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ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

Assessing the effects of overseas banks entry on the performance of domestic banks and the economy in selected Sub-Saharan African countries: a lesson for Ethiopia

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Declaration

I hereby declare that this MSc thesis entitled "Assessing the effects of overseas banks entry on the performance of domestic banks and the economy in selected Sub-Saharan African countries: a lesson for Ethiopia" was carried out by Melaku Habte Woldehitsan under the guidance and supervision of Tadele Ferede Agaje, submitted in partial fulfillment of the requirements for the degree of Master of Science in Financial Economics complies with the regulations of the University and meets the accepted standards concerning originality and quality. The explanations put forth are based on my reading and understanding of the original texts, and they are not published anywhere in the form of books, articles, or reports. The other books, articles, and websites, which I have made use of are acknowledged at the respective place in the text. For the present thesis, which I am submitting to the University, no degree, diploma, or distinction has been conferred on me before, either in this or in any other University.

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Abbreviations

AR=Autoregressive

ATM=Automated Teller Machine

BSV=Bank Specific Variables

CEO=Chief Executive Officer

DCGDP= Domestic Private Credit to the Gross Domestic Product

GDP=Gross Domestic Product

GMM=Generalized Method of Moments

IMF=International Monetary Fund

NIM=Net Interest Margin

NPL=Non Performing Loan

ROA=Return on Asset

ROE=Return on Equity

SSA=Sub-Saharan Africa

Abstract

The main purpose of this study is to assess the effects of overseas banks' entry on domestic bank performance and the economy in selected Sub-Saharan African countries. The time under scrutiny is from 2005 to 2020. To this end, both primary and secondary data were employed. A two-step system of generalized method of moments (GMM) was adopted to identify the effects of overseas banks' entry on domestic bank performance and the economy. Overseas bank assets share is used as a proxy for overseas banks' entry. Accordingly, domestic bank performance is positively determined by overseas banks' entry, while economic performance (nominal gross domestic product (GDP) per capita) is negatively determined by overseas banks' entry. The study finding reveals that there exists no significant difference between globalized Sub-Saharan Africa (SSA) countries and Ethiopia as far as the domestic bank performance is concerned. The finding also indicates that overseas banks' entry will bring enormous opportunities for domestic banks such as capital, technology, more efficient processes, new service channels, systems, and expertise. In the case associated with overseas bank entry, the study identified challenges that include loss of potential customers, unfair competition, transmitting external shocks, and talent drains. The implications of the study include the government and central bank's need to formulate an appropriate strategic response to minimize the destructive outcomes of overseas bank entry on the performance of domestic banks and the economy.

Keywords: - Overseas banks entry, domestic bank performance, economic performance, and generalized method of moments (GMM)

Chapter one

1. Introduction

1.1. The context

In both advanced and underdeveloped countries, banks facilitate transactions between lenders and borrowers. Nguyen et al., (2016, p.4) propounded the continued undeniable function of the depository financial institutions on pecuniary facilitation, which would enable to increase the consideration of many researchers and practitioners. By and large, internationalization endeavors, are believed to improve the financial systems and livelihood situations of the destination market. This demonstrates unequivocally that foreign investment is one of the biggest sources of financial resources flowing into developing countries. In the short to long run, this would be advantageous for the success of domestic banks, as attracting high-quality foreign investment continues to be a key strategy for developing countries.

Alfaro et al. (2015, p.2) proved the concentration accorded by decision-makers in acknowledging further obstacles for overseas banks' incursion in comparison to permissible restrictions on top of incursion or ruthless license preventions toward overseas banks. Besides, overseas firm incursion has been hindered through the political and legal systems of the host country. The inference from this description is that the expansions of overseas banks enable to development of the coverage of the financial system in the destination market and scale up usage of new service channels like cellular phone, internet and agency banking. With increasing number of cellular phone and internet subscribers, there is also promising future for expansion of less costly financial services to enable the financial inclusion strategy.

Furthermore, overseas banks' entry alleviates financial restraints; enhances access to finance, and reduces lending interest rates. On this issue, there is a need to craft appropriate strategies by domestic depository financial institutions to enhance achievement and to win the mind and compassion of the client. One of the key factors that would lead more people to use overseas banks instead of local banks is to access finance. To be specific, some segments of the client have the potential of making savings with local financial institutions, but on condition that they have access to loans. The domestic depository financial institutions must devise products to satisfy the basic requirements or needs of credit. The use of offering finance to retain the whole business of clients needs to be given due attention. In a time of the domestic depository financial institution crisis, this "loan-supply" effect could be mainly important in overseas banks, which finance themselves through parent institution. Concerning restraining the liquidity crisis, overseas banks intensify their efforts to disburse loan facilities for domestic institutions. Claessens (2017) witnessed those overseas banks would also look for alternative investments in the destination market, and rely on the operating model and particular features of the target residents. The economic advancement of the nation, depository financial institutions' development, regulation, and topographical and ethnological divergence, have contributed to

justifying overseas banks' achievements and their influence on the domestic lending market. Domestic depository financial institutions' share of advances and loans can indicate their capacity to meet the financial needs of their clients. This shows that to remain competitive, domestic depository financial institutions could create a practical scheme that helps them to cooperate closely with clients by developing and customizing various innovative financial services and products.

Ethiopia has registered promising economic growth over the past three decades, and much more ambitious aspirations to develop a more dynamic middle-income economy have resulted in increased demand for funding from various sectors of the economy. The local depository and non-depository financial institutions mobilize financial resources, that is, both local and overseas currency, in response to the economy's expanding need for finance. To do this, depository financial institutions increased their outreach to social groups that are financially excluded through a diversity of channels, including both traditional and modern. What is more, internet banking, and card banking have been established to cater to the technologically aware segments of the population. Local financial institutions also worked hard to create a variety of saving products to gratify the unique demands of certain groups in the society. The fact that supporting these local financial institutions endeavors and to enhance overseas banks influx into the Ethiopian financial sector, the Ethiopia government proposed different alternatives such as subsidiary and joint venture entry modality. In connection with this, the government intends to provide licenses for three to five overseas banks in the upcoming five- year period (Endeshaw, 2023). It is essential to check the outcome of overseas banks' influx, together with their possible implications on the performance of the domestic banks and the economy.

1.2. Problem description

A vigorous banking sector is indisputable in enhancing economic growth by promoting private sector development. Alfaro et al. (2015, p.2) disclosed that overseas banks influx and its pressure remain contentious within academia. According to the advocate of overseas bank influx, there is evidence that overseas depository financial institutions would motivate borrowers to toggle from elevating financial resources with cost-effective to financial resources with high-priced. This is mainly due to overseas firm influx that could benefit depository financial institution borrowers by lowering interest rate. So, nations, particularly developing countries, should examine micro-prudential regulations and accordingly enhance overseas firm incursion. The proposition is that an overseas firm incursion could be harnessed towards improving the financial access of the public in the destination market. Quite the reverse, it could be noted that the restraints of an overseas firm would lower the accumulation of capital assets by local institutions at the destination market, so that the need for relaxing micro -prudential regulations. In this regard, according to Kidwell et al. (2016) and Bonin et al. (2005), an increase in financial resources' inflow from advanced nations together with reasonably priced services to underdeveloped

nations of high price services would also mean that enhancing the efficiency and effectiveness of local financial institutions.

According to the opponents of overseas bank influx, these banks finance high-value customers; as a result, local financial institutions funding low-profile clients led to the deterioration of the asset base. To this end, Aminah (2015, p.21) indicated that due to the superior technologies that were employed by overseas banks along with their effortless access to resources, have put serious pressure on the local banks in Ghana. To this effect, considerable local financial institutions in Ghana deteriorated their position, thus they cannot maintain their market share. This was accredited to the inability of the local financial institutions to devise new financial services for a specific targeted population such as women, youth, children, and senior citizens. The local financial institutions also botched to deal with the dynamics in demand and supply environments accompanied by an enhancement in cutting technologies. The domestic financial institutions failed to grant various loan services for different segments of the population as well. In a nutshell, following the above review of literature; it seems that there are no conclusive findings on the influences of overseas banks' incursion that could drive across the developed and developing economies. In SSA countries in general and in Ethiopia in particular, empirical evidence on the effects of overseas banks' incursion is inadequate. Unlike similar studies, to grasp the effects of banking technology dimensions on the performance of domestic banks, in this research, the number of ATMs per one hundred thousand elders is included as a control variable. This inquiry thus realized the influence of new technologies to improve financial activities so that the depository financial institutions can attain both financial and non-financial targets. Since these financial technologies are new, controlling their effects together with bank-specific and macroeconomic factors is indisputable. The study can also initiate a new perspective. This can be done by creating composite gauges for bank performance, by using ROA, ROE, and NIM. Unlike most of the prior studies on the area, this inquiry remains critical because the data is not limited to secondary data but also employs primary data which is fresh and up to date. Hence, the fact that this research contributed to the literature by providing insight into the effects of overseas firm's penetration on the performance of domestic banks and the economy.

1.3. Research questions

The following are the research question(s) of the inquiry:-

- Does an overseas bank influx enhance the performance of local bank?
- Does an overseas bank influx improve economic growth?
- Is there any dissimilarity in domestic bank achievement among internationalized and non-internationalized SSA nations?
- What are the modalities of overseas banks alongside their likely effects, opportunities, and challenges on the local bank's main operations of retail, credit, and international banking in Ethiopia?

- How would overseas bank entry create opportunities and pose threats to local banks in Ethiopia?

1.4. Objectives of the study

1.4.1. General objective

The major objective is to assess the effects of overseas banks' entry on the performance of domestic banks and the economy in selected Sub-Saharan African countries.

1.4.2. Specific objectives

- Inspect the effect of overseas banks' influx on the performance of domestic banks.
- Determine the effect of overseas banks' incursion on economic growth.
- Compare the domestic bank achievement between internationalized SSA nations and Ethiopia.
- Study the influx modalities of overseas banks together with their likely effects, opportunities, and challenges on the Ethiopian domestic bank's main operations of retail, credit, and international banking.
- Identify the opportunities and threats that come along with the influx of overseas banks for domestic banks in Ethiopia.

1.5. Relevance of the inquiry

In the cases associated with abroad banks' influx, the domestic depository and non-depository financial institutions as well as the economic conditions in the destination market could benefit explicitly and circuitously. The results of this inquiry would enable regulatory bodies, domestic commercial bank CEO's, and concerned actors to exert maximum effort in creating capable domestic financial institutions in future endeavors by distinguishing the belongings of the incursion of overseas banks. What is more, the inquiry ensures the regulatory body prepares a reporting system to monitor the performances of the involved overseas banks. The proposition of this inquiry for the regulatory body and domestic financial institutions in Ethiopia could be straightforward, that is, there is a need to develop a purpose-oriented plan based on the benefits, downsides, and outcomes of overseas banks' entry to retain their position. The implication of this study also assists the Ethiopian government in understanding and developing appropriate strategies, which lessen the destructive causes of overseas banks. Generally, the study results add value to the literature, by measuring the actual effect of overseas bank penetration on the performance of domestic banks and the economy.

1.6. Scope of the inquiry

It appears that the inquiry would put theoretic, topographical, and methodological restrictions. When it comes to theoretic restriction, the inquiry could look for the things overseas firm brings into the domestic financial market as well as developing economies. From this standpoint, there is a need to estimate econometric models under two base case scenarios. To measure the effect of overseas banks' entry on the performance of domestic banks, composite gauges of proportion of net proceeds to assets (NPTA) (ROA), proportion of net earnings to equity fund (ROF) (ROE), and proportion of net earnings to aggregate revenue (NER) (NIM) could have been considered as response attributes in the first scenario, whereas, the nominal GDP per capita growth and overseas bank assets among total bank assets (%) used as explanatory variables. Moreover, in the first scenario, two bank-specific factors, that is bank non-interest income to total income and bank liquid reserves to bank asset ratio, two macroeconomic factors (real interest rate and inflation rate), and new tech dimension, that is ATMs per one hundred thousand elders is included as a control mechanism (control variable). Under scenario two, the inquiry could model and investigate the nexus between overseas banks' penetration and the economies of internationalized SSA nations during the 2005–2020 periods. For that reason, twenty-two (22) SSA nations that are opening their financial section for overseas banks is considered. This enables the study to draw up policy implications. As a consequence, both descriptive and explanatory investigative technique is employed.

1.7. Limitation of the inquiry

There is no recent data (2021 to 2024) available for the study variables from the World Bank database and other sources. Consequently, this study only focused on investigating the effects of overseas banks' entry on the performance of domestic banks and the economy in selected Sub-Saharan African countries during the period 2005-2020. Lack of shortage of reference materials is also a formidable defy. Moreover, due to a lack of information for some variables, it prohibits to use balanced sample. As a result, the number of observations included in the study varies from 352 to 252.

1.8. Thesis structure

The rest of the thesis is organized into four chapters. Together with the conceptual framework, chapter two gathers and discusses the literature that compiles and describes concerns linked to the inquiry theme. In the third chapter, the research strategy, research design, type of information and testimonial, model specification, data analysis and estimation strategy, and attribute illustration are explained. Presentations of findings are the main themes of chapter four. The study's results and strategy advice are summarized in chapter five.

Chapter two

2. Literature review

The advent of overseas banks into the domestic destination market could be raised in due course through assorted incursion techniques. This observable fact remains essential paraphernalia for the inflows of financial resources to underdeveloped nations. Market intelligence experts, economic thinkers, decision-makers, and other actors look at the affairs and a number of these breakthroughs are recapitulated in the consequent sections below.

2.1. Theoretical literature review

2.1.1. Salient notion and description

The interconnectivity of the worldwide marketplace is the incontestable truth. To this end, for the enhancement of successful cooperation, various nations across the world undertake the confiscation of restraints on the local depository and non-depository financial institutions. It appears that there are numerous researches in connection with this phenomenon were undertaken across many economies and cultures. To this effect, the notion of the exclusion of limits on the domestic depository and non-depository financial institutions progressively goes forward in due course. When it comes to specific issues, the existence of micro-prudential regulations includes, but not limited to, are interest rate ceilings, discriminating the loan and advance extended to the different sectors, and concessional financing practices.

According to Johnston and Sundararajan (2015, p.143), “financial liberalization is a combination of operational changes and policy initiatives aimed at deregulation and transforming the financial sector and its structure to establish a liberalized market-oriented system within the appropriate regulatory framework.” The repercussion is the prearranged shift of financial resources from advanced nations to underdeveloped nations causing enhancement of higher efficiency remarkably domestic financial institutions could unquestionably have positive implications in realizing the financial and non-financial targets set by these financial institutions. It also reminds us that the spreading out of the resource base of underdeveloped nations would create a new supply of loans, so the availability of adequate finance is imperative to the endowment of advances and loans for agriculture, manufacturing, and service segments of the economy.

Thriving overseas banks could be essential for the domestic administration of underdeveloped nations, as they are better positioned to offer excellent financial services and enrichment of financial inclusion strategies. In connection with this fact, the remarkable numeracy and availability of these overseas banks at the grassroots level could be an important cost-reducing gateway to rural mass at the village level, which forging an appropriate partnership. This is the intended purpose of omission of confines on the domestic depository and non-depository financial institutions is to enhance the well-organized, healthy, increased provision of financial

services that can propound higher private sector growth. In this regard, an efficient financial market can involve both superior credit allocations and would further strengthen the contest. Superior credit allocation refers to credit disbursement to corporate and retail clients by minimizing different operational costs. Full financial liberalization consists of: decentralization of the price of money, banking system independence, and deregulation of overseas capital movements (Odhiambo, 2011, p.4).

2.1.2. Effects of overseas banks influx for domestic financial institutions

The query of how overseas banks' entry influences the domestic underdeveloped financial market has fascinated by discern of university circle for more than fifty years and will keep on to be a theme of curiosity in the days to come. In connection with this viewpoint, overseas banks alleviate financial restraints; enhance access to finance, and reduce lending interest rates, in turn, improving domestic firm performance. Since overseas banks usually access large resources, that potentially improves the credit facilities of domestic depository and depository financial institutions. This may signify that the domestic economy ought to strengthen its ties with such overseas banks with high credit facilities to draw large financial resource inflows. At the time of the financial crisis, the "loan-supply" effect could be particularly important because overseas banks, which finance themselves via their parent institutions at the head offices so go on with grant loans to local financial institutions (Mucheru, 2013,p.21).

Contrary to the upbeat conceivable sway of overseas banks' incursion, the molds of overseas establishments of quality and fast credit facilities and the corresponding share of these institutions can cutthroat anxiety on the domestic financial institutions. Overseas organizations normally create difficulties for credit facilities and, on the whole, the availability of the "supply of credit" dwindles. To the extent that obtaining client exhaustive data to estimate the possible dangers, it is conceivable that overseas banks extend credit by mitigating all the associated threats. Gormley (2010, p.2-3) verified that local banks facing a worsening borrower pool reduce their credit services so that competition might deteriorate banks' access to finance. Overseas banks' influx enhances efforts to grant loans by domestic financial institutions to the agriculture, service, and industry sectors. Overseas banks further enhance the government's effort to lower the lending interest rate.

It also appears that overseas firm' penetration results in the enhancement of the administration of domestic banks, is means that it can be committed to the administration of domestic financial institutions, and the local institutions need to increase their achievement levels through introducing various financial services and promoting the existing ones via assorted incentive packages. The incursion of overseas financial institutions enhances the domestic financial institutions' manpower from different perspectives. First, overseas organizations are seeking and hiring motivated and competent managerial staff of domestic financial institutions so that knowledge and skills might transfer. More so, overseas banks supply tailored training to the staff

of the local financial institutions. It also inferred that overseas banks are providing quality manpower for local banks and contribute to build a robust banking sector by decreasing costs. One of the outcomes of overseas banks could further enhance the domestic financial institutions micro-prudential rules (Hermes and Lensink, 2004. P.3 & 4). This would mean that overseas banks requiring superior directives from the destination market. This implies that the local financial institution needs to increase its performance. Similarly, overseas bank entry could reduce the government role in the depository and non-depository financial institutions activities, which results in the removal of micro-prudential regulations.

2.1.3. The nexus between overseas bank penetration and economic growth

Regarding the causes of overseas banks' entry for the economy, it brings both harmful and encouraging outcomes. In connection with this, Bruno and Hauswald (2014) promulgated that overseas banks' entry enhances the economic growth of both advanced and underdeveloped nations by simplifying financial precincts. This showed that overseas firm incursion would have positive repercussions for the destination nations, especially for underdeveloped nations. In the short to medium term, the lure of high-quality overseas investments continues a critical factor. Overseas investments may also be another source of finance for local banks. Overseas banks' entry in advanced nations will continue to be the leading cause to enhance economic advancement and alleviate domestic banks performances. On the whole, overseas firm incursion can commonly be considered a contributory factor in pouring the expected economic advancement for the destination nation. The fact that abroad banks are the most productive form means that they can enhance the economic advancement of the nation by injecting financial resources, promoting professional lending practices, and mitigating financial danger.

According to Berger et al. (2005) although small and medium-scale businesses generate employment prospects, particularly in agricultural, industrial, and service sectors, overseas firm incursion offers finance for a few high-value borrowers. From this, it can be confirmed that overseas banks' entry ignores small-scale business and is not the driving cause for the economic advancement of the underdeveloped nation. The high difference in information imbalance between overseas and domestic banks would imply the harsh disparity in financing trends of both banks. This may be attributed to, overseas banks financing high-net-worth borrowers, and reducing its impact on the economic activities of underdeveloped nations.

2.1.4. Influx approaches of overseas banks

An indulgent overseas firm incursion forms into different nations is imperative to devise suitable deliberate responses. Overseas banks spread aims at market share and productivity at the same time, which depends noticeably on various factors. Particularly, the productivity of overseas banks in the destination local market seems a crucial issue for shaping the incursion types. With that in mind, various styles of overseas banks' entry could be considered, together with complete

acquisition, a coalition among domestic institutions, and embattled acquisition of strategic actions. Expanding accessibility of the overseas banks through variety of channels at first aims supporting domestic financial institutions clients through overseas operations. As a result of these efforts, raising the lenient of the overseas souk and comprehensive interactions along with domestic banks, various overseas banks later augmented their activities via including domestic clients. By doing this, overseas banks may initially open representative offices. Later, they could open ancillary and branch banking (Inwon, 2004).

i. Agent administrative center

One of the overseas banks' entry mechanisms into the destination marketplace is through the opening of an agent administrative center. These centers are believed to provide prospects for agreement through the mother depository institutions and for their customers about extensive business that relies on overseas trade. More notably, these agents can easily create linkages among domestic financial institutions where their mother institution does not operate, which has immense repercussions for overseas banks with less presence and less spending in different parts of the destination market. For the domestic financial system environments, it is expected that the activities of the agent administrative center are very limited. The perception is that this has been exploited by overseas nations to reach out potential financial and non-financial resources. Beck et al., (2014) noted that heedless of the various stumbling blocks to the Ethiopian financial market exerting concerted efforts through operating agent administrative centers is a fundamental device to the advent of overseas banks. In connection with this, in Ethiopia, so many overseas financial institutions currently unlock agent administrative centers.

ii. Overseas ancillary vs. branch banking

Any overseas branch opening in the destination marketplace is superior to alternative incursion method (ancillary and agent administrative centers) and could be ascertained that other options cannot satisfy the demand for financial services by clients' exquisitely. Overseas branch banking generally engaged in wide-ranging depository financial institutions operations. In areas where the overseas banks want to deliver financial services for few high value corporate customers but with proven resource potential, opening branch banking that would be linked with the nearest overseas division of the destination marketplace would be appropriate. Contrariwise, Beck et al., (2014) confirmed that ancillaries could be thought of as providing comprehensive basic banking services like account opening, deposit taking, cash payments, and accepting credit applications, as required that would subsequently be sent to the parent bank. To this effect, ancillary could create autonomous corporate governance, CEOs, different committees, and subcommittees as more appropriate. This explains that a well-designed operational guideline is needed on the financial resources required, human resources, and other standard issues regarding the opening and operation of ancillary.

iii. Joint venture and alliance

The other major tools implemented by overseas banks to enhance accessibility are joint ventures and cohort links. The joint venture is another entry strategy used for delivering financial services on the domestic financial market without relying on overseas bank branches and ancillary (Inwon, 2004). While the strategy may complement an existing domestic depository institution bank branch network for giving customers a broader range of financial services, joint venture arrangements can also enhance the management of the domestic financial institutions. The joint ventures have attracted great interest from both overseas and domestic banks' sides for different reasons. For overseas banks, the joint ventures arrangements not only choices for their domestic financial institutions but also greatly diminish the cost of delivering financial services. For domestic banks, it boosts their capability. Though alliance and joint venture alike, alliance allows a company to guide another company to innovate new financial services, research and development (R & D), enhancing the promotional practices, etc.

2.1.5. Antecedents of overseas banks entry technique

Overseas and destination nation-specific activities that reinforce or hinder each other verify the incursion techniques of overseas banks and depository institutions. From the target nation's side, they include and consider directive, resource potential, and the economic advancement of the nation, and political instability. From the overseas nation's side, they include the magnitude of the depository institutions, incident with globalization, pursue the client. The combinations of these actions were decided by the overseas banks' incursion techniques.

2.1.5.1. Destination nation causes

i. Directive

Above all, the destination nation regulatory body directives are likely to have large contributions to overseas banks' incursion. Regulation (directive) implies and predicts that the total cost depends upon rules on location selection (Rupprecht, 2008). The cornerstone for overseas banks' influx is directives in the destination nation and engagement in setting minimum capital necessity. Considering the tendency of the regulatory body to limit the activities of the banking operations through various directives, these actions of the regulatory body may lead to cowardly lines of overseas influx. The implication is that directive is fundamental instruments for overseas banks' entry into the destination nation. Given that, various directives at the destination nation should be reexamined to account for increasing overseas banks' contribution. There is also a need to use incentives such as tax holidays and others at the destination nation.

ii. Resource potential of the destination nation

Depository financial institutions' roles, through accepting deposits from surplus holders and disbursing loans to those with deficits, result in making a profit and maximizing stakeholders' values. In line with this, per unit of population coupled with the magnitude of the commercial system within the context of the destination nation determined the overseas banks' influx choices. This suggests that one of the main driving factors for overseas incursion is the resource potential of the destination nation. Where the resource potential would not permit for overseas banks' entry, which is under the screening phase, ignoring that destination market could be a better option. The resource potential also decides the incursion type. This would imply the high resource potential at the destination nation, joining under branch banking method seems to be the most viable options for overseas banks. If the resource potential is less, amalgamation through other type of entry such as alliance and joint venture seems to be the most feasible alternatives (Hryckiewicz and Kowalewski, 2008).

iii. Political instability

Political instability is a risk of fatalities that arise from a collapse of overseeing establishments, carelessness in carrying out business and congregation contractual requirements, and puny domestic and peripheral institutional situations along with official peril whereby depository financial institutions are incapable of imposing their deals. Mitigating those perils is imperative for the destination nation to draw more overseas resources.

2.1.5.2. Drivers of overseas banks in home nations

From the overseas nation's perspective, it's useful to look more closely at different causes or factors to have a meaningful understanding of their likely impact on the level and style of overseas incursion thereof.

i. Magnitude

The level of the depository financial institutions is crucial causes to ensuring the proper overseas banks spread out across the world. Considering competent manpower, peril, and solvency measures, big-sized overseas banks are more productive, and less costly than small-sized banks. This corroborates that big-sized international depository institution because of average cost per unit plunges as their level is improved. These include the need for a branch network, building a trusted brand, and admittance to large financial resources (Stein, 2002). The implication is that clients benefited from the existence of large depository financial institutions and the accompanying economies of scale. This enables big-sized overseas banks to provide services at lower cost to the convenience of customers, whilst also delivering a sustainable return to investors.

ii. The knowledge of overseas banks

The knowledge of overseas banks in the worldwide arena is the driving or restraining reason, which provides future directions to spend in the overseas marketplace. With inadequate international knowledge, it is difficult to effectively sell banking services in a multifaceted and unstable market. It is imperative to understand marketing strategy, the interrelation of the worldwide marketplace, how banking services should and can be used, and what products work well together in the international arena. The penetration of experienced overseas banks reduces all the challenges faced in the overseas marketplace.

iii. “Follow the customer”

Among others, to follow the customers, and expand their customer base, overseas banks could connect to the destination market (Wezel, 2004). In this point of view, the overseas banks recognized the role of clients and the need to work towards their satisfaction. It also promises to deliver fast and quality service with better accessibility in a way that addresses their specific demand. Enhanced accessibility is to be supported by effective and efficient customer service by deploying appropriate technology to improve customer experience.

2.1.6. The value of foreign banks influx

Gormley (2010) proved that overseas firm incursion results in launching demand-based financial services rather than forcing individuals to use conventional products. These actions have been implemented routinely and are believed to have immensely contributed to the domestic banks since the managers of local banks may adapt these new products and knowledge to enhance their retail, credit, and international banking operations (Gormley, 2010). Overseas banks have also improved the administration of local financial institutions. Here, it implies that overseas bank influx leads to administrative enhancement and competence of domestic banks. Overseas bank influx has been considered to affect the growth, and advancement in the regulation, and legal structure of the local banks (Kalluru and Bhat, 2009). According to Kalluru and Bhat (2009) this relates to the extent to which overseas banks could insist regulatory bodies to enhance the financial system infrastructure as a condition for influx. Gormely (2010) also vowed that the influx of overseas banks’ improve the domestic financial system via introducing innovative banking products and techniques. With respect to local financial system enrichment, overseas banks’ incursion enhances accessibility through a variety of E-Banking service channels such as cellular phones, computerized bank cashiers, and the Internet. These electronic services are believed to reduce the need for carrying cash and create financial resources available everywhere at any time. As a result of this amazing effort, the cash kept in depository financial institutions is obtainable as the cash in the client pouch. This would in due course remain the cash at depository financial institutions for a fairly longer time than if there were no such services. Apprehending

this phenomenon, the local financial institutions adopted these services to enhance their accessibility via branchless channels. Claessens et al., (2017) stated that overseas banks, as they appear in both the host and home nation, can state agreement transaction on both parts of the operations together with these enhances the integrity of payment.

2.1.7. Complication of entry of foreign entry

The required shift of new financial services and immense practice from a domicile nation to a conformist and unceremonious financial market remarkably underdeveloped nation would have positive connotations in enhancing the efficacy and capability of domestic banks. It could be distinguished also that abroad depository financial institutions will grant loan services to high-value borrowers so that domestic financial institutions extend loan services to low-value borrowers, leading to uncollectable advances and loans soaring. As a result of these undeniable facts, domestic financial institutions could provide more finance for the different sectors such as agriculture, industry, service, etc to enhance their efficiency, in order for the rise in write-offs and the fall in revenue. Degrys et al., (2012) disclosed that an out-of-town overseas firm that hinders the activities of domestic financial institutions, thereby limiting the expansion and profitability, is an additional restraining cause for domestic banks in Poland from 1996 to 2006. The implication is that overseas banks serve few high-net-worth borrowers, while domestic banks are obliged to serve low-value borrowers, which results in the deterioration of their assets.

It appears that the tension between overseas banks' domination and improving the domestic bank's services and working procedures would imply the exclusion of the impending outcomes. Whenever the performance gap between overseas and domestic banks is higher, the drawback is exhibited more vividly. Understanding this fierce competition helps to protect domestic depository financial institutions from bankruptcy. Additionally, overseas banks are less sensitive to the underdeveloped nation's policy of maintaining price and exchange rate stability, but domestic banks would not behave like that, indicating the need for crafting other alternative policies to further enhance economic advancement which the financial market has an indispensable role to play. During a financial crisis, parents are weak and overseas banks could be more likely to transfer their financial resources to more attractive markets. Correspondingly, the side effects of overseas banks could be influenced by two related factors. These are: (i) the influx of abroad banks' create a complete financial predicament. For that reason, it is important to create a win-win situation for domestic banks (in terms of neutralizing the risk) and abroad banks (in terms of maximizing earnings) (ii) the "engrave and scamper" approach of overseas banks (Song, 2004).

One of the key factors alongside premature market incursion to overseas banks is domestic banks would bear financial threats instead of augmenting competition. Such depository institutions' inability could have adverse reactions on other financial institutions and might probably jeopardize stability in the banking system. If domestic depository institutions make up the "file

to bankruptcy” group and hence need some favors, restraining competition from overseas banks influx needs to be given due attention.

2.2. Empirical Evidence

Entry of foreign banks entry in Kenya involved both acquiring domestic banks and getting a license to work as a partner bank of overseas banks. Pino and Ukaegbu (2014) indicated that overseas firm uses up-to-date financial technologies in the global market to which the local banks can resort to buying them to minimize expenses, create better conveniences for clients, and boost revenue. The repercussion is that overseas banks’ influx ensures local banks build their capacity to respond to the client’s needs, allowing them to enhance customer service delivery, and augment their effectiveness and productivity. Through these efforts, overseas banks influx in Kenya results in the enhancement of profitability and productivity of local banks.

The scheme to liberalize part of the government-owned depository institutions in Ghana and the deregulations of the financial sectors resulted in the entry of several overseas banks into the financial system, along with a rise in the amount of local financial institutions. Aminarh (2015, p.30 & 31) confirmed overseas firm’s incursion brings added advantages and/or formidable challenges for domestic banks. The implication is that the expansion of overseas banks allows domestic depository financial institutions to adopt new less costly service channels with significant connotation for operational excellence strategy. In opposition, the overseas firm launched new services which helped to recruit more clients, thus local banks with a limited range of banking products failed to do so. The fact is that after overseas banks’ entry in Ghana, the majority of domestic banks are bankrupt.

Khamphoumy (2022) stated that overseas banks’ incursion adversely affects the efficiency and effectiveness of the local depository financial institutions by deteriorating the loan portfolio mix in turn profitability. Additionally, overseas firm influx can generally be deemed as an opposing factor in driving the expected economic growth in underdeveloped nations. On the contrary, Kidwell et al. (2016) propounded that overseas firm influx through providing various banking services at lower prices, which help to enhance competition. This is a fundamental factor which would positively affect the performance and efficiency of domestic bank. Yin (2019) identified that the presence of overseas banks that enable the destination nation banks to get new banking technologies, new expertise, and new ways of doing business, thus improving their service quality. In addition to this, Yin et al. (2020) predicted that overseas banks influx improves the performance of both local and overseas banks in underdeveloped economies as compared to advanced economies.

Abeka (2022) in SSA disclosed through the continued innermost incursion of overseas firm expansion, which would enable enhanced stability in the destination market. In line with this, improved competition in the host country would result in efficiency, better managerial capability

as well as better performance. Similarly, Ally (2022) in Tanzania found that the efficiency of overseas banks is higher in the destination market as compared to domestic banks. The findings show that the provision of banking services by overseas banks through better technology, experienced staff, and advanced marketing strategy improves banks' profitability. Pataccini (2020) in Baltic counties found that the achievements made by overseas banks in economic development, financial sector stability, and capitalization are significant, but would boost external shocks.

Memon et al. (2021) verified that overseas banks provide customer service through electronic banking like ATMs, which enables them to reach out to more customers and improve inclusive financial service accessibility. The possible clarification here is that overseas banks provide quality service as compared to domestic financial institutions. On the contrary, Kebede et al. (2021) in Africa found that with the absence of institutional quality overseas banks entry results in low inclusive financial service accessibility. More so, in connection with credit facilities, Leon and Zins (2020) conducted a study in Africa and proved that overseas banks' influx enhance credit access in the destination market. This empirical result would have positive implications in increasing demand for credit facilities; potential borrowers could choose overseas banks instead of domestic banks to access credit. Hou (2023) showed that overseas bank penetration encourages financial efficiency and stability, but it discourages financial access as well as financial depth. Kusi et al. (2021) in SSA countries noted that the expansion of overseas banks focused on providing quality banking services through physical branches in addition to the provision of trans-border loans so as to improve the economies of the region.

Bezabeh and Desta (2014 p.34) identified that if the Ethiopian government opens the financial sector for overseas banks, these banks will focus on providing services only for a few selected potential customers including borrowers, depositors, importers, and exporters. The likely explanation here is that the domestic bank was forced to provide services for low-value customers. This clearly shows that the performance of domestic banks was negatively impacted. Mekonnen (2017) in Ethiopia investigated the likely effects of liberalizing the country's banking system for overseas banks, and the result indicated that overseas bank's influx would likely boost economic growth and lessen costs. Huraira (2017) analyzed the possible outcomes of liberalizing the Ethiopian financial sector and predicted that overseas banks' influx has a positive influence on credit availability, economic advancement, and cost minimization strategy. The study result also shows there is a need to enhance the central bank's capability to mitigate the possible financial crisis in connection with overseas banks' influx.

2.3. Research gap

Both the theoretical and empirical reviews provide important insights into the effects of overseas banks' entry on domestic banks and developing economies. In this aspect, compared to the previous similar studies, this inquiry differs in the following manner. Initially, most of the previous studies conducted on this topic overlooked the effects of the influx modalities of overseas banks on domestic banking operations in general and credit, retail, and international banking in particular. Consequently, this inquiry recognizes this issue and examines whether overseas banks' modality strategies affect domestic banking operations. Second, the methodology employed in most of the prior studies involves the use of only one data source as the primary or secondary source. However, the methodology employed in conducting this study involves the use of both primary and secondary data sources. This type of tactic helps to create synergy between different data sources to ensure better results in identifying the effects of overseas banks' entry on the domestic bank performance and the economy. Third, there is also a notable difference between this inquiry and other similar studies on measuring bank performance. In line with this, most of the previous research employed a single measure of bank performance (ROA or ROE or NIM), but, this inquiry could consider a composite index. Hence, a composite index to be better with regard to comprehensiveness and simplicity. Finally, yet importantly, unlike most of the prior studies on the area, this inquiry could include relatively recent years, thus having a meaningful understanding of the current phenomenon and dynamics.

2.4. Conceptual framework

There is a need to develop an appropriate conceptual framework in such a way that creates linkage among various inquiry dimensions. On this matter, the following diagram is designed.

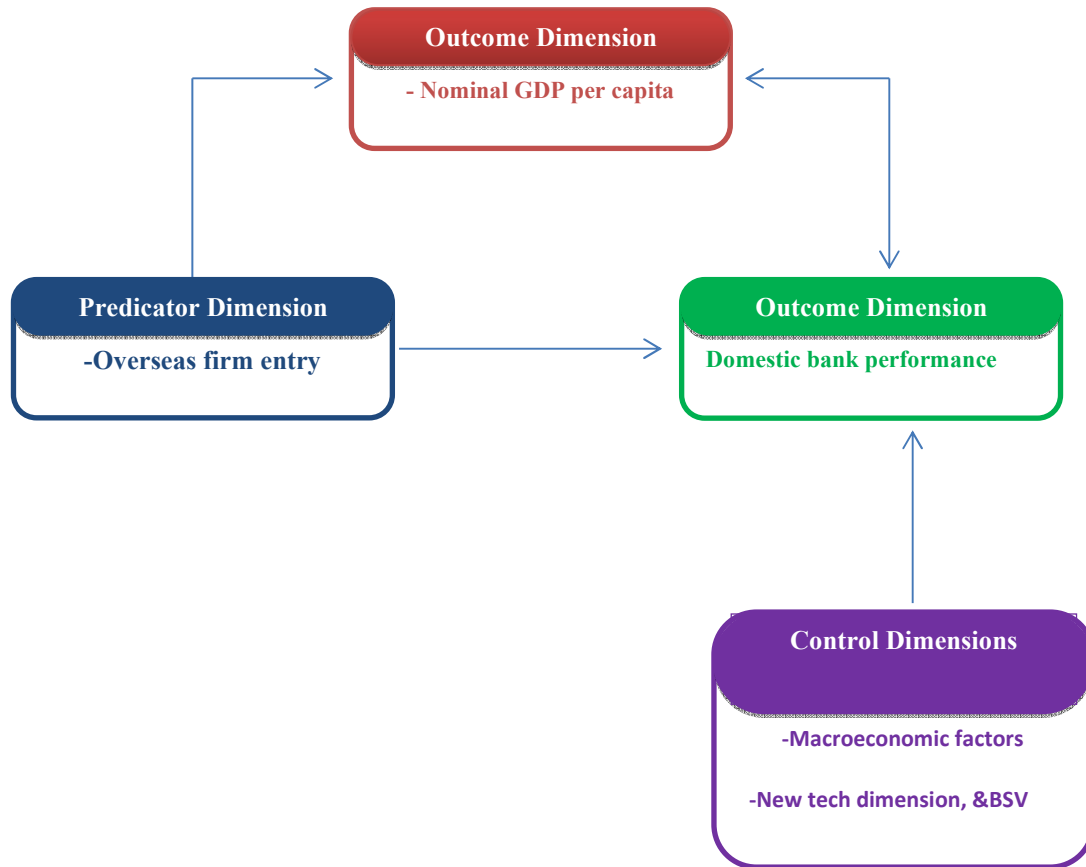


Figure- 1: Conceptual framework, 2024

Chapter three

3. Methodology and approach

3.1. Research strategy

This research was undertaken to inspect the effects of overseas banks' influx on domestic banks' performance and developing economies. Assorted strategy or both quantitative and qualitative strategies remain a key tactic to realize the above-mentioned goal(s). With the intention to build up an imaginary outline, at first this tactic proposes premise, which help the researcher to verify aligned with information. It is necessary for any research, to adopt suitable strategy to enhance effectiveness. From this, it appears that this research visualized executing quantitative research tactics. Bryman and Bell (2015) showed that quantitative research tactics is a type of research approach, which is used to test theories or postulates by studying the causal link among diverse outcome and predictor dimensions. It also turns out that, in this inquiry, qualitative strategies were used to identify and describe the respondents' perceptions of the opportunities and threats that come along with the influx of overseas banks. Qualitative research tactics have also been employed with the objective of assessing the influx strategies of overseas banks and their likely effects on the performance of domestic banks.

3.2. Research design

Research design explicates the blueprint of the examination, which in turn verifies the assortment of the required facts. This advocates that the researcher should devise a viable scheme that helps it to perform data analysis by using diverse records such as secondary data sources so that the specified goal is realized. It appears that paying utmost consideration to suitable research design seems a wise strategic decision. The executed research design was also critical in checking the set propositions. Overseas banks' entry conveys both opportunities and threats for local banks. Both opportunities and threats could also be investigated and identified so that concerned domestic bank stakeholders can harvest the benefits that come with opportunities and take remedial measures to mitigate the threat posed by the challenges. Consequently, the descriptive research technique is also utilized. Overall, this inquiry employed both explanatory and descriptive research techniques.

3.3. Type of information and testimonial

Already accessible facts (secondary data) as well as primary data were applied in the course of this study. In this sense, twenty-two (22) Sub-Saharan countries were chosen which have already opened their financial section for overseas investment. Those twenty-two countries have been taken as samples to compare, simplify, and benchmark the study activity between 2005 and 2020. On this matter, there is a need to congregate facts on overseas banks' entry, bank performance, economic conditions, e-payment services, and bank-specific factors from both World Bank global financial development and world development indicators catalogs. For this

purpose, an unbalanced panel is employed to conduct analysis. Similarly, to capture the likely difference in the establishment, primary data was gathered through key respondents from thirty-two (32) domestic banking companies in Ethiopia. Therefore, this study also interviewed respondents (Director- Strategy department or equivalent job positions) from these banks through key informant interviews.

3.4. Model specification

3.4.1. Theoretical Model

There is a need to choose a suitable theoretical representation to identify the effect of overseas banks' entry on domestic banks' performance and developing economies. In an attempt to explain this issue, the study adopted the theoretical model proposed by Uiboupin (2004). In the short run, domestic banks could consider many factors to maximize profit and maintain their market share. Overseas bank entry can be considered as one of the driving factors to justify this phenomenon.

Concomitantly, the one-time period model is employed to identify the short-term consequences of overseas bank entry. Overseas bank market share (FS_0) at t_0 is assumed to be $0 \leq FS_0 < 1$. At the initial period, foreign banks' share is assumed to have less than 100%. At t_0 , consider the profit maximization strategy exogenously determined from the prior period to realize Π_0 . By incorporating the necessary costs and incomes, a bank's profit function can be estimated as.

$$\Pi_i = nii + ooi - oh - llp$$

Where in; nii =net interest revenue, ooi =non-interest revenue, oh =overhead costs, and llp =loan loss conditions

The overseas bank now entered the destination nation, and its projected share is the difference between FS_1 and FS_0 . The possible explanations for overseas banks' entry include but are not limited to following the customer, size, and mobilizing resources. For these reasons, overseas banks' entry affects the banking industry in the destination nation and accordingly, both overseas and local bank adjust their strategies as per the changing environment in the industry. Consequently, the t_1 profit condition of the local banks significantly differs as compared to the t_0 profit conditions. Macroeconomic conditions also alter banks' profitability. The following figure describes these relationships.

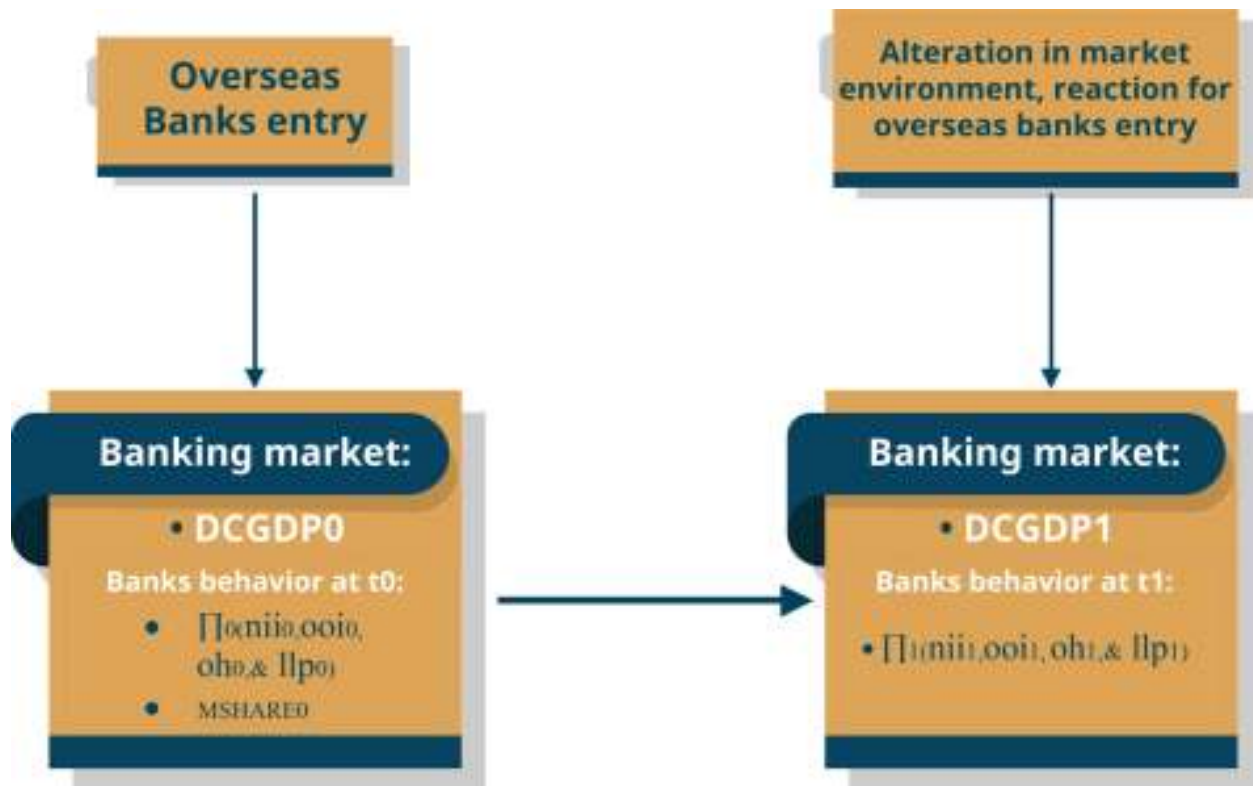


Figure 2:- Theoretical Model: Adopted from Uiboupin, 2004

Note: - Π =profit, DCGDP= domestic private credit to the gross domestic product, and MSHARE= market share

3.4.2. Empirical Model Specification

This part of the study presented the empirical model to analyze whether overseas banks' entry influences the performance of domestic banks and developing economies. In panel data, there is significant volatility in connection with the source and effect relationship among various phenomena across time. This requires the use of internal instruments or lags of the outcome variable as an independent variable to capture this dynamic relationship over time and to enhance the endogenous relationship.

Subsequently, the dynamic panel data estimation technique that is system GMM representation seems to be appropriate. The analysis is performed using this econometric model by taking into account the works of Blundell and Bond (1998). In this regard, it could be indicated that the difference GMM would create potential data loss if the dimension's current value is not available; as a result, Blundell and Bond (1998) suggested the improved version of the system GMM. Consequently, the difference GMM could make and expand gaps in the unbalanced panels. To solve this problem, unlike the difference GMM which deducts the prior observations of a given dimension from the current value, the system GMM deducts the mean of all future existing observations of a particular dimension, which is expected to avoid substantial data loss

(Roodman, 2009, p.86). More so, the system GMM permits to use of more instruments, which enhances efficiency in the parameter estimates as compared to difference GMM estimators. The empiric representation would be approximate after all necessary checking could be accomplished. In connection with this, Blundell and Bond (1998) dynamic regression equation could be employed. The econometrics model is specified below.

$$Y_{i,t} = \alpha_0 Y_{i,t-1} + \alpha_1 X_{i,t} + K_i + \varepsilon_{i,t} \dots \dots \dots (3.1)$$

Where: $-Y_{i,t}$ =outcome variable,

$Y_{i,t-1}$ =one lag of the outcome dimension,

$X_{i,t}$ =the vector of explanatory dimensions,

K_i =unobserved country specific effect,

$\varepsilon_{i,t}$ =the disturbance term, and

α_0 and α_1 are coefficients. In addition to this, i and t represent country and time, respectively.

It is generally considered that the GMM model gives consistent findings even if unobserved heterogeneity, dynamic endogeneity, and simultaneity exist (Wintoki et al., 2012, p.588). Coupled with the main explanatory variables, this study selected some variables that are thought in both theoretical and pieces of literature to have a linkage with domestic bank performance and controlled the significant influence of these variables. So, the outcome variable is bank performance. The explanatory variables are both foreign bank penetration and economic performance. Thus, to capture the possible dynamics in economic performance it is worthwhile to include the previous year's nominal GDP per capita, as an explanatory variable. This is thus to check the outcomes of overseas banks' incursion and economic growth on the performance of domestic banks, through controlling the effects of the number of ATMs per one hundred thousand elders, non-interest revenue to total revenue, bank liquid reserves to bank assets ratio, an actual interest rate, and consumer price index, the empirical model is estimated by expanding and adapting the dynamic regression model, which is specified in equation (3.1). Thus, the following baseline econometrics model is estimated.

$$\begin{aligned} \text{Log}(N_{i,t}) = & M_0 + M_1 \log(N_{i,t-1}) \\ & + M_2 \log(\text{OFI}_{i,t}) + M_3 \log(Y_{i,t-1}) + M_4 \log(\text{BSV}_{i,t}) + M_5 \log(\text{NT}_{i,t}) \\ & + M_6 \log(\text{MA}_{i,t}) + \eta_i + \varepsilon_{i,t} \dots \dots \dots (3.2) \end{aligned}$$

Wherein: $-N_{i,t}$ = **bank performance**, which is a composite gauge of the proportion of net proceeds to assets (NPTA) (ROA), proportion of net earnings to equity fund (ROF) (ROE), and proportion of net earnings to aggregate revenue (NER) (NIM). To build the composite bank performance index, the computations and steps followed are presented in Appendix 3. Both

return-on-assets and return-on-equity the before values were used to eliminate differences in taxation among different countries.

$N_{i,t-1}$ =bank performance at t-1;

$Y_{i,t-1}$ = Nominal GDP per capita at t-1; and $MA_{i,t}$ = macroeconomic factors, comprises real interest rate (RIR) and consumer price index (CPI). Economic conditions are expected to influence bank performance. Correspondingly, economic growth, cost-of-living index, interest rates, and credit cycle determine bank profitability and found that these factors have a positive effect on the performance of commercial banks (Wilson, 2012; Lipunga, 2014; Fredrick, 2015). This entails that economic expansion enables banks to reach out its customers through various products and services, in turn to boost profitability. In contrary, economic depressions negatively affect the loan collection efforts of commercial banks, implying lower profitability (Lee and Kim, 2013). Consequently, in this study, to obtain accurate findings, a macroeconomic factor that is cost-of-living index and real interest rate used as control variables and the previous year's nominal GDP per capita is used as explanatory variable;

$OFI_{i,t}$ = overseas firm incursion, measured by overseas banks' assets among aggregate bank asset (FBA). Foreign bank penetration affects domestic bank performance. In association with this, Manlagnit (2011) indicated overseas banks penetration improves the performances of domestic bank. In contrast, in an underdeveloped financial market, Hermes and Lensink (2004) showed that overseas banks penetration is found to have negative influence on the domestic bank performance. Therefore, overseas banks incursion is included as an explanatory variable;

$BSV_{i,t}$ =bank specific variables, which would include non-interest revenue to total revenue (income) (NIRR) and bank liquid reserves to bank assets ratio (BLRA). Bank performance is also influenced by these bank-specific factors. Accordingly, the nexus between a bank's profitability and non-interest revenue to total revenue shows a positive relationship (Nessibi, 2016). This shows that non-interest income such as different charges collected from trade service operations, retail banking operations, and e-payment services improves the performance of domestic bank. The level of bank liquidity is also one of the major dimensions that alter bank profitability (Holmstrom and Tirole, 2010). In this context, Francis (2013) disclosed that domestic bank's performance is positively determined by bank liquid reserve to bank asset ratio. This indicates that it is worthwhile to incorporate these bank specific variables as control mechanisms to get unskewed results;

$NT_{i,t}$ =new technology dimension, which is measured by the number of ATMs per one hundred thousand elders. Electronic banking services (new technology dimensions) are an alternative service channel strategy employed by banks for providing quality services without relying on physical branches. This indicates that electronic payment system determines banks' profitability. Nijogu (2019) checked whether electronic banking services such as ATMs per 100,000 adults

affects the performance of banks or not. The study confirmed that e-payment services positively and significantly affect banks' efficiency in Kenya. This clearly shows that the adoption of e-payment services enhances the domestic banks' performance by reducing banks' costs significantly. It is, therefore, important to control the effects of number of ATMs per one hundred thousand elders to avoid bias;

M1 to M6 are coefficients;

ei,t is the disturbance term of the model; and

ηi refers to unobserved country-specific effect. Finally, **i** represent each SSA country, and **t** is time in year.

It also appears that overseas bank penetration is the pouring component for economies of nations. As noted above, determining the outcome of overseas bank penetration on economic performance in SSA countries is one of the objectives this study tries to address. To that effect, to verify this objective, it is imperative to benchmark the endogenous development model (AK model), which was developed by Rebelo (1991) and others. Correspondingly, King and Levine (1993) stated that the correlation between real income, investment, and financial development is positive.

Subsequently, to scrutinize the role of overseas banks' entry into developing economies, the AK model is considered. The model is presented as follows.

$$Y_t = AK_t^\alpha \dots\dots\dots (3.3)$$

Where: Y_t = total output at time t;

K_t =investment at time t: and

A =total factor productivity growth

As the study discussed earlier, overseas banks' entry alleviates financial restraints; enhances access to funds, and reduces lending interest rates, in turn improving the domestic bank's performance and economies. Theoretically, total factor productivity growth features including modern technology are believed to affect the efficiency of the commercial system. Consequently, the following Bayraktar and Wang (2008) equation are adopted.

$$A = F(GS, IR, GDPPC, TOP, LF, FBS, BC, BD, BI, BS) \dots\dots\dots (3.4)$$

Inserting equation (3.4) into equation (3.3), to get;

$$Y_t = K_t^{b1} GS_t^{b2} IR_t^{b3} GDPPC_t^{b4} TOP_t^{b5} LF_t^{b6} FBS_t^{b7} BC_t^{b8} BD_t^{b9} BI_t^{b10} BS_t^{b11} \dots\dots\dots (3.5)$$

Consequently, to estimate the effect of overseas bank entry on developing economies by taking the logarithm of equation (3.5), the following econometrics model is specified.

$$\begin{aligned} \text{Log}(Y_i, t) = & b_0 + b_1 \log(K_i, t) + b_2 \log(GS_i, t) + b_3 \log(IR_i, t) + b_4 \log(GDPPC_i, t) \\ & + b_5 \log(TOP_i, t) + b_6 \log(LF_i, t) + b_7 \log(FBS_i, t) + b_8 \log(BC_i, t) \\ & + b_9 \log(BD_i, t) + b_{10} \log(BL_i, t) + b_{11} \log(BS_i, t) + \mu_i \\ & + \varepsilon_{i, t} \dots \dots \dots (3.6) \end{aligned}$$

There is a need to customize or adapt the econometric model presented in equation (3.6) to realize the purpose of the study. In this regard, economic performance, measured by the nominal GDP per capita, is used as the dependent variable. The independent variables include overseas bank assets among total bank assets (%), the previous year's nominal GDP per capita, bank efficiency (bank performance), bank competition, and bank depth. To apprehend the possible dynamism in bank performance (bank efficiency), the previous year's bank efficiency (bank performance) is included in the estimated model. Moreover, the control variables involve capital formation, government expenditure on education, consumer price index (CPI), trade openness, labor force participation rate, banking sector stability, and the first GDP pc (can be expressed in current United States dollars). Taking into account these facts, the study estimates the following main baseline econometrics model.

$$\begin{aligned} \text{Log}(Y_i, t) = & b_0 + b_1 \text{Log}(Y_i, t-1) + b_2 \log(BL_i, t-1) + b_3 \log(FBS_i, t) + b_4 \log(BC_i, t) \\ & + b_5 \log(BD_i, t) + \sum_{p=1}^p s_p \log(\text{control variables})_{p, i, t} + \mu_i \\ & + \varepsilon_{i, t} \dots \dots \dots (3.7) \end{aligned}$$

I. Dependent and explanatory variables

Following equation (3.7), it is believed that economic performance (outcome variable) would be influenced by different explanatory variables. As a consequence, the outcome and explanatory variables and their description are the following.

Y_{i,t}= GDP per capita. It refers to the gross national product divided by midyear inhabitants. The information is expressed in U.S. dollars;

Y_{i,t-1}=GDP per capita at t-1;

BL_{i,t-1}= bank efficiency (bank performance) at t-1, bank efficiency (bank performance), which is a composite gauge of the proportion of net proceeds to assets (NPTA) (ROA), proportion of net earnings to equity fund (ROF) (ROE), and proportion of net earnings to aggregate revenue (NER) (NIM) (see Appendix 3). Domestic bank efficiency (domestic bank performance) has been considered to affect economic growth positively by mitigating risks and absorbing shocks. Bank efficiency (bank performance) is measured by various indicators. Such measures include ROA, ROE, and NIM (Khrawish, 2011, Qin and Dickson, 2012, and Flamini et al., 2009). Thus, Alev (2018) in Turkish found that economic growth positively depends on bank profitability indicators such as ROA and ROE;

FBSi,t=Overseas bank asset among total bank asset (%). A bank is said to be foreign, its ownership accounted for about more than 51% of the total bank capital (Wu et al., 2007). Overseas bank asset share is generally believed to have a direct relationship with economic performance. Thus, overseas bank penetration, which is expected to improve the financial system of the destination nation, can create a fertile ground for economic enlargement;

BCi,t=bank competition, measured by percentage of bank concentration. Bank concentration can be defined as assets held by the three largest banks; high asset concentration would lead to lower competition and vice versa. In connection to this, according to Fungacova et al. (2017), lower bank completion lessens the lending interest rate; hence enhancing access to finance that promotes economic growth; and

BDi,t=bank depth, measured by the proportion of banking credit for the private enterprise to GDP. This refers to financial services such as loans, acquires of non-asset pledges, trade receivables, and related services offered to the private enterprise by a depository financial institution. Economic growth is positively influenced by private sector credit, while the square of private sector credit negatively affects economic growth (Arcand et al., 2015).

II. Control variables

In addition to the above outcome and explanatory variables, in equation (3.7), seven controlling mechanisms are included, which would be embodied in sigma notation. The description of these variables is given as follows.

Apportion of gross fixed capital formation to GDP. Gross fixed capital is the expenditure on GDP and includes land improvements; plant, machinery, and equipment purchases; construction of roads, railways, schools, offices, hospitals, private residential, dwellings, and commercial and industrial buildings. Therefore, according to the endogenous and neoclassical growth theory, investment in gross fixed capital enhances economic performance.

Government expenditure on education to GDP. It refers to government spending on schooling, mainly comprising current, assets, and donations and expressed as a proportion of GDP. It includes expenses supported by donations from overseas sources to the government (local, regional, and central). Investment in education in developing countries like SSA can continue to be the leading cause to enhance economic growth;

Consumer price index (CPI). It refers to a rise in the price of a basket of commodities and services, which can be fixed or changed over a given period, usually every year. Depending on the levels of the CPI, the rise in the price of commodities and services is negatively or positively associated with economic growth. Thus, According to Hasanov (2010), the inflation rate was found to adversely impact economic performance when the rate exceeds 13%, but positively influences economic growth when the rate is lower than 13%;

Trade to GDP ratio, which measures trade openness. It refers to the amount of exports and imports of goods and services, measured as a share of gross domestic product. Trade openness would benefit domestic trade, import, and export business with a positive spillover effect on the economy;

Labor force participation rate (ages 15 and older). The workforce participation rate is the segments of the labor force ages 15 and older that can participate in the making of outputs to satisfy consumer demands over a given period. This segment of the labor force is negatively or positively related to economic growth. The one who is the productive labor force positively correlated with economic growth. In contrast, economic growth negatively depends on an unproductive labor force;

Banking sector stability, measured by bank Z-score (see the measurement in attribute illustration section). This indicator measures the fender of a country's banking sector (capitalization and return) as compared to the volatility of the yields. Banking stability was found to have a positive effect on economic growth (Kupiec and Ramirez, 2013). There is also a need to include banking sector stability indicators as control mechanisms, which would enable to precisely predict the association between the outcome variable and the various explanatory variables;

The initial GDP per capita. It refers to variables that describe the first value of GDP per unit of population and the value is expressed in current United States dollars. This study includes the initial GDP per unit of population, and believed that underdeveloped countries grow faster as compared to developed countries;

ϵ_{it} and μ_i is the disturbance term and unobserved country-specific effect of the model, respectively; and i represent each SSA nation; and t is time based on yearly frequency, whilst

b_1 to b_5 are coefficients in terms of the elasticity of the associated explanatory variables.

3.5. Data analysis and estimation strategy

The data analysis is performed using both qualitative and quantitative analysis procedures. Abdo and Eboh (2014) evidenced qualitative analysis procedure involves the use of thematic analysis, conceptual underpinning, metaphors, and quotes. Accordingly, in this inquiry, thematic analysis is employed with the objective of assessing the likely effects of overseas banks' influx approaches on domestic banks' operations as well as to identify opportunities and threats that have a specific relationship with the entry of overseas banks. Similarly, the quantitative analysis procedures consider many techniques such as graphs, figures, and numerical tables (Abdo and Eboh, 2014). Regarding this, both descriptive and inferential statistic is employed. As a preliminary investigation, descriptive statistical analysis enables the researcher to compute mean, max, min, standard deviation, Skewness, and Kurtosis across the entire variables and accordingly

interpret its results. Bar graphs are also employed to show the economic performance of Sub-Saharan African countries.

The system GMM is applied to inferential statistics analysis techniques to have a meaningful understanding of the effects of overseas banks' influx on the performance of domestic banks and the economy. Due to enhanced efforts to control endogeneity through internal transformation and by incorporating the lag value of the dependent variable, the GMM model provides a better estimation technique as compared to alternative estimation methods such as OLS, and fixed effects (random effects) (Ullah et al., 2018). Hence, in the estimated system GMM models, rather than the current values, the previous year's nominal GDP per capita and the previous year's bank performance could be included as part of the strategy to apprehend the potential dynamism in economic performance and profitability, respectively. Additionally, the fact that identifying the instrument validity and serial correlation is the most important experiment type means that it can be discovered to lessen the problems (if any), thus the researcher needs to apply both the Hansen test of over-identification restrictions and AR (2), respectively. The independent sample t-test technique was also used to compare the performance of domestic banks between internationalized Sub-Saharan African Countries (SSA) and Ethiopia.

3.6. Attribute illustration

There is also a need to illustrate the inquiry parameters objectively to shun any uncertainty. All the variables are indicated in current United States dollars to ensure consistency. Concomitantly, the parameters and their illustrations are given in Table 3.1 here under.

Table- 3. 1: Summary of attribute illustrations and sources of data

Emblem	Attribute	Illustrations	Expected sign	Measurement	Sources
ROF (before tax)	Domestic bank performance, which is a composite gauges of ROF, NPTA, & NER	Proportion of net earnings to equity fund		Scale worth	World Bank
NPTA (before tax)		Proportion of net proceeds to assets		Scale worth	
NER		Proportion of net earnings to aggregate revenue		Scale worth	
GDPPC	Macroeconomic factor	Proportion of gross national product to midyear inhabitants. The information is expressed in United States Dollar.	+	Scale worth	World Bank
OFI	Overseas banks incursion	Proportion of overseas banks' asset to aggregate bank asset (%)	+	Scale worth	World Bank
NIRR	Bank specific feature, which include NIRR, and BLRA	Proportion of non interest revenue to total revenue	+	Scale worth	
BLRA		Bank monetary liquidities to bank asset ratio	–	Scale worth	
DCH	New tech	Number of ATMs per 100,000 adults	+	Scale worth	World Bank and IMF

RIR	Macro level element, which consists of RIR & IAF	Real interest rate. It refers to the borrowing rate accommodated for inflation as measured through the GDP deflator	+	Scale worth	World Bank
IAF		Inflation rate, measured by consumer price index	±	Scale worth	
IGDP PC	Macroeconomic factor	The first value of GDP per capita (2005) (can be expressed in current United States dollars)	+	Scale worth	World Bank
GS	Human capital	Government expenditure on education to GDP	+	Scale worth	World Bank
TOP	Trade openness	Proportion of trade to GDP	+	Scale worth	World Bank
WF	Workforce	workforce participation rate (ages 15 and older) to aggregate labor force	±	Scale worth	World Bank
BC	Bank competition	Aggregate banking asset controlled by the largest three banks (bank concentration)	+	Scale worth	World Bank
BD	Bank depth	proportion of banking credit for the private society to GDP	±	Scale worth	World Bank
BS	Banking stability	$Z = (k + \mu)/\sigma^*$	+	Scale worth	World Bank
GFCF GDP	Investment	apportion of gross fixed capital formation to GDP	+	Scale worth	World Bank

*Note: * Z is z-score, *k is proportion of equity capital and reserve to total assets, *μ is average net revenue to total assets, and *σ is predictable error of ROA.*

Chapter four

4. Presentation of findings and discussion

Both primary and secondary sources of data were used in the study. In gathering primary data, the study employed key informant interviews. As a result, to capture the likely difference in establishment, director strategy officers or equivalent job positions of all commercial banks are included in the study as key respondents. Likewise, by considering the study variables, data from the World Bank Global Financial Development database of the selected twenty-two (22) SSA countries were gathered. Thus, the information (data) collected from primary as well as secondary sources are analyzed, interpreted, and described underneath in various sections.

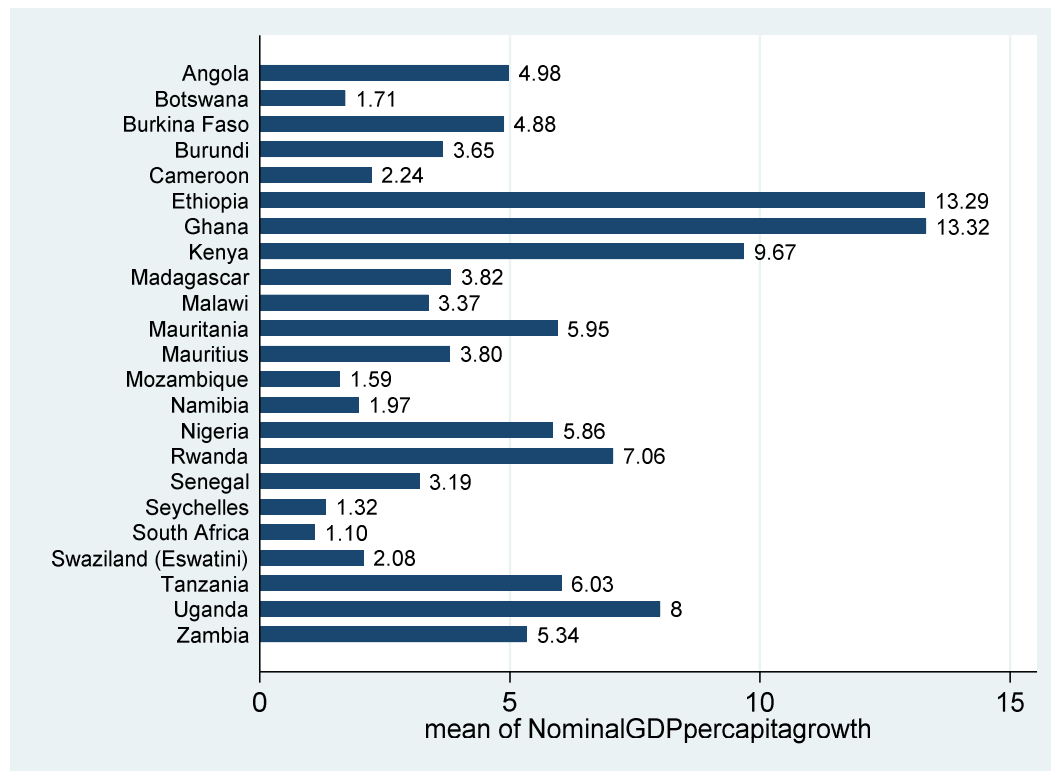
4.1. Descriptive analysis and interpretation

This section analyzes the data collected from World Bank databases. The analysis is performed using a bar graph. In addition, the analysis gives summary notes on the study variables based on descriptive statistics such as mean, max, min, standard deviation, skewness, and kurtosis.

4.1.1. Economic performance

Among others, economic performance could be measured by nominal GDP per capita growth. On this matter, Figure 3 portrays, during the study period (2005-2020), among the selected SSA countries, Ghana exhibited the highest annual average nominal GDP per capita growth rate, that is 13.32% followed by Ethiopia, Kenya, Uganda, Rwanda, and Tanzania with annual average growth rate of 13.29%, 9.67%, 8%, 7.06%, and 6.03%, respectively. Quite the reverse, from 2005 to 2020, South Africa, Seychelles, Mozambique, Botswana, Namibia, and Eswatini registered the lowest annual average nominal GDP per capita growth rates of 1.1%, 1.32%, 1.59%, 1.71%, 1.97% and 2.08%, respectively.

Figure 3: Mean annual nominal GDP per capita growth (%)



Source: Computed based on World Bank data

4.1.2. Summary of descriptive statistics

This section presents the descriptive statistics concerning various outcomes, and explanatory as well as control variables included in the study. This is performed using average, max, min, standard deviation, skewness, and kurtosis values. Accordingly, Table 4.1 shows that the mean value of nominal GDP per unit of population growth is 4.59% with a minimum and maximum value of -43.75% and 89.31%, respectively. The standard deviation of nominal GDP pcg is 13.70%. This implies the existence of wide disparity in connection with economic performance among SSA countries during the study period (2005 to 2020). Moreover, the fact that nominal GDP per capita growth is a skewness value of 0.92% (positively skewed), shows a slightly skewed distribution. Likewise, the kurtosis value for nominal GDP per capita growth is 5.98%; this indicates that the distribution is leptokurtic (long-tailed). In the same fashion, the mean of the nominal GDP PC is 2841.44 and would be in the range of 151.19 and 16,851.12. The implication is that there is a significant difference in economic performance among SSA countries.

In terms of bank performance proxy indicators, Table 4.1 exhibits that the mean return on asset, return on equity, and net interest margin for 22 SSA countries is 2.89%, 25.67%, and 6.78%, respectively. Furthermore, return on equity registered the highest standard deviation value of 13.47% as compared to the other two bank performance indicators that is return on asset (2.30%)

and net interest margin (2.76%). The implication is that, from depository financial institutions' proxy performance factors, relative return on equity is the most deviated indicator from its mean. With regard to skewness, the bank interest margin got a skewness value of 0.39%, which indicates approximate symmetry (approaches to normal distributions). In the contrary, return on equity (0.73%) and return on asset (-6.54%) have slightly positively skewed and negatively skewed distributions (long left tail), respectively. The kurtosis value for both returns on equity (1.48%) and net interest margin (-0.58%) is less than three (3), which shows platykurtic (less peaked or flatter) as compared to normal distribution (mesokurtic). The kurtosis value of return on asset (90.33%) confirms the distribution is leptokurtic (long-tailed).

From 2005 to 2020, Table 4.1 reveals that the mean of overseas bank asset share is 59.75% with a minimum value of 0% and a maximum value of 100%. This indicates the existence of outliers on the variable overseas banks' asset share. The standard deviation value (29.49%) of this variable affirms the existence of high variations in overseas bank assets share across SSA countries over the sample period. The skewness and kurtosis value for the variable foreign bank assets among total bank assets entails the data is approaches to the normal distribution and platykurtic (less peaked), respectively. Likewise, from 2005 to 2020, the mean of bank monetary liquidities to bank asset ratio is 19.64%, which falls in the range of 2.09% and 102.28%. The implication is that there is the disparity in the data points. The standard error for bank liquid reserve to bank asset ratio is 14.30%. This implies that the actual value of bank's liquid reserve to bank asset ratio is highly scattered from its mean value. It also appears that the skewness and kurtosis value for bank liquid reserves to bank asset ratio is 1.91% and 6.36%, respectively. This suggests that the distribution has a long-right tail (positive skewness) and leptokurtic (long-tailed).

Table 4.2 illustrates that the mean bank fee-based revenue to total revenue during the years 2005 to 2020 is 40.19% with a minimum of 10.05% and a maximum of 78.2%. This high difference between the minimum and the maximum number in connection with this fee-based revenue to total revenue shows the margin that this variable ranged across the study period. The normal distribution of and platykurtic (less peaked) nature of bank fee-based revenue to total revenue is confirmed through the skewness and kurtosis values of 0.32% and 1.19%, respectively. The average and the predictable error for ATMs per 100,000 adults is 29.38% and 65.78%, respectively. From this, the standard deviation value is relatively higher as compared to the mean value, thus a high disparity exists among SSA countries as far as ATMs per 100,000 adults are concerned. Since ATMs per 100,000 adults a skewness and kurtosis values of 3.96% and 15.53%, respectively, the associated distribution is both positively skewed and leptokurtic.

Table 4.1 reveals the average consumer price index (CPI) and real interest rate of SSA countries during 2005-2020, showing relatively similar figures of 7.5% and 8.74%, respectively. However, a comparison of these two macroeconomic variables regarding standard deviation values indicates that the figure of the latter variable (10.28%) was higher than the former macroeconomic variable (5.89%). In addition to this, the standard deviation value of the real

interest rate (10.28%) is higher than the mean value (8.74%). This entails that there is higher dispersion among SSA countries based on real interest rates. The skewness value of both the CPI (1.47%) and real interest rate (1.45%) verifies a positively skewed or right-skewed distribution. The descriptive statistic of bank concentration indicates that mean (68.05%), standard deviation (18.43%), minimum (29.11%), and maximum (100%). The implication from this statistic is that, on average, the mean asset share of the three dominant commercial banks in SSA is 68.05% from 2005 to 2020; it ranges from 29.11% and 100%. The standard deviation value on the other hand reveals that the actual value of bank concentration is highly scattered from the mean. The kurtosis value for bank concentration is greater than three (-0.96%). This signifies that the variable follows a platykurtic distribution.

As Table 4.1 exposes, the mean of domestic financing to the private enterprise by banks (proportion of gross domestic product) is 24.23% and would be in the range of 2.78% and 104.85%. This implies unequal distribution. The standard deviation for domestic financing to the private enterprise by banks as a share of GDP is 19.41%. The result verifies that there is a wide range of variations in the data points. The kurtosis value for domestic financing to the private enterprise by banks as a share of GDP is 4.03%, ensuring that leptokurtic distribution. During the study period (2005 to 2020), the mean of Bank Z-Score is 15.27%, with a minimum, maximum, and standard error of 3.64%, 38.68%, and 5.91%, respectively. This means there is a high disparity in Bank Z-Score level among SSA countries. Also, Gross fixed capital formation (% of GDP) shows a mean of 23.76% with relatively the largest standard deviations (8.31%). The standard deviation value shows that the true worth of gross fixed wealth creation as a share of GDP is highly scattered from the mean values. The mean value for the workforce contribution rate (aged fifteen and above) is 66.44%, with a standard deviation of 11.65%. This could be explained by the actual observation of the workforce contribution rate (aged fifteen and above) is highly scattered from the mean. The mean value for Trade (% of GDP) is 73.51%, which would be in the range between 22.24% and 222.08%. A possible explanation is that the value of Trade (% of GDP) is far away from its mean value. Similarly, the mean of government expenditure on education to GDP is 4.52% and its value lies between 1.1% and 10.68%, which implies that its value is concentrated on the average value.

In terms of skewness, except labor force contribution rate (ages 15 and older), which shows approximate symmetry (normal distribution) (-0.10%), the remaining variables, that is domestic financing to private enterprise by banks (% of GDP) (2.05%), Bank Z-Score(0.50%), investment of formation as a share of GDP (1.32%), Trade (% of GDP) (1.80%) and Government expenditure on education to GDP (%) (0.92%) indicates a positively skewed distribution. Similarly, the kurtosis value for Bank Z-Score (0.22%), Gross fixed capital formation (% of GDP) (2.49%), workforce participation rate (ages 15 and older) (-0.77%), and Government expenditure on education to GDP (%) (0.70%) shows a platykurtic distribution. The implication is that most data points are found in a high radius from the mean.

The descriptive statistic result generally indicates that taking the logarithmic of the variables reduces outliers.

Table 4. 1:- Summary descriptive statistic (2005 to 2020)

Variable	N	Mean	Std.Dev.	Min	Max	Skewness	Kurtosis
GDPPCG (%)	352	4.59	13.70	-43.75	89.31	0.92	5.98
GDPPC	352	2841.44	3348.71	151.19	16851.12	1.98	3.79
ROA (%)	340	2.89	2.30	-27.63	9.82	-6.54	90.33
ROE (%)	337	25.67	13.47	-15.45	77.61	0.73	1.48
NIM (%)	340	6.78	2.76	1.63	14.11	0.39	-0.58
OFAS (%)	253	59.75	29.49	0.00	100.00	-0.13	-1.24
BLRTBAR (%)	335	19.64	14.30	2.09	102.28	1.91	6.36
BNIRTTR (%)	341	40.19	9.37	10.05	78.20	0.32	1.19
ATMs	320	29.38	65.78	0.05	369.61	3.96	15.53
CPI	351	7.50	5.89	-3.23	36.96	1.47	3.45
RIR (%)	312	8.74	10.28	-34.74	52.44	1.45	5.41
BC (%)	344	68.05	18.43	29.11	100.00	0.05	-0.96
DCTPS (%)	350	24.23	19.41	2.78	104.85	2.05	4.03
Z-Score	342	15.27	5.91	3.64	38.68	0.50	0.22
GFCF (%)	299	23.76	8.31	8.98	56.47	1.32	2.49
LFPR (%)	344	66.44	11.65	40.58	88.35	-0.10	-0.77
Trade (%GDP)	304	73.51	38.75	22.24	222.08	1.80	3.84
GEOE (%)	287	4.52	1.87	1.10	10.68	0.92	0.70

Source: Own computation based on World Bank data

4.2. Econometric results and discussions

This section focuses on the presentation and discussion of the econometrics model results through two base case scenarios. In the first scenario, the study aims to scrutinize the effects of foreign bank penetration and economic performance (Nominal GDP per capita) on domestic bank performance. In the second scenario, among other things, the study investigates the nexus between foreign bank penetration and economic performance. To this end, considering return on asset, return on equity, and bank net interest margin, and the researcher computed the bank performance index using principal component analysis (see Appendix 3). In this section, a comparison concerning domestic bank performance between internationalized SSA countries and Ethiopia was made using the student's t-test technique as well.

4.2.1. Effects of overseas bank incursion on the performance of domestic bank

Table 4.2 shows, the findings obtained from the two-step system GMM. Accordingly, the proportion of overseas banks' assets to aggregate assets, ATMs, and real interest rates are positively related to domestic bank's performance. On the contrary, the performance of local banks is negatively and significantly determined by the previous year's nominal GDP per capita and bank monetary liquidities to bank asset ratio. The effects of non-interest income on total income, and CPI on the performance of local bank were found to be negative, but their coefficients are insignificant.

As Table 4.2 also exhibits, the Hansen test of over-identifying restrictions confirms that the instruments are valid as well as uncorrelated with the disturbance term of the model. In addition, the AR (2) statistic value is $\text{Pr} > z = 0.18$, which would affirm the absence of second-order serial correlation.

Table 4. 2:-Overseas bank influx and the performance of domestic bank

Two-step system GMM	
Dependent variable	Log of bank performance
Explanatory and control variables	
Log of bank performance (t-1)	0.35*** (3.42)
Log of nominal GDP per capita (t-1)	-0.49** (-2.11)
Log of overseas bank asset share	0.45*** (2.96)
Log of bank monetary liquidates to bank asset ratio	-0.19** (-1.96)
Log of non-interest revenue to total revenue	-1.12 (-1.17)
Log of CPI	-0.02 (-0.15)
Log of real interest rate	0.14* (1.72)
Log of ATMs	0.54*** (2.82)
Constant	0.46 (0.57)
<i>Long-term effect of overseas bank asset share</i>	0.70*** (2.98)
Observations	168
Number of instruments	19
Number of countries	22
Tests	P-value
AR(2)	0.18
Hansen test of overid. Restrictions	0.52
Wald chi2(8)=5129.55	Prob > chi2 = 0.000

*Note: ** and *** indicates null hypothesis rejection at 5% & 1% significant level, respectively
The z-value is reported in parenthesis.*

Source: Computed using World Bank data and STATA ver.15 program

4.2.1.1. Interpretation and discussion of the significant coefficients

Overseas bank asset share;-the result in Table 4.2 indicates that the measure of overseas banks' incursion, that is, the proportion of overseas banks' assets to aggregate bank assets, has positively and significantly influenced the domestic bank performance. Other factors being equal, on average, a percentage increase in overseas banks' assets to aggregate bank assets results in a 0.45 percentage increase in domestic bank performance. When it comes to the long-term effect, overseas bank assets share affects the local bank performance positively and significantly as well. This indicates that overseas bank penetration enhances the efficiency of domestic banks by bringing state-of-the-art technology, transferring modern banking technology, and injecting additional capital. This is consistent with other findings such as Abeka (2022) in SSA found that continued innermost incursion of overseas bank expansion, which could enable improved competition in the host country, would result in efficiency, and better managerial capability as well as better domestic bank performance. Yin et al. (2020) also stated that overseas firm influx improves the performance of both local and overseas banks in underdeveloped economies as compared to advanced economies.

Real interest rate;-domestic bank performance is also positively determined by the real interest rate. The result indicates that keeping other things constant, on average, a percentage increase in the real rate of interest will lead to a 0.14 percentage increase in domestic bank performance in SSA countries. This is similar to Wilson (2012), Lipunga (2014), and Fredrick (2015) found that economic growth, inflation rate, interest rates, and credit cycle positively affect the performance of commercial banks (Wilson, 2012; Lipunga, 2014; Fredrick, 2015).

Nominal GDP per capita at t-1; - Table 4.2 exhibits that nominal GDP per capita at t-1 is negatively related to the performance of domestic banks, and the relationship is statistically significant. Other things being equal, on average, a percentage increase in nominal GDP per capita at t-1 will lead to a 0.49 percentage decrease in domestic bank performance. The possible explanation here is that economic hard times deterred the domestic bank's loan disbursement endeavors, whereby reduced the interest revenue of banks. Additionally, economic slowdown hinders the loan collection efforts of banks, and, in turn, increases the non-performing loans. All these economic facts affect local bank performance negatively. This finding corroborates other findings. For instance, economic depressions harm the loan collection efforts of commercial banks, implying lower profitability (Lee and Kim, 2013).

Bank monetary liquidates to bank asset ratio; - also affects the domestic bank performance negatively and the estimates are significant. *Ceteris paribus*, on average, a percentage increase in bank monetary liquidates to bank asset ratio causes a 0.19 percentage decrease in local bank performance. In connection with this, high liquidity requirements may be associated with fewer

investment opportunities for the bank. This relates to a high level of bank monetary liquidates to bank asset ratio increases the costs of banks and, in turn, reduces their performance.

ATMs; - Unlike bank monetary liquidates to bank asset ratio, ATMs positively and significantly affect domestic bank performance. The finding shows that *ceteris paribus*, on average, a percentage increase in ATMs will lead to a 0.54 percentage increase in domestic bank performance. This finding corroborates other findings. For example, Nijogu (2019) confirmed that e-banking services such as ATMs have a positive significant effect on the profitability of banks in Kenya.

As Table 4.2 also depicts, the coefficient of domestic bank performance at t-1 shows a significant coefficient at a 1% significance level. This suggests that the prior year's domestic bank performance positively influences the current year's bank performance.

4.2.2. The nexus between overseas banks' penetration and economic performance

This section presents the outcomes of overseas bank penetrations on economic performance. In so doing, a two-step system GMM method of estimation is employed. According to Table 4.3, the estimation results indicated that the proportion of overseas banks' assets to aggregate bank assets, CPI, and banking sector credit to GDP have negative and significant effects on economic performance. Similarly, the previous year's nominal GDP per capita, bank Z-Score, initial GDP per capita, trade-to-GDP ratio, and labor force participation rate affect economic performance positively and significantly. The remaining variables have insignificant effects on economic performance.

Table 4.3 reveals the Arellano-Bond AR (2) test of autocorrelation has a P-value exceeding 5% testifying to the absence of second-order serial correlation in the model. The Hansen test of over-identifying restriction has a p-value of 0.21, which would accept the claim that the instruments are valid.

Table 4. 3: Overseas bank influx and economic performance

Two-step system GMM	
Dependent variable	Log of nominal GDP per capita
Explanatory and control variables	
Log of nominal GDP per capita (t-1)	0.97*** (4.75)
Log of Bank Performance (t-1)	0.05 (0.97)
Log of overseas bank asset share	-0.22*** (-2.74)
Log of bank concentration	-0.24 (-0.66)
Log of banking sector credit to private enterprise	-0.61*** (-2.73)
Log of initial GDP per capita	0.31* (1.73)
Log of CPI	-0.07* (-1.82)
Log of government exp. on edu to GDP	0.15 (0.89)
Log of trade to GDP ratio	0.40** (2.34)
Log of workforce participation rate	0.98*** (3.50)
Log of Bank Z-Score	0.42*** (2.77)

Overseas bank entry and economic performance (continued)	
Log of gross capital formation	-0.18 (-0.78)
Constant	-1.58** (-2.06)
<i>Long-term effect of overseas bank asset share</i>	-9.37 (-0.12)
Observations	153
Number of instruments	18
Number of countries	22
Tests	P-value
AR(2)	0.07
Hansen test of overid. Restrictions	0.21
Wald chi2(12)=291538.66	Prob > chi2 = 0.000

*Note: *, ** and *** indicates null hypothesis rejection at 10%, 5% & 1% significant level, respectively. The z-value is reported in parenthesis.*

Source: Computed using World Bank data and STATA ver.15 program

4.2.2.1. Discussion and interpretation of the significant coefficients

Overseas banks' assets share: - Table 4.3 states that the proportion of overseas banks' assets to aggregate bank assets negatively and significantly influences nominal GDP per capita. On average, a percentage increase in the proportion of overseas banks' assets to aggregate bank assets will lead to a decrease in nominal GDP per capita by 0.22 percentages, keeping all variables constant. Similarly, the nexus between economic performance and overseas bank's assets share is negative in the long term, but the estimate coefficients are insignificant. This finding is under the conception that overseas banks focus on a few high-net-worth borrowers and international banking clients. It ignores small-scale business and is not the driving cause for the economic advancement of the underdeveloped nation. Moreover, during the crisis time, foreign banks reduced aggregate credit provided for domestic banks by creating avenues for capital flight. This would hurt the economic growth of the host country. The finding is consistent with

Khamphoumy (2022) found that foreign bank penetration can generally be deemed as an opposing factor in driving the expected economic growth in underdeveloped nations.

Trade-to-GDP: - as discussed earlier, trade openness measured by the trade-to-GDP ratio is one of the driving factors for economic growth. As expected, as Table 4.3 portrays, economic performance is positively and significantly influenced by trade to GDP ratio. *Ceteris paribus*, on average, a percentage increase in trade to GDP ratio results in a 0.40 percentage increases in economic growth.

Workforce participation rate: Table 4.3 reveals that the workforce participation rate is positively associated with nominal GDP per capita, and the coefficients are significant. Thus, keeping other things constant, on average, a percentage increase in workforce participation rate causes nominal GDP per capita to expand by 0.98 in SSA countries.

Consumer price index (CPI): As discussed in the literature, the cost-of-living index is either positively or negatively associated with economic growth. This study corroborates the latter argument. The consumer price index is negatively and significantly related to the economic performance of SSA countries. To keep other things constant, on average, a percentage increase in CPI will lead to a 0.07 percentage decrease in Nominal GDP per capita. This finding is consistent with Hasanov (2010) disclosed inflation rate adversely affects economic growth when the rate exceeds 13%.

Bank Z-Score: In Table 4.3, the finding of the study showed that the nominal GDP per capita is positively and significantly determined by the bank Z-Score. *Ceteris paribus*, on average, the percentage increases in bank Z-Score results in a 0.42 percentage increase in the nominal GDP per capita of SSA nations. This result was supported by other findings such as Kupiec and Ramirez (2013) vowed that banking stability positively influenced economic growth.

Banking sector credit to private society to GDP: in this study, banking sector credit to private enterprise to GDP has a negative influence on the economic performance of SSA nations. The relationship is significant at a 1% significant level. Accordingly, a percentage increase in banking sector credit to private enterprise to GDP will lead to a 0.61 percentage decrease in the nominal GDP per capita, keeping other factors constant. This is similar to the square of private sector credit is negatively related to economic growth (Arcand et al., 2015).

Initial GDP per capita: Table 4.3 also exhibits the relationship between the nominal GDP per capita and initial GDP per capita is positive. *Ceteris paribus*, on average, a percentage increase in initial GDP per capita will lead to a 0.31 percentage enlargement in the nominal GDP per capita growth of SSA countries.

4.2.3. Results and discussions of the student's t-test

In this study, the student's t-test is employed to evaluate the performance of domestic banks between internationalized SSA countries and Ethiopia. Accordingly, both Table 4.4 (equal

variances assumed, $t(351) = -0.0119$, $P = 0.9905$) and Table 4.5 (unequal variances assumed, $t(17.5324) = -0.0144$, $P = 0.9887$) confirm there is no marked difference between internationalized SSA countries and Ethiopia as far as the domestic bank performance is concerned. This would indicate overseas banks have not brought about additional capital, improving the liquidity and stability of the banking system in the host country, with a positive influence on the local bank performance. This finding contradicts the GMM and interview results.

Table 4. 4: Results of independent sample t-test: equal variances

Group	Observations	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
1	337	-0.25	0.03	0.49	-0.30	-0.19
2	16	-0.25	0.10	0.40	0.46	-0.03
combined	353	-0.25	0.03	0.49	-0.30	-0.19
diff		-.001	0.12		-0.24	0.24
diff = mean(1) - mean(2) t = -0.01 Ho: diff = 0 degrees of freedom = 351 Ha: diff < 0 Ha: diff != 0 Pr(T < t) = 0.49 Pr(T > t) = 0.99 Ha: diff > 0 Pr(T > t) = 0.50						

Source: Computed using World Bank data and STATA ver.15 program

Table 4. 6:- Distribution of the respondents by educational level and experience

Variables		Analysis			
		N	Frequency	Percent	Cumulative %
Education	MA/MSc	30	23	76.67%	76.67%
	BA/BSc		7	23.33%	100%
Experience	Below 10 years	30	2	6.66%	6.66%
	10 to 15 years		17	56.67%	63.33%
	16 to 21 years		6	20%	83.33%
	Above 21 years		5	16.67%	100%

Source: Key informant interview, 2024

4.3.2. Foreign bank entry modality and their likely effects on domestic bank's operations

In connection with opening the banking sector for overseas banks, there are four possible influx modes which are proposed by the country's government. This is done through setting up representative offices, establishing foreign subsidiaries, through affiliate relationships or joint ventures, and through opening foreign branches. Thus, such entry modes could be assessed so that policymakers at the central bank, and all other concerned stakeholders can harvest the benefits that come with opportunities and take remedial measures to minimize the threats posed by the challenges. The entry option is affected by various factors in the destination nation including tax policies, level of financial development, market structure, political stability, regulations, and incentives. In this section, the key findings of the interview results in connection with each entry modality and their possible effects on the domestic bank's operations are discussed.

Representative offices: -key informants discussed that although not directly engaged in banking operations, representative offices offer opportunities for knowledge sharing and market awareness. They can therefore expose local banks to global best practices and facilitate collaborations and partnerships. In connection with this, many foreign banks have already established representative offices in Ethiopia. To sum up, representative offices have no negative effects on the domestic bank's credit, retail banking, and international banking operations in the destination nation. However, it helps the overseas banks in the destination nations to work closely with different stakeholders and build important relationships by identifying the market potential to enhance further involvement.

Subsidiaries and physical branches: - similar to the representative offices, key informants were requested to give their opinions on this theme. Key respondents replied that overseas banks'

influx through these modalities can convey capital, technology, and expertise to the local banking sector, stimulating innovation and raising industry standards. This development and progress will create new innovative and diverse saving products, which would positively affect the resource mobilization endeavors of the domestic financial institutions and customers could benefit from a wider range of banking products and services.

When it comes to credit and international banking operations, according to the interview results, overseas banks focus on high-profile borrowers, importers, and exporters. As a result, its presence causes ‘cream-skimming’ which will lead to the borrowing rate and the service charge that comes from the letter of credit services being reduced significantly. This behavior of overseas banks could negatively affect the domestic bank’s market share and profitability, as they are characterized by inefficiency in their operations. This finding agreed with Khamphoumy (2022) indicates that overseas banks’ influx adversely affects the efficiency and effectiveness of the local depository financial institutions by deteriorating the loan portfolio mix in turn profitability. Respondents also expressed their concern about the challenges posed by foreign subsidiaries and branches. Domestic banks may face difficulties in competing with advanced international banks that have a stronger global brand presence and larger financial resources.

Affiliate relationship or joint venture:-key respondents reported that affiliate relationships or joint ventures would help local banks to boost their performance as well as knowledge. The collaboration among local and foreign banks, which are believed to strengthen the deposit mobilization endeavors of domestic banks through joint marketing, expanded product offerings, and shared resources. In this modality, the customers would also look for alternative sources of finance and new international markets. This would have positive implications for the domestic bank credit and international banking operations. To sum up, the joint venture arrangement helps domestic banks to transform into world-class institutions and enhance their profitability.

4.3.3. Opportunities and threats of foreign bank presence

Overseas firm incursion would bring both opportunities and threats for local depository financial institutions in the destination nation. Understanding these issues is crucial to draw appropriate strategic responses. Subsequently, the key respondent’s opinion can be summarized and discussed under two themes, as follows.

4.3.3.1. Opportunities

Overseas firm penetration may induce both direct and indirect opportunities for domestic banks. Hence, as identified by key informants, some of the opportunities are briefly explained below.

Technology and innovation:-overseas banks bring advanced technologies as well as innovative financial services. In line with this, domestic banks adopted different new banking products, services, more efficient processes, systems, and modern technology to improve customer experience. The previous study findings of Pino and Ukaegbu (2014) also confirmed those overseas banks use up-to-date financial technologies in the global market to which the domestic

banks can resort to buying them to minimize expenses, create better conveniences for clients, and boost revenue.

Access to international network:-foreign banks have global networks that speed up cross-border transactions and attract foreign direct investment. Accordingly, through alliances, joint ventures, and possibilities for knowledge exchange. Domestic banks can benefit from these networks by using their connections to expand their international efforts and enter new markets.

Competition:-key informants discussed that overseas bank influx spurs competition, and assists domestic banks to improve efficiency, customer service, and product offerings. Local banks could be inspired by this competition to innovate, provide better services, and improve client interactions. This will help domestic banks expand their reach, grow their capacities, implement best practices, and provide better services to their customers, ultimately being considered as contributing factors for the growth and development of the depository and non-depository financial institutions in the destination nation.

Knowledge transfer:-according to the interview results, overseas banks' incursion has created opportunities for knowledge transfer and skill development among domestic bank employees. This has resulted in the growth of a pool of skilled professionals within the Ethiopian banking industry and will bring operational efficiency, and reduced costs, which creates a stable economy.

Capital inflow:-overseas banks would also bring additional capital, particularly for undercapitalized banks. This implies that foreign bank penetration results in improving the liquidity and stability of the banking system, which will have a positive impact on local banks to improve the lending capacity, adopt modern technology, and enhance service quality. This leads to promoting economic growth and development in the host country.

Improved risk management:-the respondents discussed that foreign banks typically have robust risk management frameworks. As a result, their entry has encouraged domestic banks to strengthen their risk management practice, leading to a more resilient banking sector.

4.3.3.2. Threats

According to key informants, challenges (threats) that face domestic banks about foreign bank entry include but are not limited to.

Loss of potential customers:- is another threat mentioned by the respondents and overseas banks which would enable them to meet the needs of customers particularly engaged in international commerce through their worldwide reach, broad correspondent networks, and expertise with international practices. Additionally, the limited supply of foreign currency for clients by domestic banks would lead to the switching of potential customers and the reduction of its market share. The implication is overseas banks influx which would negatively affect the

efficiency of local banks such as ROA, ROE, NIM, and earnings per share, which leads to the loss of its market share.

Unfair competition:- key informants declared that the extensive competition and changing environment as a result of overseas banks' incursion create difficulty for domestic banks to compete with well-established overseas banks that have larger capital bases, better technologies, and global networks. This could potentially lead to a concentration of market power in the hands of foreign banks, which may hinder the profitability of domestic banks. The finding substantiates other findings such as Aminah (2015) showed that the superior technologies that were employed by overseas banks, along with their effortless access to resources, have put serious pressure on the domestic banks in Ghana. This would cause domestic financial institutions in Ghana to deteriorate their position, and they would not maintain their market share.

Talent drains: - Respondents discussed that overseas banks can attract skilled local professionals with better pay and career prospects. This would potentially cause a shortage of highly trained and equipped employees in the domestic bank's arena and hinder their competitiveness.

Risk:- Respondents also indicated that overseas banks pose risks to the financial sector. In line with this, overseas banks may also engage in risky lending as well as transmit shocks from their home countries, which would have crucial connotations for destabilizing the financial sector and creating negative effects on the domestic bank's performance. This is compatible with Pataccini (2020) in Baltic countries discovered that overseas banks' incursion would boost external shocks.

Chapter five

5. Conclusions and implications

5.1. Conclusions

The major objective is investigating the outcomes of overseas bank influx. To realize this objective, both quantitative and qualitative strategies were employed. Accordingly, the study used secondary data gathered from the appropriate international catalogs by considering the study variables. Primary data was also collected from commercial banks that operate in Ethiopia using key informant interview techniques. The collected primary data was analyzed through thematic analysis. To investigate the outcome of overseas banks' incursion, together with their possible implications on the domestic bank's efficiency and the economy, a two-step system GMM model was applied. The results would assist regulatory bodies, domestic commercial bank CEOs, and all other stakeholders to exert maximum effort in establishing capable local financial institutions.

The finding of the study shows that overseas banks' entry positively influences the domestic bank's performance in SSA countries. The domestic bank's performance is also positively and significantly determined by the real interest rate and ATMs. Contrarily, monetary liquidates to bank asset ratio, and nominal GDP per unit of population at t-1 negative and significant association with the domestic bank's performance in SSA countries. Quite the opposite, the nexus between overseas banks' influx and economic performance is negative but significant. This could be explained by foreign banks' focus on few influential customers and is not the contributing factor to the SSA nation's economic performance.

The estimated model results also indicate that trade to GDP ratio, workforce participation rate (ages 15 and older) to aggregate labor force, Bank z-score, and initial GDP per capita positively and significantly affect SSA countries' economic performance. The cost-of-living index (CPI) and banking sector credit to private society to GDP are negatively and significantly associated with economic growth. The study also highlights that there are no marked differences between globalized SSA countries and Ethiopia as far as the domestic bank performance is concerned.

It appears that overseas banks would use representative offices, foreign branches, subsidiaries, and affiliate relationships to penetrate the Ethiopian financial sector. In line with this, representative offices have minimal effects on domestic bank operations. On the contrary, overseas bank penetration through foreign branches, subsidiaries, and affiliate relationships (joint ventures) can bring capital, technology, and expertise to the local financial sector. This would improve the efficiency of the domestic financial system by stimulating innovation and raising industry standards. Overseas banks' entry will bring immense opportunities as well as create strong competition challenges. The major opportunities that foreign banks may bring to the destination country's financial sector include but are not limited to access to global markets, knowledge transfer, financial stability, technology, innovation, capital inflows, and talent

development. On the contrary, domestic banks may face challenges in competing with well-established foreign banks that have larger financial resources, better technologies, and global networks. This would have negative implications for domestic bank's efficiency.

5.2. Implications

The findings identified above can have important implications for the various stakeholders. Accordingly, the findings show that domestic bank's performance is positively influenced by overseas bank entry. This would imply the Ethiopian government needs to consider overseas banks' influx through appropriate modalities to enhance the performance of local financial institutions. On the contrary, economic growth is negatively determined by overseas bank penetration. In line with this, the finding of the study indicates that the government and central bank need to formulate an appropriate strategic response to minimize the destructive outcomes of overseas bank influx on the economy. Additionally, overseas banks focus on high-profile international banking clients. In connection with this, using advanced international experiences and foreign currency as an enticement, they take away influential importer and exporter clients of the domestic banks. Hence, domestic banks need to develop effective relationship management systems and lobbying strategies to retain and draw in high-value clients. This study also confirms that overseas banks can bring new products, more efficient processes, systems, and new service channels. This entails domestic bank's need to work towards product innovation and expanding their accessibility through the adoption and improvement of various service channels that will be introduced by foreign banks. According to the study findings, overseas banks use a highly productive workforce and quality services. In this respect, to survive and thrive with the new competitors, providing highly quality service is imperative. In this regard, domestic banks need to provide customer relationship management training and others for their staff, both using offshore training and real-time experience sharing with foreign banks abroad. Thus, domestic banks need to retain and attract competent employees using attractive salary and benefits packages. The study indicates that overseas banks also employ modern banking technologies. To remain competitive as well as to retain their market share, domestic banks need to adopt modern banking technologies. The result shows that similar to retaining and attracting high-profile clients, to mitigate the adverse effects of "cream-skimming" behavior domestic banks need to simultaneously focus on growing their business ties with other customer segments (niche markets) through new strategies and specialized products. The result also indicates that overseas banks can attract only creditworthy borrowers. As a result, domestic banks are obliged to finance the riskier borrowers. In this aspect, domestic banks need to diversify their loan portfolio and hold assets with a high return to enhance their asset quality and profitability.

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Appendix's

Appendix 1: Key Respondents Interview Instrument

1. Respondent's background information
 - a. Academic level _____
 - b. Total bank experiences in year _____
 - c. Current job position _____
2. How do you see your banks' preparation and response for overseas bank influx?

3. Would you explain the likely effects of the entry modalities (representative office, subsidiary, physical branch, and joint venture) of overseas banks together with the potential opportunities and challenges to the deposit mobilization (retail banking operations) endeavors of your bank?

4. Would you explain the likely effects of the entry modalities (representative office, subsidiary, physical branch, and joint venture) of overseas banks alongside the potential opportunities and challenges to the credit operation of your bank?

5. Would you explain the likely effects of the entry modalities (representative office, subsidiary, physical branch, and joint venture) of overseas banks along with the potential opportunities and challenges to the international banking operation of your bank?

6. In your opinion, would you see overseas bank influx as an opportunity or a threat (please discuss thoroughly)?

7. What are the major opportunities that overseas banks convey in to the financial sector in general and for the Bank's in particular?

8. What are the major threats that domestic bank faced in connection with overseas bank influx in Ethiopia?

9. What possible way forward (s) would you suggest for domestic commercial banks to mitigate the likely adverse effects of overseas banks influx?

10. If you have any additional comments or suggestions

Thanks for your time!!!

Appendix 2: Key respondents interview guideline

First of all, I would like to thank you for giving your time for an interview. I am Melaku Habte Woldehitsan, and I'm recently attending a Master's of Science degree in financial economics at Addis Ababa University. I have undertaken a research on the effects of overseas bank influx on domestic commercial banks performances and economy in selected SSA countries: A lesson for Ethiopia. In line with this, I would like to discuss with you the opportunities and threats that come along the influx of overseas banks for domestic banks in Ethiopia as well as the influx modalities of overseas banks and the possible challenges faced by the domestic banks main operations such as retail, credit, and international banking. In doing so, I would like to discuss with you for thirty minutes. Any of your responses collected through this key respondent's interview instrument should be kept confidential and used only for the purpose of this research. So your genuine, frank, and timely response is vital for the success of this research. Hence, you're kindly requested to respond to each question very carefully and rigorously.

Please also note that your participation on this interview is on voluntary basis.

Thanks!!!

Appendix 3: Principal component analysis to calculate bank performance index

As shown in the methodology section, this study uses a composite bank performance index by using ROA, ROE, and NIM. To construct a bank performance index, the following steps were considered.

- ❖ Choosing appropriate indicators that make up the composite index. In line with this, the study selected appropriate bank performance measurements, that is, ROA, ROE, and NIM.
- ❖ Standardization is applied to ROA, ROE, and NIM to get the same scale variables.
- ❖ Running a principal component analysis to determine weights for each bank performance indicator.
- ❖ Made rotations to enhance the interpretation and understandability of the primary components.
- ❖ Constructing bank performance composite index based on the result obtained in step 3 and step 4.

Principal components/correlation Number of obs = 337
 Number of comp. = 3
 Trace = 3
 Rotation: (unrotated = principal) Rho = 1.0000

Component	Eigenvalue	Difference	Proportion	Cumulative
Comp1	2.259	1.658	0.753	0.753
Comp2	0.600	0.460	0.200	0.953
Comp3	0.141	.	0.047	1.000

Principal components (eigenvectors)

Variable	Comp1	Comp2	Comp3	Unexplained
ZROA	0.636	-0.079	-0.768	0
ZROE	0.566	-0.629	0.533	0
ZNIM	0.525	0.773	0.355	0

Principal components/correlation Number of obs = 337
 Number of comp. = 3
 Trace = 3
 Rotation: orthogonal varimax (Kaiser off) Rho = 1.0000

Component	Variance	Difference	Proportion	Cumulative
Comp1	1.000	0.000	0.333	0.333
Comp2	1.000	0.000	0.333	0.667
Comp3	1.000	.	0.333	1.000

Rotated components

Variable	Comp1	Comp2	Comp3	Unexplained
ZROA	0.000	0.000	1.000	0
ZROE	0.000	1.000	0.000	0
ZNIM	1.000	0.000	0.000	0

Component rotation matrix

	Comp1	Comp2	Comp3
Comp1	0.525	0.566	0.636
Comp2	0.773	-0.629	-0.079
Comp3	0.355	0.533	-0.768

(score assumed)

(2 components skipped)

Scoring coefficients for orthogonal varimax rotation

sum of squares(column-loading) = 1

Variable	Comp1	Comp2	Comp3
ZROA	0.000	0.000	1.000
ZROE	0.000	1.000	0.000
ZNIM	1.000	0.000	0.000