surveyed mentioned that the National Bank of Ethiopia is providing assistance to domestic banking institutions by urging them to allocate 2% of their expenditures towards employee training and development, mandating that all customers have a National Identification number, issuing guidelines, and enhancing their capital. These actions can be seen as constructive measures taken by the National Bank of Ethiopia to support the local banking sector. In addition, those who were surveyed have varying expectations for the National Bank of Ethiopia as the Foreign Banks enter or prepare to enter. The researcher has identified three main categories for these expectations: regulations and guidelines, human resources, and controlling factors.

The majority of respondents believe that the National bank should enhance its regulatory requirements by issuing relevant directives and establishing a legal framework. They also expect the bank to intervene in regulatory issues related to foreign banks' entry, as permitted by international regulations. The respondents further suggested that foreign utilization directives should be revised to benefit local banks by imposing favorable taxation and updating regulations on capital outflow. Additionally, they recommended reducing the percentage of foreign banks' surrender to increase their currency reserves.

According to respondents who are concerned with human capital, they anticipate that the national bank will provide consulting services to local banks to enhance their capacities. They also expect the bank to prepare a certification learning program, impart knowledge about foreign experiences, and facilitate training to help build confidence.

Respondents have suggested several control factors that National Bank should work on, including allowing foreign banks to enter through equity investment or merger and acquisition, establishing strong corporate governance, innovating risk management programs, expanding branch opening, regulating local banks to engage fully in digital banking systems, providing technology-based services, setting appropriate interest rates on deposit and loan facilities, improving bank leadership skills, increasing reserve requirements, urging small banks to merge, and advising banks to reduce costs.

Finally, a small percentage of respondents (20%) have disclosed their belief that the entrance of foreign banks should be phased in gradually. They also suggest that the National Bank should restrict the corporate area of foreign banks by limiting their area of operation and the number of entrants. Only 2% of the respondents expected the National Bank to take no action and allow complete freedom to all banks.

On the other hand, the National Bank has indicated that their current focus is on how foreign banks can enter the market and manage their entrance. Additionally, they are developing a consulting service program to be offered in the future. Policy makers have consulted with bank CEOs, education professionals, and foreign consulting companies through workshops and seminars to inform the crafting of policies. These policies were designed to benefit the Ethiopian economy, establish appropriate strategies, assess the readiness of banks for technology, and prepare an action plan. The National Bank is also encouraging banks to allocate budgets for education and training, submit progress reports, identify technology requirements for new local banks, and consider merging with smaller banks to increase capacity.

Generally, due to the aforementioned reasons, the majority of respondents gave a high response to the statement. These findings suggest that there may be difficulties of effective supervision in the near future, which could pose a major challenge for local banks.

4.8.5 Bankruptcy risk for local banks

Whilst, a considerable proportion of participants (37.78%) provided a neutral perspective, expressing either a reluctant stance or an apprehension towards the potential possibility of bankruptcy. Surprisingly, a striking 23.70% of respondents opposed the statement and 5.93%

strongly opposed it. The average score of feedbacks obtained was 2.926, exhibiting a standard deviation of 1.055. The calculated mean value denotes an equivocal response corresponding to the criteria stated in chapter three, within the range of 2.6 to 3.4.

The aforementioned results are attributed to the fact that local banks may face bankruptcy due to their limited capacity, outdated technology, and inferior services compared to foreign banks. This could also potentially drive local banks to improve and compete better. Consequently, the respondents are uncertain about the statement, indicating a lack of complete confidence in their performance. Therefore, the findings imply that local banks are in danger of bankruptcy as a result of the entry of foreign banks.

4.9 Implications of foreign banks on Ethiopian local bank performance

As per the study, the arrival of foreign financial institutions in Ethiopia's banking sector shall bring a significant effect on domestic banks. This shall result in dwindling market share, challenges in attracting skilled workers, and a drop in lending growth. A greater part of respondents acknowledged these conclusions.

Table-4.10: Implication of foreign banks on the performance of Local Banks (Mean & SD)

Performance Impact	Obs	Mean	Std. Dev.	Min	Max
Foreign banks reduce local banks market share	135	2	.801	1	4
Foreign banks attracts qualified staffs	135	1.659	.588	1	3
Foreign banks reduce local bank Credibility	135	3.141	1.052	1	5
Foreign banks reduce local bank total growth	135	2.704	.915	1	5
Foreign banks reduce local bank total growth asset	135	2.733	.956	1	5
Foreign banks reduce local banks lending growth	135	2.756	1.033	1	5

Source: Own survey, 2023

Table-4.11: Implication of foreign banks on the performance of Local Banks (Frequency)

Performance Impact	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Foreign banks reduce local banks market share	35	73	19	8	0	135
Foreign banks attracts qualified staffs	54	73	8	0	0	135
Foreign banks reduce local bank credibility	9	29	41	46	10	135
Foreign banks reduce local bank total growth	8	57	38	31	1	135
Foreign banks reduce local bank total growth asset	9	55	36	33	2	135
Foreign banks reduce local banks lending growth	10	59	23	40	3	135
Total	125	346	165	158	16	810

Source: Own survey, 2023

4.9.1 Reduction of local banks' market shares

According to the figures provided in tables 4.10 and 4.11, the preponderance of respondents assented (54.07%) or assented strongly (25.93%) to the assertion. A mere 5.93% were in disagreement, and 14.07% preferred not to take a stance. The statement, quite evidently, points out those importing international banks into the industry will lead to a plunging presence of Ethiopian banks in the marketplace.

On average, the statement received a rating of 2, with a standard deviation of 0.801. The mean score, residing within the range of 1.8 to 2.6, further verifies the powerful response. It is apprehended that overseas banks will have the potential to provide better goods and services as compared to the native banks, resulting in a monopoly in the Ethiopian marketplace. This will indeed put a dent in the local banks' market share, thereby creating a challenge.

4.9.2 Attracting qualified staff

Over 90% of the participants responded positively to the statement, with 40% strongly agreeing and 54.07% agreeing. Only 5.93% remained neutral, indicating that the arrival of foreign banks will result in the recruitment of skilled personnel with a mean of 1.659 and standard deviation of

0.588. This result is further backed up by the fact that the average score falls within the range of 1 to 1.8, indicating an extremely positive response.

Additionally, respondents suggested that foreign banks will introduce a trend where educational qualifications are prioritized over work experience, and will offer higher salaries than local banks, leading to competition among employees to improve themselves. This will be a significant factor in attracting qualified staff and could impact the performance of all banks, as employees may choose to resign from local banks. As a result, the study implies that the presence of foreign banks will lure skilled employees and may present a difficulty for domestic banks.

4.9.3 Reduction of local banks' credibility

As per Table 4.10, the average reaction from the people who responded was 3.141, and it had a standard deviation of 1.052. The middle score is between 2.6 and 3.4, which indicates a neither good nor bad response that leans towards the negative response. A reasonable amount of people, precisely 34.07%, disagreed about it, and 7.41% strongly disagreed with it. On the contrary side, 21.48% agreed with it, 6.67% strongly agreed, and roughly 30.37% stayed neutral.

The above results could be connected to the more extended timeframe of local banks and their profit-making ability, which draws the trust of potential clients and stakeholders. These results indicate that the arrival of foreign banks wouldn't affect the reliability of local banks.

4.9.4 Reduction of local banks' total growth

Out of the total respondents, 5.93% strongly agreed and 42.22% agreed, while 28.15% had a neutral view, and 22.96% disagreed. Only 0.74% strongly disagreed. These results indicate that the entrance of foreign banks might decrease the overall growth of local banks with a mean value of 2.704 and a standard deviation of 0.915. Respondents suggested that foreign banks may attract high-value customers, leading them to switch from local banks. This could further hinder the growth of local banks in the short term, which could explain why the majority responded positively. Therefore, this study suggests that the entry of foreign banks could pose a challenge and reduce the overall growth of local banks.

4.9.5 Reduction of local banks' asset

Survey participants were requested to evaluate how foreign banks could affect the growth of local banks in terms of total assets. About 40.74% of participants agreed and 6.67% strongly agreed, whereas 24.44% disagreed and 1.48% strongly disagreed. The remaining 26.67% remained neutral. This data points towards a potential reduction in local banks' total growth assets due to the entry of foreign banks, with a mean value of 2.733 and a standard deviation of 0.956. The earlier statement (mentioned in bulletin 4.8.4) about performance implications may be linked to this outcome. To sum up, this study suggests that the arrival of foreign banks may pose a difficulty and minimize the overall asset expansion of domestic banks, creating challenges for them.

4.9.6 Reduction of local banks' lending growth

A great number of participants replied positively to the statement that was presented, as indicated by 43.70% in agreement and 7.41% in strong agreement. On the contrary, 29.63% expressed disagreement, and 2.22% strongly disagreed. Those who remained neutral made up the remaining 17.04%. These findings suggest that the entrance of foreign financial institutions may result in a decrease in domestic bank lending growth. This outcome had an average value of 2.756, with a standard deviation of 1.033.

Moreover, participants believed that foreign banks could provide a more extensive credit range and lower interest rates, which could appeal to prospective clients. This shift in customers could be a contributing factor leading to an overall reduction in bank lending growth. These proposals likely accounted for the majority of respondents having a favorable viewpoint towards the statement. Consequently, the study implies that the arrival of foreign banks could pose a challenge for domestic banks with regards to decreasing their lending growth.

4.10 Modern banking services and products

Respondents were asked to review the modern products and services offered by local banks. As shown in Table 4.12, the majority of respondents rate most modern banking services and products offered by local banks positively.

Table-4.12: Modern Banking and Service (Frequency)

Modern Banking	Yes	No	Total
The bank offers several types of saving accounts	128	7	135
The bank offers several types of current accounts	119	16	135
The bank provides loans to governments	59	76	135
The bank provides loans to enterprises	131	4	135
The bank offers fixed deposit accounts	121	14	135
The bank offers recurring deposit accounts	87	44	131
The Bank provides credit cards	62	73	135
The Bank provides a consumer loan	116	19	135
The Bank offers ATM cards	132	3	135
The Bank offers smart	67	68	135
The Bank provides mobile banking	135	0	135
The Bank provides internet banking	133	2	135
Total	1,290	326	1,616

Source: Own survey, 2023

Among the survey participants, a vast majority of 94.81% showed positive responses to the assortment of savings accounts available at local banks. In contrast, only a minimal 5.19% responded with negativity towards them. Similarly, 88.15% had a positive outlook towards the various current accounts, while a minor 11.85% showed negative thoughts. When it came to dispersing loans to the government, a slightly lesser 43.70% responded positively, whereas the rest, 56.30%, had a negative say. However, when it came to lending finances to businesses, nearly all, that is, 97.04% resounded with positive feedback. Fixed deposit accounts experienced significant favorability, as 89.63% vouched for them, leaving only a meager 10.37% with negative reactions. The mean value was 1.104, and the standard deviation was 0.306. For recurring deposit accounts, 66.41% had positive feedback, while 33.59% responded negatively. Responding to the query of credit cards, 45.93% had a positive response, while 54.07% conveyed their negativity. Consumer loans experienced a reasonably favorable response, as 85.93% had positive feedback, while a trivial 14.07% expressed negative views. Of all respondents, 97.78% answered positively, while the remaining 2.22% answered negatively, as local banks offer ATM cards. On the other hand of the total number of respondents, 49.63% answered positively, while the remaining 50.37% answered negatively, as local providers offer smart cards. Of the total number of respondents, 100% answered positively that local providers offer mobile banking. Of the total number of respondents, 98.52% answered positively, while the remaining 1.48% answered negatively that local providers offer internet banking. Lastly, all

respondents responded positively regarding the availability of mobile banking. Most respondents (98.52%) responded positively regarding the provision of internet banking.

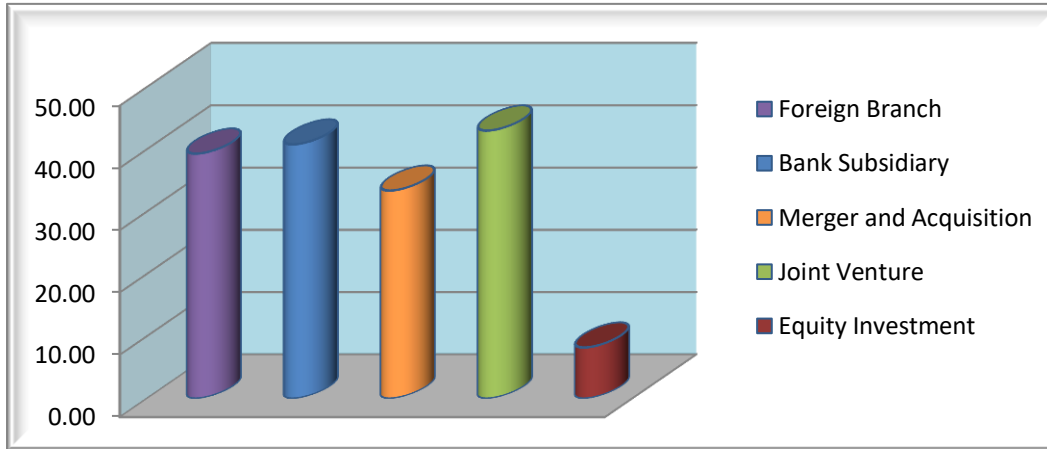
According to the above results, local banks currently offer modern banking services and products. However, they do not fully provide modern services and products when it comes to lending to governments, offering credit cards and smart cards. These modernized services and products, especially credit cards and smart cards, are major offerings of foreign banks. Foreign banks can also offer credit cards without requiring collateral, which will attract a majority of people and result in customers shifting from local banks to foreign ones. This will bring a significant challenge on Ethiopia's local banks.

4.11 Mode of entry

The respondents were asked to share their views on the mode of entry that foreign banks would use to enter Ethiopia's banking sector. According to Figure 4.3, the majority of the respondents (42.96%) preferred joint venture mode of entry, followed by bank subsidiary (40.74%), foreign branch (39.26%), merger and acquisition (33.33%), and equity investment (8.15%). Additionally, respondents disclosed in open ended question that the National Bank should endorse the equity investment mode of entry in order to protect the banks. This result suggests that most respondents anticipate foreign banks entering Ethiopia's banking sector through joint venture , bank subsidiaries, and foreign branches.

Moreover, each of the candidates recommended that overseas financial institutions could potentially gain entry into Ethiopia's banking industry via three feasible techniques: subsidiary, making an equity investment, or opening a foreign branch. Nevertheless, the distinct approach that will be adopted remains uncertain.

Figure- 4.3: Mode of Entry



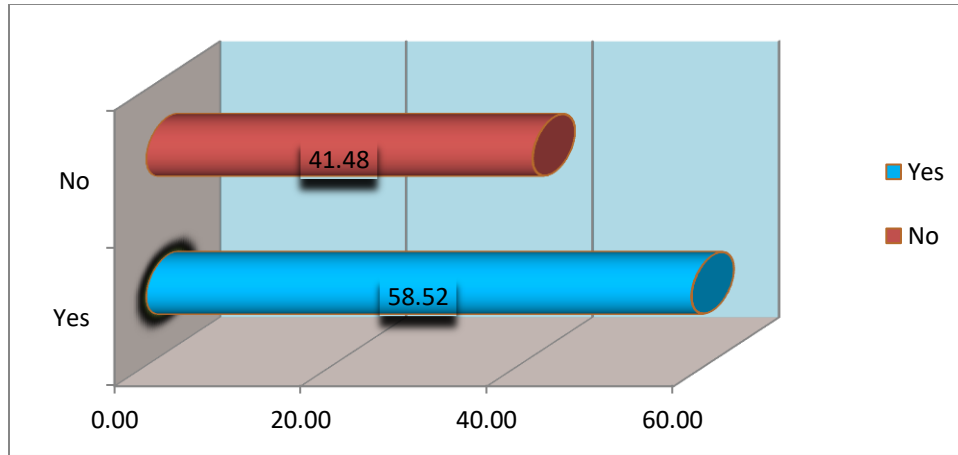
Source: Own survey, 2023

4.12 Skills and expertise of employees

The survey participants were requested to evaluate whether the workers possess the necessary abilities and knowledge at the desired capacity. According to the illustration presented in diagram 4.4, an appreciable bulk of 58.52% of the respondents responded positively, whereas the rest of them, accounting for 41.48%, provided a negative answer. Additionally, the participants disclosed that the arrival of overseas financial institutions would attract competent personnel, and the appealing pay bundles provided by these banks would instigate a rivalry among the workers, thereby making them more efficient in the sector.

In addition, the respondents revealed that banks are hiring employees who possess diplomas but lack degree qualifications, making it challenging and expensive to train them. Therefore, the survey results indicate that the employees possess the necessary skills and expertise, but they may not have sufficient proficiency at the target level for the entry of foreign banks.

Figure- 4.4: Skills and Expertise of Employees



Source: Own survey, 2023

4.13 Comparison of the banking sectors in African countries

The purpose of this evaluation is to examine the African banking industry, bearing in mind that foreign banks operate alongside local ones in other African nations. Conversely, exclusively domestic banks govern Ethiopia's banking sector without any international involvement. The objective is to investigate the possible advantages and disadvantages of foreign banks' entry into Ethiopia's banking sphere, specifically in regards to growth.

To contrast Ethiopia's average banking sector with six African nations' banking sectors, this study analyzed five financial indicator ratios, namely NPL, capital adequacy, ROE, ROA, and net interest margin, utilizing secondary data obtained from banks' annual reports for three years. With consideration of GDP, these six nations were chosen, including Egypt, Nigeria and Kenya with higher GDPs, and Ghana, Uganda and Tanzania, with lower GDPs compared to Ethiopia. According to Table 4.13, results reveal that Ethiopia has the highest capital adequacy ratio, the lowest NPL (challenged only by Egypt); Ethiopia also has the lowest net interest margin (coming second to Egypt) and nearly similar ROE to the other six nations.

Table-4.13: Comparison of the banking sectors in African countries

Country	Year	Capital Adequacy	NPL	ROA	ROE	Net Interest Margin
Ethiopia	2019	27.38	2.70	1.82	19.69	4.78
	2020	22.41	3.40	1.82	20.29	5.10
	2021	23.95	5.40	1.99	21.81	4.82
	Average	24.58	3.83	1.88	20.60	4.90
Egypt	2019	17.50	3.10	1.70	23.50	4.00
	2020	19.80	2.90	1.20	15.90	3.60
	2021	21.90	2.50	1.20	15.90	3.60
	Average	19.73	2.83	1.37	18.43	3.73
Nigeria	2019	14.50	6.10	2.30	25.80	6.70
	2020	15.05	6.01	3.33	14.37	5.40
	2021	14.53	4.85	2.31	27.47	3.60
	Average	14.69	5.65	2.65	22.55	5.23
Kenya	2019	18.80	12.26	2.63	22.11	6.17
	2020	19.00	14.30	1.70	14.20	6.00
	2021	19.50	14.30	3.30	22.30	6.10
	Average	19.10	13.62	2.54	19.54	6.09
Ghana	2019	17.48	13.94	4.14	19.90	11.00
	2020	19.83	14.82	4.36	21.40	10.90
	2021	19.60	15.12	4.57	20.60	9.90
	Average	18.97	14.63	4.36	20.63	10.60
Uganda	2019	21.00	4.90	2.50	13.80	11.30
	2020	22.30	5.30	1.80	10.30	10.00
	2021	23.70	5.30	2.70	15.60	15.60
	Average	22.33	5.17	2.33	13.23	12.30
Tanzania	2019	18.10	9.60	1.90	7.10	8.80
	2020	18.10	9.40	1.90	7.60	8.50
	2021	20.20	8.50	2.50	11.50	8.30
	Average	18.80	9.17	2.10	8.73	8.53

Source: Own survey, 2023

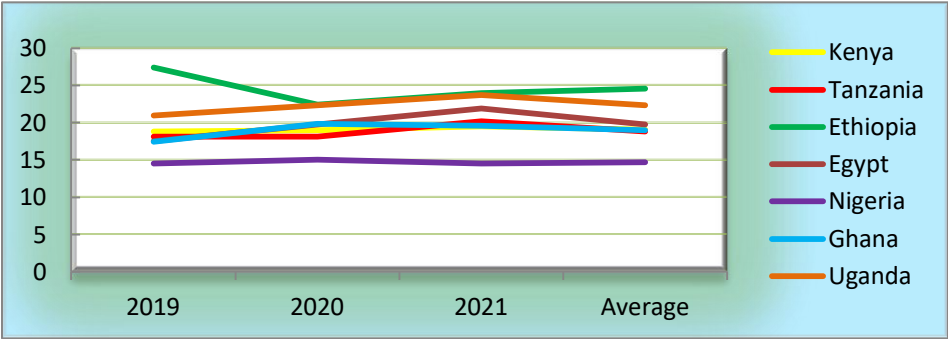
4.13.1 Capital Adequacy

As outlined in Table 4.13, Ethiopia has maintained an average proportion of 24.58% over the course of three years, while Egypt, Nigeria, Kenya, Ghana, Uganda, and Tanzania have recorded ratios of 19.73%, 14.69%, 19.10%, 18.97%, 22.33%, and 18.8%, respectively. Interestingly,

Ethiopia's ratio has experienced some fluctuations within this triennial period, with a commendable upsurge in 2021. Equally notable is Nigeria's ratio, which has seen its own share of uncertainties through three years, with a decline witnessed in 2021.

Ghana also experienced fluctuations in the ratio, with a decrease in 2021. In contrast, the proportions in Egypt, Kenya, Uganda, and Tanzania have all experienced a growing tendency over the course of three years. New studies propose that Ethiopia stands out with a notably elevated standard of capital adequacy among other African nations. It indicates that Ethiopia's banking sector is better equipped to handle financial downturns or unforeseen losses. Thus, this implies that there is a lower risk for potential new bank entries. This is due to the fact that the new entrants won't be up against existing banks, which are already well-capitalized and have a proven track record of surviving financial crises.

Figure- 4.5: Comparative Analysis: Capital Adequacy



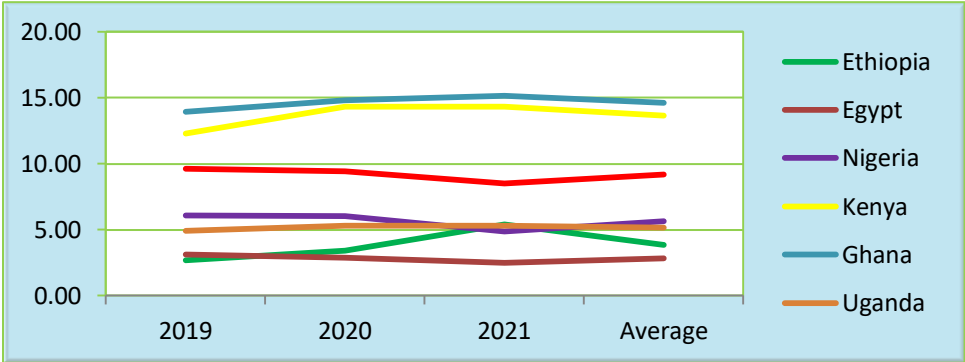
Source: Own survey, 2023

4.13.2 Non-Performing Loan

According to Table 4.13, Ethiopia has a relatively low NPL (non-performing loan) rate when compared to countries with higher GDP. Specifically, Ethiopia has a NPL rate of 3.88, which is second only to Egypt's rate of 2.88. Meanwhile, Nigeria's rate stands at 5.65 and Kenya's rate is a staggering 13.62. Moreover, when compared to countries with lower GDP, Ethiopia boasts the lowest NPL rate overall. Ghana has a rate of 14.63, Uganda's rate is 5.17, and Tanzania's is 9.17.

This survey reveals that Ethiopia's low NPL ratio suggests that outstanding loans present little risk to banks and will not negatively impact their performance or discourage potential customers. As such, this finding suggests that Ethiopia has potential to create a more favorable environment for newly established banks to enter the market, while minimizing the possibility of financial setbacks for these institutions.

Figure- 4.6: Comparative Analysis: NPL



Source: Own survey, 2023

4.13.3 Return on Asset

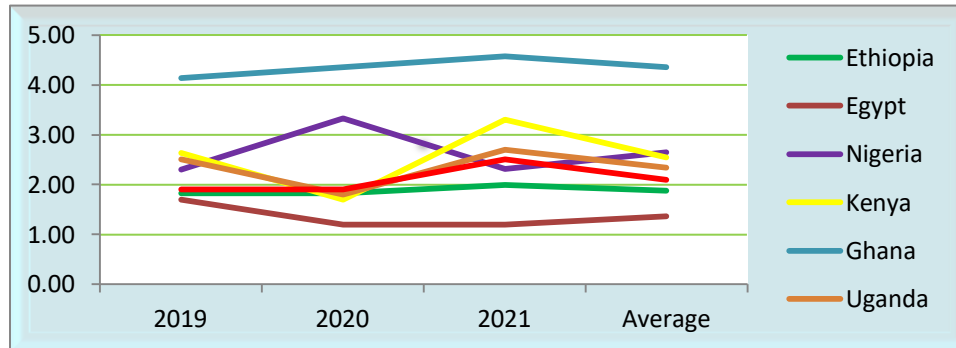
Nigeria emerges as an outstanding country with the highest Return on Assets (ROA) of 2.65 when compared to other countries with higher Gross Domestic Product (GDP). Conversely, Ethiopia records the lowest ROA at 1.88 followed by Egypt at 1.37. Notably, Kenya records a relatively high ROA of 2.54. When our focus shifts to countries with GDP lower than Ethiopia, Ghana leads the pack with an ROA of 4.36. Nigeria, Kenya, Uganda, and Tanzania pursue with a comparable average return on assets (ROAs) of 2.65, 2.54, 2.33, and 2.10, individually.

Interestingly, Ethiopia's ROA exhibits a positive trend, indicating a surge in banking sector efficiency. Similarly, Kenya, Ghana, and Tanzania also display an upward trend in ROA. Egypt, on the other hand, exhibits a declining trend compared to other countries. Nigeria and Uganda both portray upward and downward trends in ROA.

Overall, Ethiopia has the poorest average in ROA compared to other countries. This implies that banks face challenges in generating maximum profits due to factors like intense competition, low-interest rates, and regulatory restrictions. Thus, new foreign banks encounter dwindling

potential to make profits competing against established banks that already have low asset returns. Also, the stringent regulations implemented by the government make it challenging and expensive for new foreign banks to enter the market. Nevertheless, foreign banks can thrive by offering innovative products and services.

Figure- 4.7: Comparative Analysis: ROA



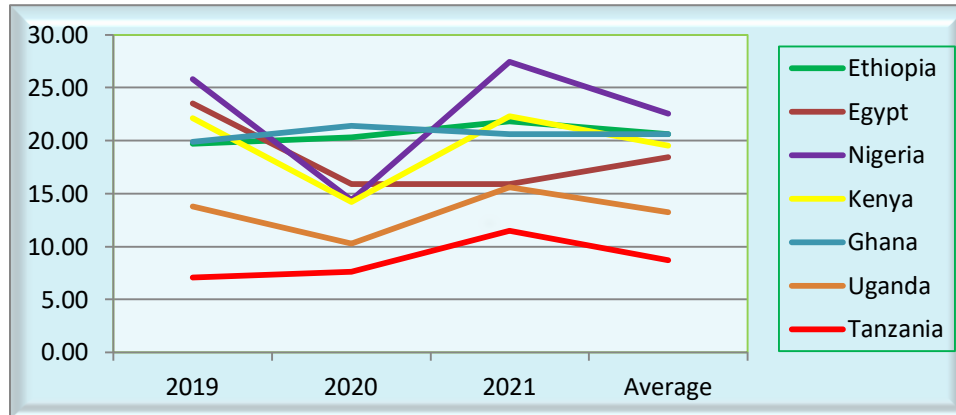
Source: Own survey, 2023

4.13.4 Return on Equity

Ethiopia boasts the second-highest ROE in Africa, trailing slightly behind Nigeria's 22.55, when compared to other African countries with superior GDP. Egypt has an ROE of 18.43; Kenya has 19.54, while Ghana matches Ethiopia's ROE of 20.63, despite having a lower GDP. Uganda, on the other hand, recorded an ROE of 13.23, while Tanzania's ROE stands at 8.73. It is noteworthy that Ethiopia's ROE has been on an upward trajectory, a trend similarly witnessed in Tanzania. Contrarily, Egypt's ROE has been on a steady decline for the past three years. Among Nigeria, Kenya, Uganda, and Ghana, ROE experienced fluctuating trends, with all but Ghana experiencing a surge in 2021.

The data at hand indicates that Ethiopia outperforms all six countries in terms of ROE, a testament to its efficient utilization of equity investor contributions to generate appealing returns. Furthermore, the high demand for banking services in Ethiopia presents an excellent opportunity for new foreign banks to enter the market and offer their services to clients.

Figure- 4.8: Comparative Analysis: ROE



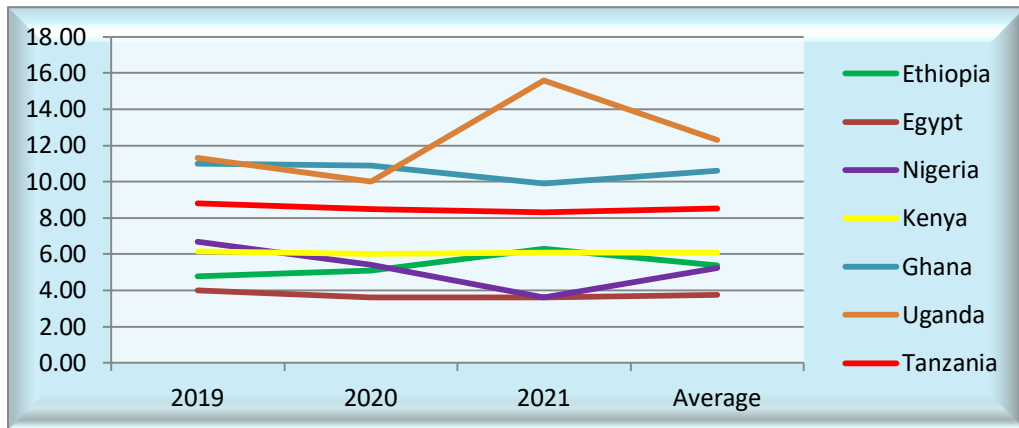
Source: Own survey, 2023

4.13.5 Net Interest Margin

Kenya has the highest NIM of 6.09 compared to Ethiopia at 5.39, Nigeria at 5.23 and Egypt at 3.73. Meanwhile, despite having a lower GDP than Ethiopia, Uganda has the highest NIM at 12.30, followed by Tanzania and Ghana at 8.53. Ethiopia's NIM is increasing, indicating that it earns more than interest on loans and deposits. However, NIMs in Egypt, Nigeria, Ghana and Tanzania are declining, reflecting insufficient returns from lending activities or high interest rates on deposits Kenya and Uganda previously had three-year changes in NIM but Ethiopia's NIM is lower than other countries, but its increasing trend It shows that he's performing well.

The implication of these results is that if the banking sector is able to sustain good performance with low interest margin (NIM), it means that banking services are in great demand in the country this creates good opportunities for foreign banks to enter the market and offer their services to customers.

Figure- 4.9: Comparative Analysis: NIM



Source: Own survey, 2023

Chapter Five: Summary, Conclusion and Recommendation

5.1 Summary of major findings

Since the Ethiopian government has allowed foreign banks to operate in the country, it has become a controversial issue in the local banking community. According to a survey, the National Bank of Ethiopia has been consulting with financial institution officials and academics on the policies and investment benefits of concessionary foreign banks. Given Ethiopia's rising inflation, the issue of foreign banks entering the country's banking sector is an immediate concern that warrants further study.

Literature outside Ethiopia has examined the impact of foreign banks on the performance of local banks, including the challenges and opportunities they create. There has also been some local research on the challenges and opportunities of foreign bank entry. Ethiopian banks have it. However, these studies do not include comparative analysis of African countries with GDPs higher or lower than Ethiopia, nor do they analyze whether local banks have been modernized through the adoption of modern products and services offered by foreign banks.

The analysis in the previous section yielded the following indicators in terms of the overall profile of the respondents, their feelings about the presence of foreign banks, the contribution of the economy as a whole in Ethiopia in terms of economic development, advantages and challenges of foreign banks entering the market, possible disadvantages, Ethiopian economic expansion, the impact on the performance of local banks including a comparative analysis, the current state of the banking sector in Ethiopia, entry strategies, professional skills and experience, and then the level of support by NBE. The survey showed that most department heads participated, along with executive directors. Furthermore, the majority of the respondents had a master's degree and more than 10 years of experience in financial institutions, indicating that participants are highly educated and knowledgeable in their field.

Individuals' perception of the introduction of foreign banks in the Ethiopian banking sector indicates that they have a positive attitude towards foreign bank entry. It appears that the arrival of overseas banks is viewed as a favorable occurrence for local banks. Most people who participated in the survey, a whopping 87% to be exact, firmly hold the belief that the economy

of Ethiopia would receive a considerable upturn if foreign banks were to establish branches in the country. Those in charge hold the position that the presence of overseas banks would result in a surge in saving rates, easier access to loans and decreasing levels of unemployment, which would ultimately bring advantages to the less affluent section of society. This indicates that foreign bank access would have a direct or indirect contribution to the flourishing of Ethiopia's economy.

The study indicated that the entry of foreign banks into the Ethiopian banking sector can bring benefits such as innovation in finance, acceleration of economic growth, development of financial markets, monetary policy framework a improving and increasing the supply of credit The idea is also that it can lead to better job opportunities, lower unemployment rate, increased foreign direct investment and cultural development

The majority (70% of the respondents) said that the expansion of the Ethiopian economy will face challenges as foreign banks enter the market. The research has uncovered potential obstacles, such as a rise in rivalry within the local market and banking sector, as well as challenges in supervising banks. NBE has recognized these hurdles, along with substantial costs related to investing that may impact future endeavors.

As per the analysis, the introduction of foreign banks into the Ethiopian banking industry will significantly affect local banks' performance. The outcome of this situation will undeniably reduce their portion in the market, render it harder to attract skilled workers, and limit the advancement of borrowing procedures of domestic banks.

Numerous individuals believe that Ethiopian banking sector is pioneers in present-day banking and services. They offer modern banking products and services. Nonetheless, there are regions where they can enhance their services. A considerable number of respondents (56%) expressed disappointment with how banks offer government funds. Over that, many respondents (54% and 51%) were not completely content with the issuance of credit cards and smart cards, respectively, by banks.

The survey results show that potential modes of entrance include setting up a banking company, opening a foreign branch, or investing in banks but policymakers have yet to finalize the entry strategy, posing a challenge great has come upon them.

According to the survey, majority (58% of the respondents) indicates that employees have the necessary skills, but not enough skills in entering foreign banking This shows that although employees have knowledge and capabilities important though they may be unaware of the challenges of the foreign banking industry

The Ethiopian banking sector is performing comparatively well without the involvement of foreign banks, especially when compared to other African countries with high or low GDP The study shows that the Ethiopian banking sector excels in areas such as adequate capital, non-performing loans (NPL), and return on equity (ROE).

5.2 Conclusion

Conclusively, the entry of foreign banks into the Ethiopian banking sector will have both positive and negative effects. The benefits of foreign banks include initiating new financial innovation, accelerating economies of scale, developing financial markets, improving financial system infrastructure, and increasing access to credit, and it offers better employment opportunities, lower unemployment rates, increased foreign direct investment, and cultural development. However, the entry of foreign banks may also pose challenges such as increased competition, decreased competitiveness of domestic banks, difficulties in regulating banks, etc. Besides, domestic banks may lose market share, it is difficult to attract skilled labor, and lower lending growth.

Deciding how to deal with the entry of foreign banks into the Ethiopian banking sector is complicated as there are a number of pros and cons to consider and policymakers must carefully analyze these variables before making a choice. Fortunately, the entry of foreign banks can increase competition, deepen and expand the financial system, and foster employment and economic expansion. On the negative side, however, an emphasis on lending to the wealthy and corporate by foreign banks can reduce the market share of local banks, increase systemic risk and increase inequality

It has been discovered through comparative study that Ethiopia offers foreign banks a promising market. This is because the nation's banking sector is strong and exhibits solid capital adequacy and low levels of NPL. Furthermore, Ethiopia has a sizable market for financial services that might be lucrative for international banks. Increased rivalry for domestic banks may result from this. But Ethiopia has a high demand for financial services, suggesting potential profitability for both foreign and native banks. Due to their established presence, domestic banks have an advantage, but they must rise to the challenge by providing cutting-edge goods and services. All things considered, the existence of foreign banks brings opportunities and challenges for local banks, necessitating a proactive and strategic strategy to flourish. However, there's no doubt that the Ethiopian banking scene could definitely benefit from foreign banks making their entrance. Despite some hiccups along the way, this move could contribute greatly to the country's economic expansion prospects.

5.3 Recommendations

Based on the results, it seems that the Ethiopian banking sector is performing well in terms of generating income and profits compared to African countries. However, when compared within the country, there is a large gap that can cause a challenge when foreign banks enter the market. It is recommended that foreign banks enter the Ethiopian banking sector in order to improve the economic potential of local banks. However, local banks need to be developed first and increase their capital and reserve requirements before foreign banks can enter. In addition, regulatory agencies should assess their reserve and capital requirements and include technical requirements that meet international standards.

Since it has been decided that foreign banks will enter the Ethiopian banking sector, I suggest the following points for local banks and regulatory bodies:

Local Banks:

- Local banks need to update and execute new strategies to attract savings depositors rather than aggressively opening accounts with zero or minimum balance. They should devise innovative strategies to bring in customers from lower and middle-income groups. For instance, they could conduct a lottery competition for new project businesses, requiring

an initial deposit of 2000, with the winner receiving 500,000. This deposit would be held in a blocked account for at least a year. If 100,000 applicants applied, it would result in a deposit of 200 million, which could also be lent to outstanding project winners. Such loans may not require collateral, introducing non collateralized type of loan.

- Banks should also prepare themselves to offer consulting services and provide various business ideas for projects that require financing. To achieve this, their employees should undergo training not only in certificate-based programs but also higher education qualifications.
- Local banks ought to invest in advanced technologies to modernize their services, such as implementing smart cards, new channels, and barcodes to streamline payments and reduce costs for customers.
- Local banks ought to enhance their capital by offering inventive products and services to lure potential investors.

Regulatory bodies:

As a regulatory body, the National Bank plays a significant role in this issue. Therefore, I would suggest the following points:

- The National Bank should gradually permit foreign banks to enter the banking sector in order to assess the significant challenges and risks involved. This would assist in creating and implementing new policies for the future.
- National Bank ought to establish elevated capital and reserve prerequisites to enhance the capacity of the banking sector. This measure will also result in consolidation and takeover among domestic banks that fail to meet the requirements. Furthermore, this will strengthen them and foster greater competitiveness among them.
- The National Bank must tighten the rules governing tech-based activities. This would include updating its current structure to reflect the most recent technical developments and guarantee that it is still applicable in the digital era. By doing this, the National Bank will be able to better oversee and control financial transactions made through digital channels and protect consumer financial transactions. National Bank ought to assess and endorse local banks in the implementation of smart cards, barcode systems, and credit

cards. Additionally, given that more and more financial institutions are implementing cutting-edge technology-based procedures, such an upgrade would aid the National Bank in maintaining its position as a market leader. The National Bank must thus constantly update its policies to reflect the rapidly evolving technology world.

- National banks should not only encourage local banks to allocate 2% of their budget towards training and development, but also monitor their progress in this area and establish a minimum level of higher education.
- The National bank should update and implement new directives regarding the entry of foreign banks to ensure the protection of local banks, such as limiting capital outflow.
- The foreign banks should consider entering through a joint venture as it would benefit both parties and allow them to maintain their independence. This approach can help them gain new markets, manage business risks, and increase their size. Alternatively, a merger could also result in growth and a stronger financial position, leading to a larger market share and reduced competition. If other entry methods are allowed, a requirement for foreign banks to make an equity investment of 30% could protect local banks and ensure that foreign banks contribute to the profitability of the sector.

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Appendix

Appendix one: Questionnaire

Addis Ababa University

College of Business and Economics

Department of Accounting and Finance

**Research Title: the Challenges and Prospects of
Foreign Bank Entry in Ethiopia's Banking Sector**

Dear Respondent

This questionnaire is designed to collect information related to the impacts of foreign banks entering the Ethiopian banking industry. I would like to explore the potential challenges and prospects of foreign banks entering the Ethiopian banking industry. The research output will be useful to banks and academics.

Your responses will help the researcher study the subject matter more closely and answer important questions. This information is very important to the research, so I would appreciate if you could give your best opinion.

This is also an academic research exercise for the purpose of fulfilling a requirement at Addis Ababa University, and your information will be kept confidential.

Thank you in advance for your cooperation!

Part 1. General Information and Demographic Background of Respondents

1.1. Gender

- Male
- Female

1.2. Age

- Less than 35 Years
- 35-45Years
- 46-55Year
- Over 55Years

1.3. Educational Background

- BA/BSC Degree
- MSc/ MA
- PhD

1.4. Your Position in this bank

- Executive Manager
- Department Director

1.5. How long have you been working in this management position?

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

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

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

1.7. How did you feel about the entrance of foreign banks into Ethiopia?

- Bad
- Stressed
- Indifferent
- Good

Part 2. Potential benefits of foreign bank entry

2.1. Do you think foreign banks would improve Ethiopia's economic growth if they enter the banking industry?

- Yes
- No

2.2. How would you rank the possible benefit to Ethiopia's current condition from foreign banks entering the country's banking sector?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Agree” to “Strongly Disagree”

	Responses				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Introduce new financial innovation					
Accelerate the economies of scale					
Develop the financial market					
Improve the financial system infrastructure					
Attracts foreign direct investment					
Improve financial Regulation					
Quality of service					
Availability of more credit supply					
Modern technology will be introduced					
Banking system will be introduced					
Higher efficiency will be obtained					
Foreign banks may reduce costs to clients					

Part 3. Potential challenges of foreign bank entry

3.1. Do you think that foreign banks entering the banking sector will provide difficulties for Ethiopia's economic expansion?

- Yes
- No

3.2. How would you rank the possible challenges of foreign banks entering the country's banking sector?

Please make an (x) in the respective box.

The scale below will be applicable as Five-point scales ranging from “Strongly Agree” to “Strongly Disagree”

	Responses				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Increase in competition to domestic market					
Domestic Banking as an infant industry becomes less competitive					
Retains credit to small firms					
Lack of domestic strong supervisory body					
Local banks could be in danger of going bankrupt.					

Part 4. Impact of foreign banks on the performance of Ethiopian domestic banks

4.1. How would you rate the influence of foreign banks on the performance of local banks in Ethiopia?

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”

	Responses				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
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					

Part 5. Modern banking services and products

Please make an (x) in the respective box.

Please select yes or no for each of the following points:

	Response	
	Yes	No
The bank offers several types of saving accounts		
The bank offers several types of current accounts		
The bank provides loans to governments		
The bank provides loans to enterprises		
The bank offers fixed deposit accounts		
The bank offers recurring deposit accounts to make a set payment every month for a certain number of years, subject to a minimum amount.		
The Bank provides credit cards		
The Bank provides a consumer loan		
The Bank offers ATM cards		
The bank offers smart cards to make online payments without having a bank account.		
The Bank provides mobile banking		
The Bank provides internet banking		

Part 5. Mode of Entry

5.1. What type of entry method do you think foreign banks will use for the following organizational form?

- Foreign Branch
- Bank subsidiary
- merger and acquisition
- Joint Venture

others: _____

Part 6. Others related questions

6.1. Do you think current employees have the necessary skills and expertise at the target level?

- Yes
- No

6.2. Please explain the extent to which National Bank of Ethiopia supports the local banks regarding the entry of foreign bank:

6.3. Please add any additional information you feel is necessary to offer in relation to the opportunities and difficulties that foreign banks will offer to domestic commercial banks.

Appendix two: Interview questions

Interview questions for NBE's Directors and Executive Managers

1. Do you think the entry of foreign banks into the banking sector will boost Ethiopia's economic growth?
2. What opportunities do you think foreign banks will bring to the Ethiopian banking sector?
3. What challenges do you think local banks face when foreign banks enter the Ethiopian banking sector?
4. In what level are you aiding the local banks in order to make them more prepared when foreign banks enter the market?
5. How do you think foreign banks will enter the Ethiopian banking sector?

Appendix three: Supporting letters of data collection

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 03 MAY 2023

To: National Bank of Ethiopia

Students: Ato. Abnham Tamisu Terjaye undertaking
Challenges & Prospects of Joint Bank
project entitled "Going in Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



1. Bank supervisor
2. Director
3. Analysis of Financial & External Economic Analysis & Interaction Director
4. Foreign Exchange Relations & Reserve management
5. Legal Service manager
6. Payment & Settlement Director
For your cooperation
Tggs
12/05/2023

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 04 - APR - 2023

To: Awsash International Bank

Students: Ato. Abrham Tamiru Tesfaye undertaking
Changes & prospects of Awash Bank firm
project entitled "In Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,


Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University




MBA Performance Result
MBA Division

Pls cooperate

05/04/23

② To all concerned
Pls cooperate in
05 April 2023

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 07-Apr-2015

To: Wleqafen Bank

Students: Ato Abrham Tamiru Tegegn undertaking
Changes & prospects of foreign Bank
project entitled "Entry in Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



Director Financial Accounting
Director, Corporate and Bus. Relationship Mgr
Director, Corporate Strategy & Change Management
Director, Research and Bus. Development
For Your usual cooperation
29/07/2015

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 07-Apr-23

To: Addis International Bank

Students: Ato. Annuam Tamiru Tesfaye undertaking
Challenges & Prospects of Foreign Bank
project entitled "Entry in Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



1) To - All Work units
Ple extend your usual
Cooperation as per the
request.
Ato. Annuam Tesfaye
Apr. 11- 07-2023

Human Capital Center of Excellence Department
Direct line: + 251 11 4700325

DATE: April 7, 2023
REF: HB/HCCE/153/23

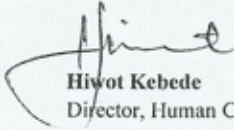
To: All City Branch Managers and District Directors
All Department Directors

Subject: Request for cooperation

Addis Ababa University College of Business and Economics requested us to cooperate in providing information to student Abraham Tamiru Tesfaye for his research entitled "Challenges and Prospects of Foreign Bank Entry in Ethiopia's Banking Sector".

Hence, this is to kindly request your respective Department/Branch to cooperate and furnish needed information for the research.

Regards



Hiwot Kebede
Director, Human Capital Center of Excellence Department

C.C

- Ato Abraham Tamiru

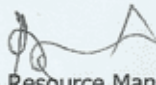


አቢሲንያ ባንክ
Bank of Abyssinia

የሁሉንም ግርማዝ
The Choice for All!

HRD/3-1166/2023
April 25, 2023

To: Director – Strategy Management
Concerned Department Directors

From: Bantalem Taye 
Director- Human Resource Management

Subject: Cooperation memo

Ato. Abrham Tamiru, a Master of Accounting and Finance student at Addis Ababa University College of Business and economics, is doing his Research on the topic entitled "Challenges and Prospects of Foreign bank entry in Ethiopian banking sector."

Accordingly, the University has requested us to assist the student by providing the necessary information which is relevant to his study.

This is, therefore, to kindly request your good office to provide the necessary assistance to the student.

Regards,

Encl: 1 page

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 24/10/23

To: Bank of Abyssinia

Students: Ato Abraham Tomasa Tessema undertaking
analysis & prospects of potential
project entitled "Banking in Ethiopia" for partial fulfillment of
Banking sector
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,




Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University

*w/o Martha
Please handle
25/10/23*

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 26-APR-23

To: Otomia International Bank

Students: Ato Amman Tamsu Tesfaye undertaking
Character & Properties of Foreign Bank
project entitled "Entry in financial banking sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



*Dear all
Please assist in
filling out the
questionnaires
26
04
23*

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 26-APR-23

To: Bunna International Bank

Students: Ato. Abraham Tamiru Terate undertaking
project entitled "Challenges & prospects of foreign bank
entry in Ethiopia's banking sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



To esteemed Directors
For your kind cooperation
as convenient & proper
for you.

Resards;
Afeework
Ato Dereje Urgicha
26/04/23



የኢትዮጵያ ንግድ ባንክ

COMMERCIAL BANK OF ETHIOPIA
INTER DEPARTMENTAL MEMORANDUM

DATE ቀን	April 10, 2023
TO ለ	Director - Financial Reporting and Reconciliation Director - Investment Management Director - Treasury Director - Accounts Operation and Payment Director - Credit Monitoring & Portfolio Management Director - IS Audit Director - Marketing Director - Business & Economic Research Director - Risk, IA & CX Transformation Director - Retail & IFB Transformation Director - Strategy Planning, Monitoring & Evaluation
FROM ከ	Team Leader Training Operation and Logistics
SUBJECT ጉዳይ	Request for Cooperation to Conduct Research

Addis Ababa University College of Business & Economics Department of Accounting and Finance under letter dated April 10, 2023 has requested our bank to assist **Ato Abreham Tamiru Tesfaye** Students of MSC undertake his assignment paper on "**Challenges & Prospects of Foreign Bank Entry in Ethiopia's Banking Sector**" in the case of Commercial Bank of Ethiopia.

This is, therefore, to kindly request you to provide the required assistance and cooperation without compromising confidentiality.

Best Regards,

Kidist Abebe

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 20 APR 23

To: Commercial Bank of Ethiopia

Students: Ato Abiyom Tomiru Tejwite undertaking
challenges & prospects of foreign bank
project entitled "entry in Ethiopia's banking sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 07-APR-23

To: Abay Bank

Students: Ato Abuhaim Tawisu Temaye undertaking
project entitled "Challenges & prospects of foreign Bank
entry in Ethiopia's Banking sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



☎ 251-11-1223787/+ 251 912 946159 Email: acfn@zau.edu.et

☎ 5563

09-11-52-40-49

Abihem

*Woy. Sofya
Please cooperate
to get data from
5 subjects from
who are willing
25/04/23*

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 26-Apr-23

To: Berman International Bank

Students: Ato. Abriham Tamiru Terjete undertaking
Challenges & prospects of Foreign Bank
project entitled "Entry in Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



*Dear Directors
Please cooperate him to
complete the questionnaire
attached for educational
purpose.*
26/04/23
Thomas D.

አዲስ አበባ ዩኒቨርሲቲ
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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 15-11-2023

To: Enat Bank

Students: Ato. Abihaman Tamiru Tegegn undertaking
Analysis + Proposal of Enat Bank
project entitled "Enat in Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



Exe Director - Branch Banking
Director - FAD
Director - RRM
Director - SID
Please assist.
Aug 2023

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance



Date: 18-Apr-23

To: Lion International Bank

Students: Ato Abrham Tamiru Tesfaye undertaking
project entitled "Challenges & Prospects of 2019/20 Bank
entry in Ethiopia's banking sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



*Directors
Finance, credit, Int Audit,
Marketing, risk & comp &
Strategy mgmt*
*For your kind assistance
Yash*

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አካወንቲንግና ፋይናንስ ጉ/ክፍል



Addis Ababa University
College of Business & Economics
Department of Accounting & Finance



Date: 25-Apr-23

To: Debab Global Bank

Students: Ato Abraham Tamiru Testate undertaking
Challenges & Prospects of Foreign Bank entry
project entitled "In Ethiopia's Bank Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



Cherecher
for your support
of the project

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 04-APR-2023

To: Zemen Bank

Students: Ato. Abrham Tamiru Tefera undertaking
project entitled "Challenges & prospects of foreign Bank entry
in Ethiopia's Banking sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



Dear Ato
Please Assist him
Per your Consent.

☎ 251-11- 1223787/ + 251 912 94615



To : Finance & Accounts Department *ES*
: Risk & Compliance Management Department *for 205-04-23*
: Marketing & Customer Experience Department *205/24123*
: HR Development Department *AS*

From : Yeshi G/Tsadik *for Yes*
Manager, Training & Development Division

Date : April 5, 2023

Encl : One

Subject : Cooperation

Please assist Ato Abrham Tamiru, a student at Addis Ababa University College of Business & Economics, doing his research entitled, "Challenge & Prospects of Foreign Bank Entry in Ethiopia's Banking Sector".

We appreciate your cooperation.

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አካውንቲንግና ፋይናንስ/ክፍል



Addis Ababa University
College of Business & Economics
Department of Accounting & Finance

Date: 04-APR-2023

To: NIB International Bank

Students: Ato Abraham Tamiu Tejoro undertaking
Changes & prospects of foreign bank entry
project entitled "In Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to you, to us, and to the business community at large. Hence, we would be very grateful if your organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic purposes. Further, we can send to you all the summary results and findings, when the undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,

Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University



27 APR 2023

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Addis Ababa University
College of Business & Economics
Department of Accounting & Finance



Date: 26-Apr-23

To: Cooperative Bank of Oromia

Students: Ato. Abewon Tamisu Tesfaye undertaking
Challenges & prospects of cooperative Bank
project entitled "Study on Ethiopia's Banking Sector" for partial fulfillment of
the MSC degree in Accounting and finance.

We believe that the result of this project would have practical application and be of value to
you, to us, and to the business community at large. Hence, we would be very grateful if your
organization could support us in this endeavor.

Besides, we promise you that all data will be kept confidential and used only for academic
purposes. Further, we can send to you all the summary results and findings, when the
undertaking is completed.

Thank you for the anticipated cooperation.

With Best Regards,



Ato Dereje Urgicha
Coordinator, graduate programs
Department of Accounting and Finance
College of Business and Economics
Addis Ababa University

① Director - HCSS
for your support
② To all bus mess directors
for your kind support
April 24
2023



Memo

Memo-M/SRCPD/131/23

TO: All Department's

FROM: Manager, Research and Market Intelligence

DATE: May 03, 2023

Subject: Request for Cooperation to conduct Research

Abraham Tamiru is a student from Addis Ababa University who is conducting a research entitled "**The Challenges and Prospects of Foreign Banks Entry in Ethiopia's Banking Sector**" in our bank for his study.

As part of the research, he intends to collect/distribute questionnaires, and conduct interviews with staff at your esteemed office.

This is to kindly request your office to extend your usual cooperation in availing the required information without compromising the Bank's information disclosure policy.

Best Regards,