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INVESTIGATION OF POTENTIAL BENEFITS AND CHALLENGES OF
ENTRY OF FOREIGN BANKS ON COMMERCIAL BANKS IN ETHIOPIA.

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**"INVESTIGATION OF POTENTIAL BENEFITS AND CHALLENGES OF
ENTRY OF FOREIGN BANKS ON ETHIOPIAN COMMERCIAL BANKS"**

BY -GOSHU ANDARGE

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This is a thesis that has been submitted to the Department of Management at Addis Ababa University as a requirement for partial fulfilment of the Master's Degree in Business Administration.


May, 2023

ADDIS ABABA, ETHIOPIA

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DEPARTMENT OF MANAGEMENT

I am pleased to confirm that Goshu Andarge's thesis titled "Investigation of Potential Benefits and Challenges of Foreign Banks Entering the Ethiopian Banking Sector," which is a partial fulfillment of the requirements for a Masters in Executive Master of Business Administration, adheres to the University's regulations and meets the accepted standards in terms of quality and originality.

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I confirm that this thesis is completely my own work and has not been submitted to any other university for a degree. Additionally, I have appropriately credited all sources used in the thesis.

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ACRONYMS

<i>CBE</i>	<i>Commercial Bank of Ethiopia</i>
<i>AB</i>	<i>Awash Bank</i>
<i>FDI</i>	<i>Foreign Direct Investment</i>
<i>DB</i>	<i>Dashen bank</i>
<i>BoA</i>	<i>Bank of Abyssinia</i>
<i>UB</i>	<i>United bank</i>
<i>IBD</i>	<i>International Banking Department</i>
<i>NBE</i>	<i>National Bank of Ethiopia</i>
<i>SPSS</i>	<i>Statistical Package for Social Science</i>

Abstract

In principle, foreign bank entry might meaningfully reduce the cost of credit by getting capital, technical skills, and product development to host country, which increases competition and leads to enhancements in the competence of the banking area, the main objective of this study is to examine how the local banking sector can be affected by the introduction of foreign banks. To achieve this, both qualitative and quantitative research approach were employed, and descriptive research design was engaged to describe the benefits and challenges related with foreign bank entry into the Ethiopian commercial banking business, the researcher used a combination of stratified and purposive sampling techniques to choose the samples for the study. The research conducted using statistical analysis such as average mean, standard deviation, frequency, and percentage on 162 survey questionnaires with the aid of SPSS statistics 23, it was found that the banking sector in Ethiopia is expressively affected by the permission of foreign banks. The local commercial banks in Ethiopia might face both good and undesirable concerns due to the entry of foreign bank. According to key findings, local banks would advantage in numerous ways if foreign banks were allowed to work in the Ethiopia. This contains improvements in many sides, such as possible benefits, efficiency, monetary and societal indicators, and possible costs. Therefore, it is recommended that entry of foreign banks in the nation could be useful for both the local banks and the country as a whole.

Key words –Foreign Banks, Domestic Banks, Macro Economic Indicators

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Ethiopia, the following highest greatly populated country in Africa next Nigeria, has taken a substantial stage to privatizing numerous public bodies such as airlines, telecom, and shipping, provoking attention in the probable prospects and challenges that overseas banks might meet if indorsed to establish operations and offer financial services in Ethiopia. Consequently, individuals are fascinated about the prospects and challenges that the trade services business in Ethiopia might look if external banks are allowed to come in and work in the motherland. The Ethiopian regime has agreed the green light to privatize public trades that were formerly in a monopoly. This change currently agrees Ethiopian people, who were previously incompetent to buy shares in Ethiopian banks, the coincidental to spend in the motherland's banking segment. This judgement was lately accepted by the Parliament. The verdict to partially privatize key government enterprises similar to ethiotelecom can be a planned travel by the Ethiopian administration to develop the company's effectiveness and expand its success. Changes in strategy be able to impressively effect the monetary growing and expansion of a nation. In the contemporary stage, the importance of technology and modernisation has enlarged in pouring financial advancement

In recent decades, developed and developing countries increasingly allow banks to be foreign-owned. However, many African countries to list few Ethiopia, Chad, Central Africa,

Equatorial Guinea, Gabon, Liberia, Sierra Leone, are reluctant to open banking sector to foreign investors. Will policies that encourage international banking sector integration spur economic growth in developing countries? The role of foreign banks in developing countries has been hotly debated. International Monetary Fund and the World Trade Organization believe that banking sector integration spur economic growth in developing countries. Various researchers also argue that foreign banks and particularly large international banks should be allowed to operate in developing countries because presence of foreign banks may have positive direct and indirect effects on economic growth of hosting countries both via direct effect and or the indirect effects on domestic banking sector (Claessens et al., 2001; Gelos and Roldos, 2004; Micco et al., 2004; Martinez-Peria and Mody, 2004; Bayraktar and Wang (2006); Lehner and Schnitzer, 2008).

(Habtamu, 2017). External banks are financial organizations that run mainly in one state but also have branches or subsidiaries in other states. Permitting them to manoeuvre in Ethiopia has its advantages and disadvantages for the financial sector, commercial banks. They propose a range of economic facilities, including commercial banking, investment banking, and wealth administration.

While imported bank agrees to change into a new marketplace, it can warrant so in a number of ways such as inaugural a new branch, procuring an existing bank or setting up a subsidiary. The practise of alien bank entry can be difficult and contrasts reliant on the rules in the host nation state. Nevertheless the worthy news is that it be able to pass various benefits, including the facilitation of foreign capital flow, promoting competition among local banks, and increasing access to global commercial amenities. On the other hand, it could also attitude certain contests, such as better rivalry and the overview of new threats to the economic scheme. Largely, the admission of external banks into a country's banking sector can have momentous consequences for both the banking business and the wider economy, and needs vigilant analysis and attention of the possible benefits and challenges, (Mathewos, 2018)

Foreign banks incoming the Ethiopian banking segment can convey a diversity of benefits, such as enabling the flow of foreign capital into the country, improving access to intercontinental financial services, and upholding competition among indigenous banks. These paybacks may lead to enlarged effectiveness and improvement in the banking segment, which can in go initiative commercial growth and growth in the country. Though, there are also potential challenges related with overseas banks inflowing the Ethiopian banking sector. For example, home-grown banks could face augmented competition, which could lead to partnership or even liquidation Kiyota *et al.* (2007). Moreover, foreign banks could not fully apprehend the local market and may fight to familiarize to native rules and commercial practices.

Levine, and Min (1998) exploring the prospective benefits and contests of foreign banks inflowing the Ethiopian banking sector would necessitate a complete investigation of the nation's present banking industry, its monitoring setting, and the possible effect of foreign banks on the economy.

Entry of foreign banks to operate in Ethiopia will bring both prospects and challenges to the incumbent state owned commercial and private banks in particular and the financial sector in general. Therefore, this paper analyses the prospects and challenges of allowing foreign banks in Ethiopia and the strategies to be

adapted by domestic banks in Ethiopia to survive and thrive with the new competitors entering and competing with them. (Mathewos, 2018)

1.2 Statement of the Problem

Banking market is liberalized by the government in order to attract new capital and to promote the restructuring of their often rather inefficient banking system. Banks contribute their part to the countries development. Many transition economies have been making different reform and liberalization of their financial sector in order to enhance the economic development. The recent

Relatively high economic growth achievement in Ethiopia is also a result relatively productivity of this sector. This to be true, private banks which started to evolve after the reform in 1994 has been contributing their prominent role towards the sector development.

Entrance of foreign banks has an effect on the domestic bank and financial activities of the country. Based on their effects, the government may allow or prohibit the entrances of foreign banks in the financial sector. The effects of these banks are differing because different countries have different Capability and competency. And also the policy to allow or prohibit are affected by the country governing body capacity to manage or control these banks. (Aliber (1984).

Though, there has been restricted entrance of foreign banks interested in the sector, in spite of the prospective benefits they may deliver in terms of better competition, well technology and advancement, and better economic inclusion. The problems concerning foreign banks' entrance into Ethiopian commercial banks may be difficult and multi-layered. A number of vital matters that have been elevated in this situation comprise worries nearly potential competition for resident banks, challenges connected to governing compliance, and enquiries about the effect of foreign security on the local economy and business sector. Besides, the effect of overseas banks' overview on the accessibility and availability of financial services for a number of segments of Ethiopia's population might be an element of concern, (Kiyota, 2008)

It seems that there is presently a lack of study that discovers the benefits and drawbacks of foreign banks incoming the Ethiopian commercial banking industry. Though there have been various studies on the effect of foreign bank entry in other countries, there is a inadequate quantity of info presented on exactly how this might disturb Ethiopia's economic sector definitely.

This study targets to survey the would-be benefit and challenges of entrance of foreign banks on the

Ethiopian banking sector, through an emphasis on understanding the views of key participants, comprising local banks, regulators, customers, and the wider Ethiopian society. By categorizing the opportunities and challenges connected with foreign bank entry. In addition, there is a need for extra research that examines the particular regulatory and legal frameworks that administer foreign bank entrance in Ethiopia. This investigation might support to classify potential obstacles or challenges that foreign banks might face when attempting to enter the market, as well as policies for overcoming these obstacles.\

Foreign bank comes with two potential benefits and potential challenges. For this, the country need to be ready at all time to avoid the possible challenges that may come as a result of foreign bank entry. This paper assesses the potential challenges and potential benefits of foreign bank entry in the Ethiopian banking sector.

The spill over effects of overseas banks' entrance into Ethiopian commercial banking can contain knowledge transfer, technology transfer, and additional methods of technical assistance that might possibly improve the local banks' competitiveness, efficiency, and financial stability. The study might discover the extent to which such spill over effects have happened, their nature, and their effect on the local banking sector.

1.3 Research Questions of the Study

In order to address the problems, the following research questions are articulated to be responded as an outcome of the study:

- 1 What are the potential benefits of entry foreign banks on commercial banks in Ethiopia?
- 2 What are the potential challenges of foreign bank entry in commercial banks in Ethiopia?

1.4. Objectives of the Study

1.4.1 General Objective

The main objective of this study was to investigate the potential benefits and challenges of foreign banks entry in commercial banks in Ethiopia.

1.4.2 Specific objectives

The specific objectives of the study will be:

1. To investigate the potential benefits of foreign banks entry on commercial banks in Ethiopia.
2. To identify potential challenges that foreign banks entry on Ethiopian commercial in Ethiopia

1.5 Significance of the Study

The study has great contribution to the Banking sector, Supervisory authority, policy makers, Researchers and Students and finally, it may be used as a reference for other researchers who are interested to conduct further study related to this problem.

1.6 Scope of the Study

The main objective of this study is to investigate the potential benefits and challenges of foreign banks in Ethiopian banking sector. Due to time constraint the research is restricted to five commercial banks and excludes other financial sectors like insurance companies, microfinance institutions, and pension funds

1.7. Organization of the Study

This research was structured into five chapters. The first chapter deals with introduction part that involves the background of the study including previous studies on top of the topic, the problem of statements, Research questions , the objectives of the study, significance of the study, Scope of the research.

Chapter two comprises review of relevant literatures to the study and the conceptual framework relevant to the study. These contain both empirical, theoretical studies and conceptual frame work made with regard to the foreign banks into the Ethiopian banking sector.

Chapter three incorporates the methodology of the study. It was covered the research design, Research Approach, target population, sampling methods and sample size and determination, data sources , data analysis methods ,validity and reliability were addressed.

Chapter four were discussed the data analysis and interpretation of results with the help of SPSS 23 software package; and,

The Fifth chapter was drawn possible conclusions on the basis of the findings and an indication of their significance or policy making consequences. Recommendations was also be made in this chapter

CHAPETER TWO

2. REVIEWS OF RELATED LITRATURE

2.1. Theoretical reviews

Foreign banks entry refers to a process by which foreign banks set up operations in a host country mainly by either opening up a branch or a subsidiary. According to Tschoegl (1985), the current degree of integration across banking sectors around the world can only be compared to that existing at the eve of World War I. Several countries that allowed foreign bank entry in 1920 restricted it between 1920 and 1980. At the same time, no country that forbade foreign entry in 1920 opened up over the same period. In recent years, the pendulum has swung back towards entry. The trend has been especially pronounced in developing countries, although the pattern of entry has not been uniform.

The issue of presence of foreign-owned banks is relatively not new in Ethiopia; however, not many studies on this topic have been already conducted. The investigation of potential benefits and risks resulting from presence of foreign-owned banks has received a lot of attention in empirical studies. Let's start the literature review with theoretical background discussing advantages and disadvantages of foreign bank ownership and proceed with section on empirical research.

Theoretical background was provided comparatively recently. Claessens et al. (2001) and Goldberg et al (2000) pointed out several positive effects. That the foreign banks have on the banking systems of domestic banking market. First, both the above mentioned studies stress that foreign banks entry stimulates credit growth for both households and the legal entities in financially underdeveloped markets. It is explained with the fact that foreign banks have greater variety of sources from where they can attract funds (from their parent banks or other multinational banks), since foreign banks thanks to their better reputation are more likely to receive needed loans.

Monteux, et al. (2016) conducted a methodical assessment of the literature on the influence of overseas

bank admission on domestic banks in developing countries. The authors found that overseas bank admission can increase rivalry, which can lead.

The matter of occurrence of foreign-owned banks is reasonably not new in Ethiopia; nevertheless, not numerous lessons on this issue have been already conducted. The examination of prospective welfares and hazards consequential from presence of foreign-owned banks has received a lot of consideration in practical studies. Let's start the literature assessment with theoretical experience discussing merits and demerits of overseas bank ownership and continue through segment on empirical research.

Theoretical experience was provided reasonably recently. Claessens et al. (2001) and Goldberg et al (2000) pointed out numerous constructive effects. That the overseas banks have on the banking systems of internal banking market. First, both the above stated lessons anxiety that overseas banks admission motivates credit development for both households and the legal entities in monetarily underdeveloped markets. It is clarified with the fact that overseas banks have better variability of foundations from where they can attract funds (from their parent banks or other international banks), since overseas banks thanks to their better name are more likely to receive needed loans.

Second, according to Claessens et al. (2001) the overseas banks admission inspires rivalries with native banks and, as a result, helps local banks in costs reduction, modification of financial services. As a rule overseas banks arrive domestic market bringing more sophisticated products. So, in order to be able to collect or at least keep current market shares local banks have a motivation to expand their facility portfolio, advance the excellence of financial services. Removal of out-of-date approaches from banking practices and lesser margins of interest rate are examples of such enhancements.

In the similar investigation there is cited the third optimistic effect. Occurrence of overseas banks may have optimistic spill-over sound effects. For example, overseas banks appliance new banking products at local market. Those local banks that want to retain their positions or enlarge their market portion need follow overseas banks example and to appliance new banking products as well. Not merely new services then again new practices in administration and commercial responsibility are frequently familiarised by overseas banks. And again inland banks are encouraged not to fall behind their international challengers and implement new practices as well. (Claessens and Jonk-Kun, 2003)

In addition, since overseas banks are concerned in security of their rights as non-residents, this may ultimately strength the indigenious authority to advance banking directive. Or else, native banking market will be too dangerous for overseas banks and no admission happens. In addition, as Goldberg et al (2000)

have noted, entry of overseas bank may eradicate extreme intervention of authorities to banking sector.

2.2. Definitions

Foreign banks are banks that are their head office in one country and have divisions, subsidiaries or representative offices in many other countries in the world. These banks offer a range of monetary facilities to consumers in those nations, such as loaning, deposit-taking, and investment management. Foreign banks can enter into a country through a diversity of ways, such as setting up a new branch, purchasing an existing bank, or founding a partnership with an inland bank. The entry of overseas banks into a market can announce better rivalry and modernization, which can benefit customers. (Levine 1996 and Mishkin, 2007).

Foreign Branch Bank: - is a type of overseas bank that establishes a physical existence in a foreign country by opening a branch office. The branch office is lawfully measured to be an extension of the overseas bank rather than a distinct lawful body. Foreign branch banks offer a range of monetary facilities to customers in the host country, such as deposit-taking, lending, and trade finance. Foreign branch banks may be matter to definite rules compulsory by the host country, counting wealth necessities, reporting and disclosure necessities, and limitations on the number of branches they can activate. The admission of overseas branch banks into a market can contribute to improved rivalry and modernization, which can eventually benefit customers.

A foreign branch is a branch of a bank located in another foreign country. It is a lawful functioning part of the main bank. Creditors of the overseas branch have lawful rights on the bank's entire resources and consequently creditors of the parent bank have lawful right on its branches' resources.

A foreign bank branch includes directing multifaceted permissible and supervisory requirements that vary by country. I can provide some general information to get you started.

First, you will requisite to examination the exact necessities for the country in which you desire to found your bank branch. These necessities often include obtaining a certificate from the country's banking supervisory body, setting up a local office, and obeying with numerous rules and regulations connected to banking procedures.

You will similarly want to consider issues such as recruitment, funding, and promotion for your foreign bank branch. It's significant to have a clear considerate of the native market and rivalry to safeguard accomplishment.

2.3 Forms of Foreign Bank Entry

Experiential suggestion displays that in emerging markets, foreign banks are extra money-making and more efficient than inland banks, while being fewer money-making in more developed countries. (Mathewos Ensermu, 2018) Representative Office:-A representative office is the supreme restricted nonetheless greatest simply recognised structural technique. It does not involve in inviting deposits plus extending credits, nevertheless is usually recognized to test the opportunity of additional contribution. Foreign Branch:-A foreign branch constitutes an advanced level of assurance than a demonstrative office or agency. The critical variance among an overseas branch and a overseas subsidiary is that, officially, a branch is a unity with its main office and a subsidiary is an self-governing legal entity Bank Subsidiaries:-Bank subsidiaries' are distinctly combined from the parent bank, whose monetary promise to the subordinate contains of the capital financed. Subsidiaries are frequently involved in retail banking markets. Establishing an Affiliate Relationship or Participating in a Joint venture:-This be able to be additional means to participate in overseas enlargement. This frequently includes winning smaller risks in indigenous entities, and the level of participation in the administration of the indigenous banks by the overseas bank is generally little. The joint ventures manners are designed by more than one firm. They usually take a monetary concern and a board membership. A joint venture is an arrangement where the firm is necessary to share equity and governor of the venture with a partner from the host country

2.4. Prospects of Foreign Bank Entry on Ethiopian commercial banks

Allowing foreign banks to work in Ethiopia be able to possibly bring numerous assistances to the nation's economy, such as enlarged rivalry, better-quality access to finance, and improved world-wide connectivity. Here are some of the possible benefits (Mathewos, 2018)

Increased Competition: The admission of overseas banks into the Ethiopian market can encourage rivalry and competence, dropping charges for consumers and possibly prompting innovation. This might lead to better facilities, lesser fees and interest rates, and more choices for customers.

Improved Access to Finance: Overseas banks can bring new foundations of funding and expertise to Ethiopia, which might assistance to increase access to finance for both companies and persons. This could support economic development, encourage entrepreneurship, and assistance address nearly of the encounters tackled by the country's undersized financial sector.

Improved World-wide Connectivity: Overseas banks can too aid to advance Ethiopia's world-wide connectivity, linking native businesses and stakeholders to international markets and simplifying cross-

border investment and trade. This might aid to fascinate overseas investment and improvement of economic development over the extended term.

Generally, permitting overseas banks to function in Ethiopia might bring numerous welfares to the nation's economy, encouraging competition, invention, and development.

Foreign bank admission can take numerous optimistic belongings on Ethiopian commercial banks. Primarily, it be able to encourage well competition inside the banking business, which can tip to improved facilities and improved interest rates for customers. This can inspire profit-making banks to become extra efficient and innovative in order to stay competitive in the market (Mathews, 2018)

Furthermore, overseas bank admission can lead to improved monetary steadiness. This is for the reason that overseas banks frequently bring in proficiency and experience in hazard administration and other areas of banking that can help indigenous banks advance their monetary administration practices.

Transmission of knowledge and technology: Overseas banks frequently bring in new technologies and practices that may not yet be current in the inland banking sector. This be able to support progress the proficiency of the banking industry and growth access to monetary facilities in the country.

Furthermore, overseas bank admission be able to clue to improved investment in the given country. This can lead to job making and economic development, which can advantage the local community.

Generally, overseas bank admission can have numerous optimistic output on Ethiopian commercial banks, as well as encouraging well competition, encouraging monetary stability, and lead economic growth and job creation.

2.5 Challenges of Foreign Bank Entry

More likely to shift their funds to more attractive markets during a crisis if their parent are weak. There are two related issues here: (i) whether the presence of foreign banks makes systemic banking crises more or less likely to occur, for example, by providing an additional avenue for capital flight, and (ii) whether there is a tendency for foreign banks to “cut and run” during a crisis. On the other hand, foreign banks can contribute to the stability of the domestic financial system, for example, if depositors shift their deposits to foreign banks from their risky local banks rather than engaging in a capital flight. Banks is the risk that domestic financial institutions would not be able to withstand increased competitive pressure and might even risk facing bankruptcy. Such banking failures might have spill over effects on other banks and could possibly endanger stability in the financial market. [11] If domestic banks fall under the “too big to fail” category and thus require some support, suppressing

competition from new entrants can be an inexpensive form of support.

2.5.1 The potential costs; if foreign banks are allowed to operate in the bank sector in Ethiopia?

Permitting Fbanks to function in Ethiopia's banking area might possibly have both advantages and disadvantages. On the one hand, it could increase rivalry and result in reduced costs and interest rates for clients. In addition, it might increase overseas investment and contribute to financial development in the nation. This is in line with research results by Lensink and Herms (2003).

On the other hand, there might also be potential costs related with permitting foreign banks to work in Ethiopia. These could contain the potential for increased economic disparity, as foreign banks can emphasis on serving better-off clients and overlooking low-income persons and small businesses. Furthermore, foreign banks may repatriate profits back to their home countries, rather than reinvesting them in Ethiopia.

Generally, the result to permit foreign banks to function in Ethiopia would necessitate alert respect of the potential costs and benefits, and would need to be appraised on a case-by-case basis.

2.5.2. Potential efficiency reforms to the Ethiopian banking sector, if foreign banks are allowed operating with current conditions.

There are quite a lot of potential efficiency restructurings that might be realised in the Ethiopian banking industry if foreign banks are permissible to function under existing situations. For instance, foreign banks might carry in new technologies, systems, and methods that can lead to more effective processes. This might consist of the execution of digital banking results, which can aid decrease the costs related with old banking operations, such as manual transaction processing and paper-based documentation. (Clarke et al., 2003).In addition, foreign banks might convey in new capacity and expertise, which could lead to better-quality risk administration, better product expansion, and more operative marketing and client service. This might support Ethiopian banks to contest more effectively with international banks and intensification their market share.

Moreover, foreign banks could help improve the general regulatory situation in Ethiopia by allocation best practices and knowledge from their home countries (Aliber1984). This could lead to more effective oversight and regulation of the banking sector, which could improve stability and protect consumers.

2.6 Empirical literature

Claessens and Horen (2013) focused study on the benefit and challenges of foreign banks entry . The paper delivers a serious assessment of the prices and benefits of foreign bank ownership. It evaluations the broad literature on the influence of foreign banks and uses a distinctive database on bank rights, covering 129 countries; to (re-)evaluate a number of the issues discussed. It documents foreign bank occurrence between 1995 and 2009, stress significant changes across host and home countries and strong mutual patterns. It finds that foreign banks tend to outstrip domestic banks in developing countries, countries with weak organisations and where foreign banks do not play a major role. In terms of influence, it displays that foreign banks can deter domestic financial sector development in developing countries, countries with weak institutions and where foreign banks play a minor role. Investigative the effect of foreign banks on financial stability, it finds that during the global crisis, foreign banks reduced credit more compared to domestic banks in countries where they had a unimportant role, but not when governing or financed locally. Tiruneh L. wrote an article in the June 2012 issue of JBAS titled "Establishing Financial Markets in Ethiopia: The Environment, Foundation, Challenges and Opportunities". In the article, he discovers the challenges facing the setting up of financial markets in Ethiopia, including the lack of regulatory frameworks, financial infrastructure and human resources. Tiruneh also highpoints the opportunities obtainable for the growth of financial markets in Ethiopia, such as improved foreign investment, better-quality economic growth, and the rise of a middle class. He regulates that the institution of effective financial markets is vital for Ethiopia's general economic progress and recommends that policymakers take necessary steps to establish the necessary infrastructure and regulatory frameworks to enable the advancement of economic markets in Ethiopia. “The article "Foreign Bank Entry and Rivalry in Ethiopia's Banking Industry: An Empirical Analysis" written by Abonesh Tesfaye explores how the arrival of foreign banks has impacted competition within Ethiopia's banking sector. The author utilizes market concentration and market share analysis to investigate this effect. Mathewos Ensermu wrote a paper in 2018 titled "Prospects and Challenges of Foreign Banking Entry to Ethiopian Financial Market". In the paper, he discovers the potential benefits and challenges of overseas banks inflowing the Ethiopian financial market. His dictations that the entrance of foreign banks might contribute to the expansion of the nation's financial sector, comprising better admission to finance, enhanced financial products and services, and additional rivalry. However, he also highlights some of the contests that foreign banks may face, such as currency risks, regulatory obstacles, and cultural differences. Enema accomplishes that despite the fact foreign bank entry might offer noteworthy opportunities for Ethiopia's financial sector, alert reflection should be

given to the challenges and threats involved in order to safeguard a fruitful entry. Ogunbiyi, O. J., & Ibe, G. O. (2016). Study on overseas bank appearance and in what way it touches the performance of national banks in Nigeria. Based on the results of the study, it appears that foreign bank entry has a positive impact on the performance of domestic banks. This is for foreign banks incline to implement greater ranks of technology, which leads to enlarged profitability, liquidity, and effectiveness between inland banks. General, the study proposes that foreign bank entrance can have a advantageous result on the performance of local banks in Nigeria. Adu, K. S., & Amankwah-Amoah, J. (2018). Overseas bank admission and performance of inland banks in Ghana: An experiential examination. *International Journal of Bank Marketing*, 36(3), 407-426. The study also originate that external banks tend to have a higher level of technology adoption, which positively effects the performance of inland banks. Besides, the outcomes indicate that foreign bank entry encourages rivalry, which in turn progresses the performance of local banks. Based on these outcomes, the authors decided that overseas bank entry can have a beneficial effect on the local banking sector of Ghana.

Barajas and et al (2000) provide evidence on the competitive effect of foreign entry in Colombia. They find that foreign entry improve the efficiency of the domestic banking system by reducing nonfinancial costs and foreign banks in Colombia did not compete against domestic ones in all sectors. Similarly, Clarke et al (2000) find that although foreign banks in Argentina competed beyond the wholesale market in the late 1990s, they did not compete with domestic banks in all sectors. Using data for the Philippines (1990-98), Unite and Sullivan (2001) investigate how foreign bank entry and increased foreign ownership affected domestic banks and conclude that foreign competition forces domestic banks to be more efficient and foreign bank penetration led to an increase in loan loss provisions. In Poland, foreign banks were found to be more cost efficient than domestic banks, except those domestic banks that had a high share of foreign customers (Nikiel and Opiela, 2002). In these countries, foreign banks appear to be more efficient than their domestic counterparts are, and foreign entry seems to improve the efficiency of domestic banks. So if policymakers in developing economies relied primarily on the evidence from developed economies, they might underestimate the potential benefits of foreign entry, to the detriment of the banking sector's development. Thus, foreign banks are expected to increase economic growth by improving the functioning of domestic banks, in turn, the development level of financial markets.

Besides these positive effects, there might be some costs associated with foreign banks such that they may dominate the entire domestic financial market or foster capital flight. In the case of India, foreign banks are less cost efficient and productive than domestic banks (Sensarma, 2006). In part, this can be explained by the dominance of India's state-owned banking sector. The profitability of the foreign banks in China was lower than that of domestic banks (Wu, Chen, and Lin, 2007). Recent evidence

indicates that banks with greater (minority) foreign ownership shares and less state ownership are more cost and profit efficient than others in China (Berger, Hasan, and Zhou, 2009). Findings of recent studies focusing specifically on the recent global financial crisis suggest that at the height of the crisis global banks were transmitting shocks across borders through their affiliates. De Haas and Lelyveld (2013), for example, compare foreign banks with large domestic banks and find that the former group on average contracted their lending more. De Haas et al., (2011) find similar results for a sample of Eastern European countries. Popov and Udell (2012) show that if banks in the vicinity of the firm were experiencing distress at the onset of the global financial crisis, the likelihood of a firm being credit constrained increased. After investigating both positive and negative effects of foreign banks in the literature, but it can be said that the positive ones generally dominate.

2.7 literature gap

Based on present research, the existence of foreign banks has an influence on the performance of local banks by making more competition. Though, it is not completely clear how this competition touches effectiveness. Some studies, such as Cho (1990), have establish that costs for banks can in reality increase afterwards foreign bank entry. An additional study by Lensink and Herms (2003) shows that in the short-term, charges can go up reliant on the level of economic growth of the nation elaborate. There may be advantages and disadvantages to having foreign banks operate within a domestic banking system. In this study, needs to discover in what manner the entrance of foreign banks might distress the financial performance of home-grown commercial banks in Ethiopia, as well as the potential lost opportunities that might result.

2.8. Conceptual framework

While it emanates to the study of the potential benefits and challenges of entrance of overseas banks on the Ethiopian banking area, there are numerous issues to reflect. Some inhibited benefits could comprise improved competition, Access to capital and technology, and the potential for new products and facilities to become accessible to clients. On the other hand, there may also be challenges related to Access to FCY, regulatory issues, and the potential for local banks to be overshadowed by larger, more established foreign banks

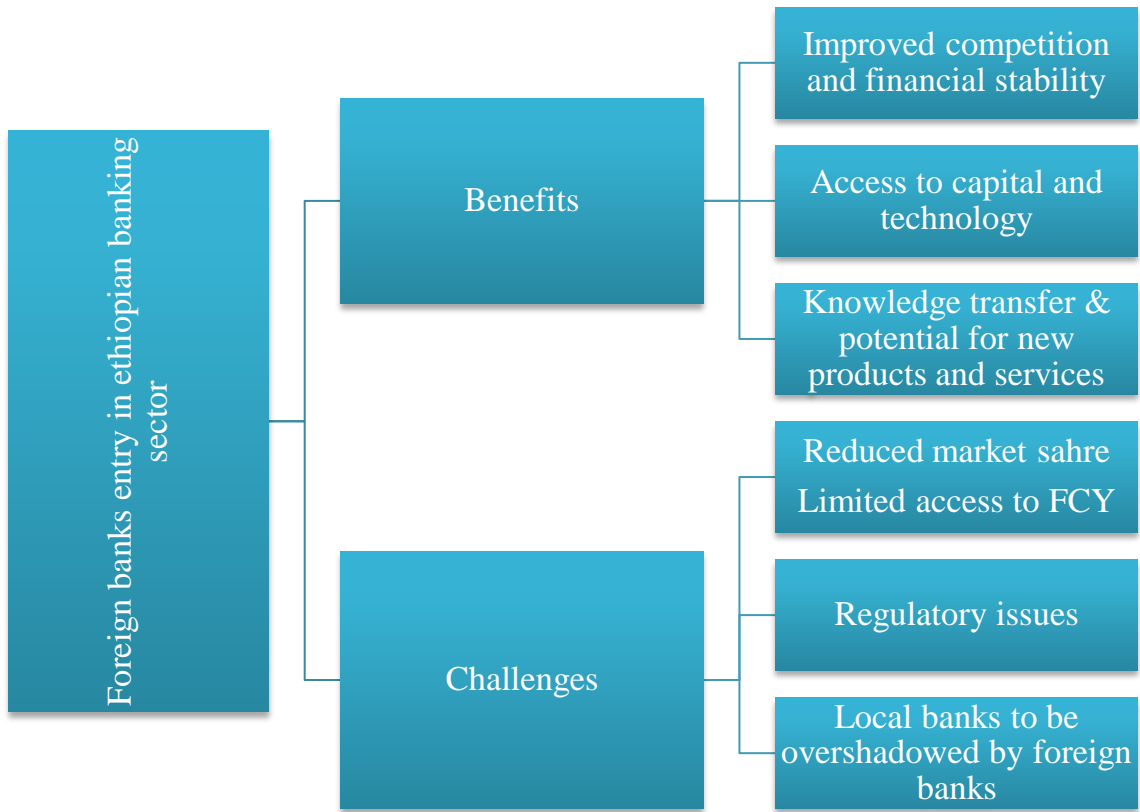


Figure 1: Conceptual framework.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Research Design

According to (Kothari, 2004), a research design is the arrangement of circumstances for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The researcher used descriptive research techniques.

3.2 Research Approach

According to (Creswell, 2007), there are three approaches in conducting scientific research, i.e., qualitative, quantitative and mixed approach (Best, 2006) Therefore, the combination of qualitative and quantitative approach used in this study as data were collected and analyzed

3.3. Target Population and Sampling Design

The study intended to decide the population size of inland commercial banks in Ethiopia. To choose the top 5 commercial banks, non-probability purposive sampling was used based on their total assets and year of establishment. Moreover, stratified random sampling was employed, which comprises in-between the population into important and significant strata based on specific characteristics (Saunders et al, 2009).

The Researcher has designated some of the topmost banks in the Ethiopian industry for their study, based on their assets and establishment year, using the annual report 2021/22 of the National Bank of Ethiopia as a reference. The selected banks include Commercial Bank of Ethiopia (CBE), Awash International Bank (AIB), Bank of Abyssinia (BoA), Dashen Bank S.C (DB), and United Bank. (UB). To confirm complete insights, it's suitable to use both stratified and judgmental sampling techniques, which allow gathering lookouts from varied clusters of individuals. The Human Resource Department's report as of June 31, 2022, indicates that the target population comprises 800 corporate-level staffs, such as Chief Officers or Vice Presidents, Directors, and Managers.

Table 3. 1 Target Population of the study

Position	Total	Number	of	Total employees at corporate level
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	employees	Chief Officers/vice-president	Directors	Managers
CBE	330	15	115	200
AB	143	10	45	88
BoA	144	9	50	85
DB	132	9	39	84
UB	51	6	20	25
TOTAL	800	49	269	482

Source: Compiled by Author from HRM of each Bank (June 31, 2022)

Sample Size and Sampling Determination

The formula used by researchers to calculate the required sample size for exact outcomes within a definite margin of error is " $n = N / (1 + N (e^2))$ ". In this formula, 'n' represents the sample size, 'N' represents the population size, and 'e' represents the margin of error. This formula confirms that the study contains enough participants to deliver reliable and useful results. The sample size for a particular research study was calculated using the Yamane (1973) formula. The sample size with a degree of precision of 0.07 and a 93 percent confidence level is given by:

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

Where

N - The population size,

e - The level of precision (7%).

n - The sample size,

$$n = \frac{800}{1 + 800(0.07^2)} = 162$$

3.4 Source of Data

The student researcher employed both primary and secondary sources to gather information for this study. Primary data was attained through interviews and questionnaires. Secondary data was developed through various published and unpublished sources, including annual reports, periodicals, journals, and books.

3.5 Measurement Scale

Likert scales and "yes or no" questions are used to measure people's agreement or disagreement with a statement by contribution a range of answer options from one end of the range to the other. This permits respondents to express the level of their view in a more nuanced way. The questionnaires were used a rating scale from 1 to 5, where 1 means strongly disagree and 5 means strongly agree. This scale was selected to make it relaxed and straightforward for respondents to response the questions and for easy assessment of the collected replies.

3.6 Methods of Data Collections

There are two key groups of data gathering techniques: primary and secondary. Primary data collection comprises directly gaining information from the source, frequently by using techniques such as interviews and questionnaires. On the other hand, secondary data collection involves gathering information that has already been collected and published by someone else. In this case, the researcher used primary data collection techniques, specifically questionnaires, to obtain first-hand information from the respondents

3.7 Data analysis methods

The researcher applied SPSS version 23 to conduct statistical analysis, and also engaged a descriptive data analysis method for the questionnaire and interview data. This technique was selected to streamline the raw data and make it easier to know. After the data was collected, the researcher implemented tabulation, percentage, frequency, mean, and standard deviation calculations to analyse it.

3.8 Validity and reliability

3.8.1 Validity

According to ying (1994), validity refers to how accurately a study reflects the particular concept the researcher is trying to measure or explain. To keep research valid, researchers need to pay attention to both external and internal validity. Internal validity refers to the extent to which researchers can demonstrate that they have reliable and sufficient evidence for their statements

(Grix, 2004). External validity, on the other hand, indicates how well the conclusion generalizes to the population. According to Ying (1994), multiple lines of evidence are used to ensure the validity of constructs. The research uses multiple data sources such as questionnaires, interviews, and document reviews to support cross-validation of data. In addition, questions are reviewed for clarity by subject matter experts to enhance internal and external relevance.

3.8.2. Reliability

Reliability is the degree to which you can expect the same result if you repeat the measurement. Cronbach's alpha is used to ensure internal consistency between items included in each scale. Researchers use Cronbach's coefficient alpha estimate to measure the consistency or reliability of items included in each scale. As suggested by (George and Mallery, 2003), Cronbach alpha coefficients greater than 0.7 are acceptable. In this study, we confirm the reliability of the measurement equipment. The questionnaires used to collect the data were considered valid as they consisted of questions used in most previous studies. However, there are also questions designed to capture specific issues that are most relevant in the Ethiopian context. Cronbach's alpha is used to test how well the items used in the scale composition measure the same concept. The result of calculating Cronbach alpha with SPSS 23 is shown below.

Cronbach's Alpha	N of Item
.74	46

Source: Questionnaire survey, 2023, using SPSS 23.

The results were extracted Cronbach's Alpha values are more than 0.7 implying that constructs are consistent to measure the variables.

3.9 Ethical consideration

The researcher guaranteed that no activities were carried out without earning consent from relevant parties. Ethical considerations such as preserving confidentiality and being transparent were taken into account in directing the study. To confirm ethical standards were met, the participants were well-versed about the research's objective and importance and were confident that their responses would persist confidential.

CHAPTER FOUR

4. DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter presents the data analysis and constructed on the results the researcher gives discussion on the findings and also gives some explanation of the end result. These presentation and discussion was made by using the data collected through questionnaires and interview. Descriptive statistics associated with frequency distribution are used and SPSS software version 23 was used to analysis responses.

4.2 Rate of Response

A total of 162 questionnaires were managed to those executives in 5 commercial banks in Ethiopia and from those questioners the researcher collected total of 162 complete questioners. This presented a response rate of 100% after receiving the questionnaires a thorough verification process was done before going to further analysis to check for wholeness and reliability of the questionnaire.

4.3. Demographic Characteristics of Respondents

The demographic structures of respondents are discussed under gender (sex), employee's experience educational level, age, job category, this was analysed to ascertain the demographic characteristics of the respondents used for the current study. The various findings relative to the respondents' demographic characteristics are presented and discussed with the aid of frequency, percent, tables and diagrams shown below:

Table 4. 1: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	138	85.2	85.2	85.2
Female	24	14.8	14.8	100.0
Total	162	100.0	100.0	

As illustrated on the table that the distribution of gender between a group of 162 persons. Of the overall sample, 85.2% were male, while only 14.8% were female. The table likewise displays valid and cumulative percentages, which can be useful in understanding the total distribution. The valid percentages show the percentage of responses that fall into each category, while the cumulative percentages illustration the total percentage of responses up to that point. The collective percentage of males is 85.2%, while the aggregate percentage of females is 100%.

Table 4.2: work experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid < 5 years	7	4.3	4.3	4.3
5 to 10 Years	34	21.0	21.0	25.3
11 to 20 years	113	69.8	69.8	95.1
above 20 years	8	4.9	4.9	100.0
Total	162	100.0	100.0	

As per the data, majority of respondents or 69.8% percent have been working between 11 to 20 years 4.3% of respondents have been working in the financial institution for less than 5 years, 21% have been occupied for 5 to 10 years, and 4.9% have been working for over 20 years.

Table 4. 3: Position in the organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Chief Officer	4	3.1	3.1	3.1
Director	22	13.6	13.6	16.7
Manager	135	83.3	83.3	100.0
Total	162	100.0	100.0	

As depicted from the table above, 162 individuals were measured about their position in an institute. Of these, 4 (3.1%) known as Chief Officers or vice president, 22 (13.6%) recognized as Directors, and the common of respondents, 135 (83.3%), identified as Managers. The cumulative percent column shows that the percentage of people who acknowledged as Directors or Managers improved as other people were dignified.

Table 4. 4: Educational qualification.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid PHD	6	3.7	3.7	3.7
Master’s Degree	140	86.4	86.4	90.1
Bachelor’s Degree	16	9.9	9.9	100.0
Total	162	100.0	100.0	

From the total 162 respondents, 140 (which is 86.4% of the individual) have a Master's degree, 16 (or 11.11%) have a Bachelor's degree, and 4 (or 2.47%) have a PhD. This table indicates that the majority of the folks in this cluster have a Master's degree, tracked by a Bachelor's degree and a PhD.

Table 4. 5: Respondent feelings of foreign banks entry in Ethiopia

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bad feeling	65	40.1	40.1	40.1
Indifferent feeling	2	1.2	1.2	41.4
Positive feeling	95	58.6	58.6	100.0
Total	162	100.0	100.0	

According to the above data the majority of respondents or 58.6% had a positive emotion about foreign banks incoming Ethiopia, while 40.1% had a bad sentiment, and 1.2% had a neutral emotion. This proposes that a number of people are positive attitude about the influence that foreign banks might take on Ethiopia's economy or economic structure. Significant number of respondents fears about domestic banks progress and expansion.

Table 4. 6: Commercial banks delivering efficient service at reasonable cost

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	121	74.7	74.7	74.7
No	41	25.3	25.3	100.0
Total	162	100.0	100.0	

Conferring to the above table result, the majority or 74.7% of respondents replied "Yes" while questioned if inland commercial banks are bringing effective facility at a rational cost. In the meantime, 25.3% of respondents reacted "No". This recommends that the majority of people consider that local commercial banks are given that well-organized service at a sound cost, nonetheless there is still a substantial less significant who do not share this opinion.

Table 4. 7: foreign banks deliver better service as reasonable cost than domestic commercial banks

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	146	90.1	90.1	90.1
No	16	9.9	9.9	100.0
Total	162	100.0	100.0	

As per the table illustrated above 146 of the total 162 respondents (or 90.1%) reacted "Yes" to the enquiry of whether foreign banks provide superior service at an equitable cost associated with domestic commercial banks. Meanwhile, 16 respondents (or 9.9%) answered "No". This suggests that a majority of the respondents observe foreign banks to be larger in providing economical services related to local commercial banks.

Table 4.8. Domestic commercial banks have the initiative to provide new products/services to customers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	151	93.2	93.2	93.2
No	11	6.8	6.8	100.0
Total	162	100.0	100.0	

Based on the table above, it looks that the majority of respondents (93.2%) consider that domestic commercial banks look after the inventiveness to offer new products and services to customers. Merely an insignificant ratio (6.8%) touched that banks do not have this advantage. Generally, this proposes that respondents have a constructive outlook of the exertions made by home commercial banks to invent and come across their desires.

Table 4. 9: foreign banks have better initiative to provide new products/services to customer than domestic commercial banks

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	154	95.1	95.1	95.1
No	8	4.9	4.9	100.0
Total	162	100.0	100.0	

As demonstrated on the above table, it looks that the majority of respondents (95.1%) trust that foreign banks have well advantage to afford new products/services to businesses than local commercial banks. Merely an insignificant part (4.9%) disagreed through this report.

This explanation advocates that customers notice foreign banks as extra pioneering and forward-thinking in terms of product and service development. It's possible that this perception is driven by the fact that foreign banks may have more experience in operating in different markets and adjusting to indigenous customer wants. It looks that a majority of respondents rely on that foreign banks have a healthier ability to make available new products/services to customers matched with inland banks. This can be owing to numerous aspects such as admission to progressive know-how, world-wide knowledge, and various customer understandings. Nevertheless, it's vital to note that each bank functions another way, and it is up to the specific customer to evaluate and select the bank that fits their requests excellent. On the other hand, it's essential to note that this is fair one study and could not signify the feelings of whole businesses.

Table 4. 10.Domestic banks have the capacity to provide new products/services/ to customers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	141	87.0	87.0	87.0
No	21	13.0	13.0	100.0

Total	162	100.0	100.0	
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As exhibited from the above table it look as if the majority of respondents (87%) rely on that nationwide banks have the ability to offer new products/services to customers. Conversely, 13% of respondents consider that local banks do not have the capability to do so. It's imperative to note that this data is built on the beliefs of those who responded, and could not unavoidably replicate the actual experiences of inland banks. Even so, it's boosting to understand that a majority of respondents have self-reliance in their banks' skills to provide advanced products and services.

Table 4. 11: foreign banks have better capacity to provide new products/services to customer than domestic banks.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	151	93.2	93.2	93.2
No	11	6.8	6.8	100.0
Total	162	100.0	100.0	

As depicted from the given table, the widely held of respondents have confidence in Foreign banks have a improved ability to arrange for innovative products/services to customers compared to domestic banks. This could be due to various factors such as access to advanced technology, world-wide knowhow, and different customer perceptions. But, it's essential to message that each bank works in a different way, and it is up to the individual customer to judge and pick out the bank that convulsions their essentials greatest.

Table 4. 12. Potential benefit to the Ethiopia current situation

	N	Minimum	Maximum	Mean	Std. Deviation
Introduce new financial innovation	162	1	5	4.20	.721
Accelerate the economies of scale	162	2	5	4.27	.712
Develop the financial market	162	2	5	4.17	.774
Improve the financial system infrastructure	162	2	5	4.26	.665
Attracts foreign direct investment	162	2	5	4.30	.695
Valid N (listwise)	162				

➤ As it can be seen from the table announcing overseas banks towards Ethiopia has the possible deliver more than a few doles to the country's present-day condition. These probable aids comprise familiarizing new financial development, fast-tracking economies of scale, emerging the financial market, improving the financial arrangement set-up, and attracting foreign direct investment. The mean scores for all of these prospective benefits are above 4, which designates that they are commonly observed as consuming a constructive influence. Furthermore, the standard deviations are comparatively low, which advocates that there is a degree of arrangement among the respondents about the possible aids of foreign banks working in Ethiopia. Largely, the data proposes that external banks might have an affirmative effect on Ethiopia's budget and economic scheme.

As per the interview question asked 'how do you believe the admission of foreign banks into the Ethiopian market could touch employment, economic growth, and financial strength'? The

respondent replied that the existence of external banks might have quite a lot of effects on the native bargain. They renowned that foreign banks might generate job opportunities and transmission information and skills to resident employees, which might increase engagement and encourage economic advancement. Conversely, they likewise distinguished that foreign banks might increase market competition, which may negatively impact the stability of local banks. Overall, they recommended that policymakers need to wisely reflect these potential influences already making any judgements about foreign bank entrance.

Table 4. 13: The potential difficulties to the Ethiopia current situation

	N	Minimum	Maximum	Mean	Std. Deviation
Foreign banks may reduce costs	162	2	5	4.19	.692
Domestic Banking as an infant industry becomes less competitive	162	2	5	4.20	.703
Retains credit to small firms	162	2	5	3.99	.439
Lack of domestic strong supervisory body	162	2	5	3.97	.504
Valid N (listwise)	162				

As it can be demonstrated on the above table that there might be possible problems in the Ethiopia present-day circumstances uncertainty overseas banks start to function. The respondents ranked the potential troubles on a scale of 1 to 5, with 5 being the maximum level of strain.

The two uppermost ranked potential worries were "Domestic Banking as a new-born business develops less competitive" and "Foreign banks may reduce costs", both with a mean rating of 4.2. This recommends that the starter of foreign banks might lead to better antagonism, hypothetically injuring the inland banking industry.

On the contemporary, "Retains credit to small firms" took a mean rating of 3.99, representing that respondents touched this might be a possible advantage of foreign banks operational in Ethiopia. Nevertheless, it's value perceiving that this was still rated as a probable striving.

Finally, "Lack of domestic strong supervisory body" had a mean rating of 3.97, signifying that respondents handled there might be challenges in regulating and administering the operations of foreign banks.

Generally, it's significant to prudently reflect the possible effects of foreign banks working in Ethiopia, particularly in terms of their sound effects on the local banking business and small companies. In addition, there may be a need to strengthen regulatory omission to guarantee that these

Based on the interview questions were asked what do you get as the main challenges that foreign banks may face when entering the Ethiopian commercial banking sector? The respondent replied that the interviewee painted a number of challenges, containing regulatory barriers, limited client responsiveness and expectation in foreign banks, young legal frameworks, and absence of skilful human resources. They similarly famous that the smaller size and disjointed nature of the indigenous market can make it hard for foreign banks to realize economies of scale and contend with recognized domestic actors.

Table 4. 14. The policymakers in Ethiopia have identified the potential risks towards foreign bank entry.

	N	Minimum	Maximum	Mean	Std. Deviation
Lack of interest by foreign banks to mobilize Domestic capital.	162	2	5	4.31	.571
The infant industry disagreement	162	3	5	4.18	.510
Changes the focus of credit away from small and medium enterprise	162	3	5	4.18	.430
Limited supervisory capacity	162	3	5	4.14	.415
Fear of capital outflow	162	2	5	4.27	.598
Valid N (listwise)	162				

As observed from the above table the probable vulnerabilities to overseas bank entrance in Ethiopia can be ordered established on the mean scores calculated. Agreeing to the data providing, the order of the potential endangerments from maximum to lowest mean score is: Absence of attention by foreign banks to mobilize domestic capital (mean score of 4.31), Fear of capital outflow (mean score of 4.27), The infant industry dissimilarity (mean score of 4.18), Changes the focus of credit away from small and medium enterprise (mean score of 4.18),

Restricted managerial capacity (mean score of 4.14) However, it's vital to note that all of these potential risks ought to be considered and addressed appropriately to confirm a smooth and effective entrance of foreign banks in Ethiopia.

Interview questions were asked for different respondents as recommend policymakers and stakeholders steadiness the possible benefits of external bank entrance and the respondents replied that proposed that the policymakers and stakeholders wisely consider the potential benefits and risks associated with foreign bank entry. They should consider realizing actions such as regulatory safeguards and threat justification policies to safeguard that rivalry is impartial, financial strength is continued, and indigenous banks are not extremely obstructed. It is vital to find an equilibrium that permits for bigger admittance to finance and enhanced financial technology though certifying that risks are sufficiently succeed

Additionally an interview regarding specific finest practices or lessons cultured from other countries' practices that you reflect might be pertinent for Ethiopia, assumed its economic and regulatory setting and replied that the stressed the significance of studying the experiences of other countries that have undergone similar transitions. They suggested that policymakers must attention on nations with alike economic and regulatory environments to Ethiopia, such as other African countries or evolving markets. Additionally, they renowned that policymakers ought to discover the use of regulatory sandboxes and model agendas that permit foreign banks to check their products and services in a measured setting before introduction in the wider market.

Table 4. 15. Potential efficiency reform to the general economy.

	N	Minimum	Maximum	Mean	Std. Deviation
Improve financial regulation	162	2	5	4.30	.649
Introduce other financial activities	162	2	5	4.44	.630
Attract a foreign direct investment	162	2	5	4.47	.622
Enhance the overall stability	162	3	5	4.43	.520
Valid N (listwise)	162				

As it can be seen from the table, all of the possible efficacy improvements have fairly high ratings, with means ranging from 4.30 to 4.47 on a scale of 1 to 5. The standard deviations are also comparatively low, demonstrating that there is not a lot of variability in the ratings. This proposes that there is broad agreement between those measured that these reforms would be helpful to the overall economy. Of course, it's essential to note that this data is constructed on a review of a definite population, so it may not be illustrative of the entire population or appropriate to all perspectives.

Table 4. 16. Potential efficiency reform to the bank sector

	N	Minimum	Maximum	Mean	Std. Deviation
Lower possible banking crises	162	1	5	2.06	.806
Provide a more stable source of credit	162	2	5	4.07	.433
Introduce new products and services	162	3	5	4.35	.527
Enhance the competitive environment	162	3	5	4.31	.516
Introduce a better supervision	162	3	5	4.25	.515
Introduce better disclosure	162	3	5	4.44	.545
Transfer of knowledge	162	2	5	4.35	.625
Transfer of good banking practice	162	2	5	4.46	.580
Encourage consolidation of banking service	162	2	24	4.36	1.660

Among Respondents, there are a number of approaches that can be followed in order to offer a more constant basis of credit and increase the overall viable situation in the banking sector.

One prospective strategy is to announce new products and services to attract and maintain clients. This is supported by the high rating of 4.07 out of 5 for this strategy. Another prospective method is to boost merging within the business, which received a rating of 4.46 out of 5 and may help to decrease disintegration and rise constancy.

Other policies that received high ratings include increasing the competitive situation (4.35 out of 5) and introducing better disclosure (4.25 out of 5). These approaches may help to increase transparency and accountability within the industry.

The transfer of knowledge and good banking practices also received high ratings (4.44 out of 5 and 4.35 out of 5, correspondingly), emphasising the importance of collaboration and sharing of information in improving the banking industry as a whole.

In conclusion, there are numerous approaches that can be pursued in order to deliver a more unchanging source of credit and enhance the competitive atmosphere within the banking industry. These include announcing new products and services, encouraging alliance, enhancing transparency and accountability, and promoting

Table 4. 17 Impact of foreign banks on the performance of Ethiopian domestic banks.

	N	Minimum	Maximum	Mean	Std. Deviation
Foreign banks reduce local banks market share	162	2	5	4.23	.552
Foreign banks attracts qualified staffs	162	2	5	4.23	.582
Foreign banks reduce local bank credibility	162	2	5	4.25	.561
Foreign banks reduce local bank total growth	162	2	5	4.32	.627
Foreign banks reduce local bank total growth asset	162	2	5	4.25	.582
Foreign banks reduce local banks lending growth	162	2	5	4.31	.633
Valid N (listwise)	162				

- As illustrated from the table there has been concerns about the effect of overseas banks on Ethiopian local banks. The mean scores for all six items are above 4, which proposes that respondents rely on foreign banks will have a negative influence on the performance of

indigenous banks. In particular, foreign banks might reduce local banks' market share, trustworthiness, total growth, total growth asset, and lending growth.

In addition to the questionnaires the interviewee questions were asked as the ways that the presence of foreign banks can positively impact the Ethiopian commercial banking sector respondents responded that the overseas banks can take along in new-fangled technologies, advanced products and services, and better risk administration practices that can improve the overall competitiveness and productivity of the local banking market. They also emphasized that foreign banks can help spur economic growth by increasing capital inflows, encouraging foreign investment, and enhancing infrastructure development.

Table 4. 18. Possible mode of entry among the organizational form

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Representative office	16	9.9	9.9	9.9
Foreign branch	13	8.0	8.0	17.9
Bank subsidiary	86	53.1	53.1	71.0
Joint Venture	47	29.0	29.0	100.0
Total	162	100.0	100.0	

According to the above data, it looks that there are four possible styles of entry for a business, specifically: representative office, foreign branch, bank subsidiary, and joint venture. Out of these possibilities, a bank subsidiary appears to be the most popular choice with 53.1% of respondents choosing the bank subsidiary. However, it ultimately depends on the specific goals and conditions of the organization in question. A representative office is a non-profit entity and is used to indorse the parent business's commercial interests. The representative office is forbidden from showing any commercial activities and can only carry out market research, promote the parent company, and support in setting up the parent company's business. Foreign Branch: A foreign branch is a legal postponement of the parent company and is permitted to conduct commercial activities. The overseas branch can enter into agreements, issue invoices, and receive payments. Though, the foreign branch is subject to the laws and regulations of the country it works in. Bank Subsidiary: A

bank subsidiary is a distinct legal entity from the parent company and is subject to the laws and regulations of the nation it functions in. The parent company is required to have a definite percentage of possession in the bank subsidiary. Joint Venture: A joint venture is formed between two or more companies for a specific purpose. The joint venture is a separate legal entity and is governed by a joint venture agreement. The profits, risks, and losses are shared between the partners based on the agreement.

Table 4. 19. The current macroeconomic environment likely to make the domestic banks competitive enough with their foreign competitors.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	50	30.9	30.9	30.9
No	112	69.1	69.1	100.0
Total	162	100.0	100.0	

As per the above table , from the total 162 respondents who were questioned whether the present macroeconomic atmosphere is likely to make local banks reasonable enough with their foreign competitors, 50 respondents (30.9%) said "Yes" and 112 respondents (69.1%) said "No".

This means that the common of respondents (69.1%) do not have confidence in that the current macroeconomic setting is favourable to making local banks economical enough against foreign competitors. Nevertheless, there is still a substantial minority (30.9%) who consider that domestic banks can be competitive.

Table 4. 20. The existing technological level bring domestic bank to a competitive position with their foreign competitors

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	124	76.5	76.5	76.5
No	38	23.5	23.5	100.0
Total	162	100.0	100.0	

As per the statement on 4.20, from the total 162 asked whether the existing technological level brings indigenous banks to a viable locus with their foreign competitors, 124 respondents (76.5%) said "Yes" and 38 respondents (23.5%) said "No".

This proposes that the broadly apprehended of respondents (76.5%) trust that the present scientific level carries local banks to a reasonable situation with their foreign contestants. Conversely, there is quiet a substantial minority (23.5%) who do not believe that technology is enough to make domestic banks competitive against foreign competitors.

Table 4. 21. Needs to be made to tap the foreign bank benefit

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Liberalization of domestic financial sector	24	14.8	14.8	14.8
Liberalization of capital account (offshore borrowing by institutions and multiple exchange rate market)	40	24.7	24.7	39.5
Liberalization of stock market	98	60.5	60.5	100.0
Total	162	100.0	100.0	

Among the respondents it looks that the maximum importance requirement for tapping foreign bank benefits is the liberalization of the stock market, with 60.5% of respondents demonstrating this as their upper primacy. The subsequent precedence is liberalization of the capital account, with 24.7% ranking this requirement. Lastly, 14.8% rank the liberalization of the local financial area.

These outcomes propose that concentrating on liberalizing the stock market would probably have the highest effect in drumming into foreign bank benefits.

Table 4. 22. Staff possess the required knowledge and skill to the desired level

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	19	11.7	11.7	11.7
No	143	88.3	88.3	100.0
Total	162	100.0	100.0	

As indicated from the above table majority of respondents (88.3%) have confidence in that the current staff does not retain the required knowledge and skill to the looked-for level to strive foreign banks. On the other hand, there were still several respondents (11.7%) who rely on that the existing staff does have the required skills and knowledge.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and conclusions

Of the people surveyed, 40.1% had bad feelings about foreign banks potentially entering the Ethiopian banking system or economy. This suggests that there may be worries or anxieties about the impact of external banks. However, without further information or context, it is difficult to come to any definite conclusions about the reasons for these negative feelings or what they might mean for the future. On the other hand, 58.6% of respondents had positive feelings while only 1.2% had no particular feeling about the matter.

It appears that a majority of respondents feel that national commercial banks are providing effective service at a reasonable cost. However, a significant number of respondents (25.3%) trust that external banks offer sound service at a rational cost. It's essential to note that 9.9% of respondents did not reach agreement with this decision, so it's clear that there are variable opinions on this matter. Generally, it's significant for banks to carry on to strive for great levels of customer satisfaction and to consider ways to develop their services and pricing.

Founded on the review outcomes, it looks that customers trust that both national and external banks have the creativity to deliver new products and services. Though, there is a perception that external banks are superior at this than national commercial banks. It could be worth discovering why this perception be present and what national banks can do to increase their reputation in this regard.

Founded on the survey outcomes, it seems that the majority of people trust that national banks are accomplished of providing new products and services to their customers. This is a positive symbol for the banking industry as it recommends that there is a readiness among customers to try out new presents. Though, it is worth observing that there is still a small percentage of respondents who are disbelieving about the ability of national banks to transform. This highpoints the essential for banks

to carry on to spend in new technologies and services to stay significant and come across the growing needs of their customers

Impression on Ethiopia's economy It is significant to note that while there may be some encounters and risks related with presenting external banks, the possible benefits compensate these concerns. Generally, introducing external banks can be a favourable strategy for helping economic development and improvement in Ethiopia. The introduction of external banks might lead to increased struggle and potentially destruction the national banking industry. However, it also appears that the national banking industry still has strong point, such as its ability to maintain credit to small firms. The absence of a strong managerial body is a concern, but it can be addressed through governing measures. In conclusion, whereas there are possible risks related with foreign banks incoming to the market, the internal banking industry can still thrive if it attentions on its strong suit and takes steps to address its weaknesses. Founded on the ratings distributed, it seems that there are several possible obstacles to mobilizing domestic capital and applying efficiency reforms. External banks may be hesitant to finance due to a absence of interest or concerns about capital outflow. Additionally, there may be disagreements about the growth of infant industries and challenges in supervisory capacity.

On the other hand, in spite of these possible challenges, there is also important possible for efficiency transformations with mean ratings ranging from 4.30 to 4.47 out of 5. It appears that these changes are widely observed as significant and feasible. With comparatively low standard deviations, there is also a reasonable amount of agreement between respondents. while there may be some challenges to applying reforms and mobilizing capital, the strong provision for efficiency enhancements suggests that there is also a significant chance for progress

It is clear that there are numerous steps that can be occupied to develop the banking industry. These include provided that a more constant source of credit, presenting new products and services, enhancing the competitive situation, introducing better management and disclosure, promoting the transfer of knowledge and good banking practices, and encouraging consolidation.

It is significant for banks to stay up-to-date with the modern trends and technologies, while also preserving a strong attention on customer service and satisfaction. By taking these steps, banks can carry on to provide appreciated services to their customers and add to the wide-ranging economy as a whole. It also appears that external banks have a diverse impact on local banks. While they invite

qualified staff, they also decrease indigenous banks' market share, integrity, and whole growth. Moreover, external banks also reduce local banks' lending growth and whole growth assets. The mean scores for all variables are around 4, showing a moderate impact. Though, the standard deviations show that there is some changeability in the data. , it appears that the most popular style of entry among the listed organizational forms is through bank subsidiary, with 53.1% of respondents selecting this alternative. Joint venture was also a popular choice, with 29% of respondents selecting it. Representative office and external branch were less popular choices, with only 9.9% and 8% of respondents choosing them, respectively. It's essential to note that this decision is based solely on the data you delivered and may not be representative of all organizations. Based on the survey data, it seems that the majority of respondents do not trust the current macroeconomic situation will make national banks competitive adequate with their external competitors. Additionally, while a majority do believe that the current technological level brings national banks to a competitive situation with their foreign participants, there is still a significant percentage that do not agree. Therefore, it may be essential for national banks to continue spending in technology and improving their services in order to stay competitive with external banks. It can be concluded that the uppermost priority for tapping external bank benefits is the liberalization of the stock market. With 60.5% of respondents indicating this as their top priority, it recommends that concentrating on this area would likely have the extreme impact in tapping into external bank. However, it is significant to also consider the other priorities indicated, such as the liberalization of the capital account and the national financial sector, to ensure a wide-ranging approach to tapping external bank benefits.

Based on the responses, it appears that there is a split in opinions on whether the present staff keeps the required knowledge and skill to compete with external banks. It is significant to take these replies into concern and evaluate the current staff's abilities. Depending on that assessment, steps could be taken to address any breaks in knowledge or skill, including training and growth programs or hiring extra staff.

From this research finding, it can be concluded that the potential efficiency reform to the bank sector due to the foreign bank entry in Ethiopia includes , domestic/ local banks will benefit from the transfer of know how i.e. foreign banks have various experience, expertise and technology, so if Ethiopia allows foreign banks they will transfer their vast knowledge which comes from various countries experience to those local banks, the next potential efficiency reform to the bank

sector will be “Introduce a better supervision, since those foreign banks operates in various country in the world and the level of control in each of those country is different and also if banks are operate to operate in different country there should be a mechanism to track inflow and outflow of capitals, therefore to do such monitoring there must be an introduction of better supervision by the NBE and this will support the national bank to strength the current supervision, the other potential reform to the bank sector will be, lower possible banking crises, here those foreign banks are well experienced and they also know how to manage risks. There is also a good transfer of banking practice by those foreign banks since they have various expertise during their operation in various countries. They also introduce better disclosure and they encourage consolidation of banking service.

5.2 Recommendations

- ✓ National bank of Ethiopia (NBE) and other governmental bodies needs to build the capacity of their staffs and their procedures to accommodate the need of additional expertise and techniques during supervision of the bank sector after the foreign banks enter in to the market.
- ✓ The local/ domestic banks need to upgrade themselves technologically and expert wise to cop up with those giant foreign banks with huge capital, latest technology, network and experts before the foreign banks enter in to the market
- ✓ It may be beneficial for domestic commercial banks to appraise their existing product and service offerings and consider methods to increase them to stay competitive with foreign banks. This might consist of financing in technology and innovation, as well as imploring feedback from clients to better understand their needs and preferences.
- ✓ Ethiopia might bring substantial benefits in terms of presenting new financial invention, quickening economies of scale, developing the financial market, enlightening the financial scheme infrastructure, and fascinating foreign direct security. Consequently, it might be suggested to reflect permitting foreign banks to function in Ethiopia to tap into these potential benefits.
- ✓ It's essential to prudently consider the potential risks and benefits of each choice and to consult with experts in the field before making any decisions. In addition, applying stronger financial regulations could also contribute to improving stability and overall efficiency in the economy. Ultimately, the best course of action will depend on a variety of factors, including the specific goals and priorities of your organization or government.
- ✓ It's vital to consider both the positive and negative influences of introducing overseas banks in Ethiopia. Even though foreign banks could bring in skilled professionals, they might also reduce the market share and reputation of domestic banks. Additionally, native banks may experience a weakening in growth and total assets. Hence, it's essential to conduct a comprehensive analysis of all potential advantages and disadvantages before deciding whether to permit foreign banks to operate in the country.
- ✓ It's important to produce regulatory frameworks and strategies that incursion a balance among the advantages and disadvantages of foreign banks inflowing the market. These policies should also safeguard that both domestic and foreign banks can compete on an equivalent footing.

Though, there are some challenges that may impede foreign bank entry in Ethiopia, such as regulatory barriers, inadequate infrastructure, and political uncertainty, which can make it challenging for foreign banks to operate effectively in the nation.

- ✓ The potential costs of permitting foreign banks to work in the Ethiopian banking sector might contain augmented competition which could lead to some domestic banks closing or becoming unprofitable, possible job loss for domestic bank employees.
- ✓ To keep fairness among local and global banks, regulatory frameworks and strategies need to be created in such a way that they strike a balance between the possible advantages and disadvantages of foreign banks entering the local market
- ✓ Domestic commercial banks would continue to focus on adopting technological innovations to enhance their competitiveness and appeal to customers, and to alleviate the potential negative effect of foreign bank entry.

5.3. Further Research

A suggestion to further study needed to focus on the suitable modes of entry, the exact types and magnitude of overseas banks to be permitted in the Ethiopians banking sector.

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Annex -1.Questionnaires
POSTGRADUATE STUDIES
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT

EXECUTIVE MASTER'S OF BUSINESS ADMINISTRATION (EMBA)

This questionnaire is designed to collect information related to benefits and challenges of foreign banks entry on commercial banks in Ethiopia. Your response is vital to the outcome of the study and you are requested to answer all questions.

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

5=strongly agree, 4=agree, 3=neither agree nor disagree 2=disagree, 1=strongly disagree.

Annex -1- survey Questionnaires

PART 1. General Information of Respondents

1. Sex

Male Female

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

< 5 years 5 to 10 Years 11 to 20 years above 20 years

3. Your position in your organization.

Chief Officer

Director

Manager

4. Your level of educational qualification.

PhD

Master's Degree

Bachelor's Degree

Above other please specify

Part II

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

1. Bad feeling

2. Indifferent feeling

3. Positive feeling

6. Are our domestic commercial banks delivering efficient service at reasonable cost?

Yes No

7. If foreign banks entries are started, are their deliver better service as reasonable cost than domestic commercial banks?

Yes No

8. Do you think our domestic commercial banks have the initiative to provide new products/services/ to customers?

Yes No

9. If foreign banks start to operate, do you think they have better initiative to provide new products/services to customer than domestic commercial banks?

Yes No

10. Do you think our domestic banks have the capacity to provide new products/services/ To customers?

Yes No

11. If foreign banks starts operation, do you think they have better capacity to provide new products/services to customer than domestic banks.

Yes No

12. Which of the following factors that attract foreign banks to enter the Ethiopia banking sector?

Please give your response by placing an (x) the factors you agreed.

Factors that Attract Foreign Banks	make x you are agreed
To reduce the population to bank ratio	
The demand for foreign exchange	
To speed up the investment reform	
To lower bank lending rate	
To facilitate credits	

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

	1	2	3	4	5
Introduce new financial innovation					

Accelerate the economies of scale					
Develop the financial market					
Improve the financial system infrastructure					
Attracts foreign direct investment					

14. How would you rate the potential difficulties to the Ethiopia current situation, if foreign banks are starts to operate?

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

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

	1	2	3	4	5
Lack of interest by foreign banks to mobilize					
The infant industry disagreement					
Changes the focus of credit away from small and medium					
Limited supervisory capacity					
Fear of capital outflow					

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

	1	2	3	4	5

Improve financial regulation					
Introduce other financial activities					
Attract a foreign direct investment					
Enhance the overall stability					

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

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

18. What will be the impact of foreign banks on the performance of Ethiopian domestic banks, if started to operate within the coming year?

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

Foreign banks reduce local banks lending growth					
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19. What will be the possible mode of entry among the following organizational form?

- (i) Representative office
- (ii) Foreign branch
- (iii) Bank subsidiary
- (iv) Joint Venture

20. Is the current macroeconomic environment likely to make the domestic banks competitive enough with their foreign competitors, if foreign banks are started to operate?

Yes. No.

21. Does the existing technological level bring domestic bank to a competitive position with their foreign competitors?

Yes. No.

22. Which of the following sequence need to be made to tap the foreign bank benefit? Rank in the order of their sequence to be opened. 1 to 3

Liberalization of domestic financial sector

Liberalization of capital account (offshore borrowing by institutions and multiple exchange rate market)

Liberalization of stock market

23. Does the existing staff possess the required knowledge and skill to the desired level?

Yes NO

Annex 2- Structured interview questions

1. How do you think foreign banks could positively impact the Ethiopian commercial banking sector in terms of competition, technology, and global market access
2. What do you see as the biggest challenges foreign banks may face when entering the Ethiopian commercial banking sector,
3. Can you describe any potential effects on employment, economic growth, and financial stability that may occur as a result of foreign bank entry into the local market?

4. Are there any specific best practices or lessons learned from other countries that you believe would be particularly relevant to Ethiopia's situation, given its economic and regulatory environment?
5. How do you suggest policymakers and stakeholders balance the potential benefits of foreign bank entry,

6. Annex -3- List of Selected Commercial Banks in Ethiopia

No	Bank Name
1	Commercial Bank of Ethiopia
2	Awash International Bank
3	Dashen Bank
4	Bank of Abyssinia
5	United Bank