ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

PROSPECTS AND CHALLENGES OF FOREIGN BANK ENTRY ON DOMESTIC BANKS OF ETHIOPIA

BY: BEHAILUA ZERIHUN NIGUSSE

A THESIS SUBMITTED TO COLLEGE OF BUSINESS AND ECONOMICS PRESENTED IN PARTIAL FULFILMENT OF THE REQIREMENTS FOR MASTER OF BUSINESS ADMINSTRATION IN FINANACE PROGRAM

ADDIS ABABA, ETHIOPIA

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Acronyms

CBE	Commercial Bank of Ethiopia
EEA	Ethiopian Economic Association
EPAAA	professional Ethiopian Accountants and Auditors Association
ETB	Ethiopian birr
FDI	Foreign Direct Investment
GDP	Growth Domestic Product
IMF	International Monetary Fund
MBA	Master of Business Administration
NBE	National Bank of Ethiopia
NIB	Nib international bank
NPL	Nonperforming Loan
SME	Small and Medium Enterprises
USD	United States Dollar

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Statement of declaration

I Behailua Zerihun here by declare that the thesis entitled the '*challenge and prospects of Foreign entry banks on domestic banks of Ethiopia.'* The outcome of my own effort and study and all that all sources of materials have been duly acknowledged. This study has not been submitted for any degree in this university or other university. It is offered for the partial fulfillment of the requirement for the degree of masters of MBA in financial Service Program.

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STATEMENT OF CERTEFICATION

This is to certify that the thesis prepared by Behailua Zerihun entitled: ‘prospects and challenges of foreign entry banks on the domestic banks of Ethiopia’ and submitted in the partial fulfilment of the requirement for the degree of masters of MBA in financial service program with the regulation of the university meets the accepted standards with respect to originally and quality.

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Abstract

Financial liberalization and the entry of foreign banks carry risks as well as benefits. For this reason, it is crucial that regulators manage the process carefully, addressing important cross-cutting issues like how to properly regulate the banking sector both before and after the entry of foreign banks. The main purpose of this study is to investigate the opportunities/benefits and hurdles of foreign entry banks on the domestic banks of Ethiopia. The paper used mixed research approach to address the research question and accomplish the study goal. It relies on only on primary data Descriptive statistics were used to examine the questionnaire data and thematic interpretation was done for the data obtained from interview. The respondents for the study were selected with purposive sampling from ten private banks and one state owned banks (CBE) based on the experience years, National Banks of Ethiopia, representative offices of foreign banks (Standard Bank, Commerz Bank and EXIM Bank of Tanzania) and two institutions (Ethiopian Economic Association and Ethiopian Professional Accountant and Auditor Association). The study finds that financial liberalization and allowing foreign entry banks will result in numerous benefits to financial institutions and overall economy by stimulating the existing domestic banks boosting efficiency, knowledge transfer, using advanced technology, create an opportunity for global market and reduces hard currency problem. On the contrary, the foreign banks are characterized by capital flight, targeting only potential customers and left the residue and engage in complex transaction. So, the study recommends the National Bank of Ethiopia to build its capacity by trainings and experience sharing with other African countries. Moreover, the National Bank of Ethiopia better to ensure which entry mode is optimum to Ethiopian context as it is recommended from the respondents Mergers and Joint venture since they create an opportunity for the knowledge transfer and technology imitation. The existing domestic banks had better merge with other domestic banks in order to boost their capital to compete with the coming foreign banks.

Key words: Domestic Banks, foreign banks, liberalization, and Mode

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Banks play a very important role in the economic development of every nation. They have control over a large part of the supply of money circulation. Banks are the main stimulus of the economic progress of a country. The financial sector's contribution to growth lies in the central role it plays in mobilizing savings and allocating these resources efficiently to the most productive uses and investments in the real sector. Banks in the majority of developing and emerging economies ran poorly up until the late 1980s as a result of financial repression policies. In particular banks, many of which were owned directly by the government, were required to allocate allocation of a portion of their overall loan portfolio to particular industries like agriculture or factories. Moreover, the government established the deposit, interest rates, entry of new private banks and other financial activities (Isik and Hassen,2003; Kumbhakar and Sarkon 2003). Policy makers in developing economies started to understand the value of the financial system and financial intermediation process in the late 1980s (World Bank,1989; King and Lavine,1993). Therefore, these governments pursued financial liberalization policies targeted at increasing the effectiveness and productivity of the banking sector in order to enhance the process of financial intermediation. Thus, financial liberalization policies have been widely adopted in developing and emerging economies since 1990s. They now make up a significant portion of the Washington Consensus and are included in numerous International Monetary Fund (IMF) and World Bank reform initiatives program for financial liberalization attempts to reduce government interference and control. The effectiveness with which banks and other financial institutions may transfer money from the savers to investors negatively impacted by such financial repression regulators because these regulators greatly impede both competition and the price mechanism (Mckinans and Shaw,1973). They claimed that the high interest rate brought on by liberalization results in more effective resource allocation, grater level of investment and economic growth.

For this reason, in both developed and developing nations, financial liberalization has grown in importance as a component of overall economic policy. However, governments in developing nations engaged in financial repression by subjecting the framework of the financial system to their whims and caprices (Abiola, Follasade and Alexander,2015). Thus results the renowned ‘structure adjusted program’ suggested by Bretton woods institution of (the World Bank and IMF) to liberalizes prices in troubled and collapsing economies was applied by developing nations in an effort to revitalize their economy. The implementation of this initiative heralds the end of the repression program. According to Clarke, Cull, and Peria (2001), financial liberalization increases the number of foreign banks entering the market by allowing markets to freely allocate credit this results better financial system in a country, and it creates better way for international financial activities /transaction.

1.2. Statement of the problem

The financial system provides real services to the economy that are crucial for the economic activity of a country. These financial services influence growth by influencing capital accumulation and affecting economic efficiency. (Levine, 1992). Financial inclusion is a viable policy tool to promote inclusive growth and development, according to (Sanjaya and Nursechafia,2016). Many nations have chosen this as a national strategy after realizing the importance of their citizens’ financial inclusion (Desalegn and Yemataw,2017). Due to their recognition of the advantage that may obtain from increasing their degree of financial inclusion, Ethiopia and Kenya have included in their national strategies (NBE,2017, Van Hove and Dubus,2019). One of the primary impediments to growth in the region is the restricted availability of money, which restricts the ability of smaller and less established companies to finance investments through the official banking system. Enhancing accessibility and augmenting the degree of financial intermediation persists as a crucial policy obstacle. The absence of competition in the banking system may be one reason for the high degree of financial exclusion; economic literature generally links higher levels of bank competition to more affordable, more accessible financial services that are also more efficiently produced and delivered (Sanya and Gaertner 2012). In terms of sharing its success story with other countries, Kenya is acknowledging as a pioneer in mobile money services and a worldwide participant in financial inclusions since 2007 (Ngugi,2015). According to Bekele (2023) Kenya has a more liberalized financial sector and more foreign financial enterprises whereas Ethiopia has financial system exclusive to domestic business.

In Ethiopia a large number of people economically marginalized this indicates how Ethiopia lags behind Kenya (Lakew and Azadi,2020)

Now a days many countries have stimulated their economy by loosening restriction on inflows of capital and putting control on capital outflows, deregulating domestic financial markets, liberalizing restriction on FDI (Foreign Direct Investment) and improving their economic activities. The banking sector in Ethiopia has experienced significant growth over the past few years, with an increase in the number of banks and branches. However, the sector is still dominated by state-owned banks, which control a large percentage of the market share (World Bank, 2019).

According to Fries and Taci (2005) foreign banks are prevalent in the financial system of developing countries to guarantee skill, knowledge transfer and technology which is required to improve efficiency of banks in the host country. The infrastructure of the financial system can be enhanced by foreign institutions promoting the use of methods created in the fields of auditing, accounting, risk management, credit control, and monitoring. Moreover, it influences the policy maker to improve the financial sector regulation and enhances stable financing of the host country economy.

The entry of foreign banks could bring potential benefits to the economy, including increased investment and access to new technologies. Foreign banks could bring in new capital, by building up the capacities of financial institutions which support economic growth and development in better ways. Moreover, foreign banks may introduce new products and services to the market, which could benefit consumers and promote innovation in the banking sector. Additionally, foreign banks may promote international best practices, which could improve the overall health of the financial sector and enhance its competitiveness. In other words, liberalization of the financial sector results in overall changes on the market structure (Denizer,1999).

Ensermu (2020) in his study recommended that the mode of entry which is better for the Ethiopian banking industry is the Mergers and Acquisition. Additionally, he showed the possible opportunities from liberalization of financial sector of Ethiopia. Dagnachew (2017) assessed opportunities and challenges of liberalizing the banking sector in Ethiopia. In his research includes the possible challenges that might occur on local banks and provide direction for a policy maker while allowing foreign banks the policy makers better consider the undeveloped Domestic banks. Kebede (2017) studies the potential benefit and risks of foreign bank entry on domestic banks of Ethiopia. He found that the regulatory bodies should built their capacity to resist the foreign banks, the introduction of new technologies and knowledge transfer also stated as a potential. Although they exhibited little progress in the regulatory body of the Ethiopian banking sector almost all studies concur that the banking system has to be liberalized. (Deressa,2018) asses the primary aim of this study is to examine the possible advantage and obstacles associated with foreign banks joining Ethiopia's banking industry upon the country's WTO (World Trade Organization) accession. The result shows that foreign banks can contribute a lot to the domestic banks regarding technology and overall development of financial system. (Shikuri,2023) conduct research on the prospects and challenges of foreign entry banks in his findings supports foreign banks will benefit by bringing advanced technologies and enhances service efficiency. Moreover, he indicated the better mode entry is merger in the Ethiopian context. (Raba ,2017) also has examined the challenges and prospects of opening up the banking sector for foreign market.

This study has showed the prospects that may obtain from entry of foreign banks and common challenges domestic banks might face following entry of foreign banks investment in Ethiopian financial sector. (Ensermu,2020, Dagnachew,2017 and Kebede,2017) all asses the challenges and prospects of opening up the Ethiopian banking sector in their studies include the bottle neks and opportunities we will obtain from the process. Unlike other studies this study incorporates insights from representatives of three foreign banks found in Ethiopia, namely Exim Bank (Tanzania), Commerz bank, and Standard Bank. These representatives provide authentic inputs on the benefits, bottlenecks, and prospects of foreign banks entering the Ethiopian banking sector, especially highlighting areas where the National Bank of Ethiopia can improve to accommodate these upcoming foreign banks. Moreover, this thesis is conducted during a critical period when the Ethiopian government is planning to invite foreign banking into the country. As a result, many domestic banks have begun assessing the potential opportunities and threats associated with this foreign bank entry. Therefore, during my data collection from these domestic banks, I was able to gather latest and valuable information on the benefits, challenges, and prospects of foreign banks entering the Ethiopian banking sector.

1.3. Research Questions

- What are the opportunities that the foreign entry bank would bring for the domestic banks?
- What are the drawbacks the foreign entry bank would bring for domestic banking system of Ethiopia?
- What are the regulatory and policy measures required to facilitate and regulate foreign bank entry in the domestic banking?
- How does the entry of foreign bank impact the competitiveness and efficiency of the domestic banking sector?
- What are the reasons behind the interest of foreign banks in entering the domestic banking sector of Ethiopia?

1.4. Objective of the Study

1.4.1. General Objective

The main purpose of the study is to examine the prospect and challenges of foreign banks entry on domestic banks of Ethiopia.

1.4.2. Specific Objectives

- To assess the potential benefits of foreign banks to the domestic banks of Ethiopia
- To identify draw backs of foreign bank entry to the domestic banking sector of Ethiopia.
- To identify the regulatory and policy measures required to regulate foreign bank entry to the domestic banking sector.
- To assess the how foreign bank entry contributes to the development and modernization of domestic banking sector of Ethiopia.
- To identify the primary motivation and factors driving the interest of foreign banks in entering the domestic banking sector.

1.5. Significance of the study

The finding and recommendation would help the policy makers, mainly the NBE to develop stringent supervisory and management rules and guidelines. The study would contribute to showing direction to domestic banks on the possible challenges that might be faced when the financial sector opens for foreign entrants and would provide an insight for well preparation of the domestic banks The study also has practical implications for banks operating in Ethiopia, both domestic and foreign. The findings of the study might help domestic banks to identify potential threats and opportunities posed by foreign bank entry, allowing them to develop strategies to compete effectively with foreign banks and capitalize on the potential benefits that will accrue. Moreover, the study provides valuable contribution to the academic literature on foreign bank entry and its impact on domestic banking sectors, particularly in the context of Ethiopia. The findings of the study can serve as a reference for future research in this area.

1.6. Scope of the study

The study overarching goal is to determine the possible challenges and drawbacks of foreign banks entry on the domestic banks of Ethiopia. The study covers only 10 banks among 29 commercial banks, one state owned bank (CBE) and NBE. From the institution that supports the policy makers EEA and EPAAA is included. Furthermore, to assess the opportunities that are observed by foreign investors and possible bottle necks which is identified by foreign bank side the study includes representative offices of Exim bank group (Tanzania), Standard Banks (South Africa) and Commerz Bank (Germany).

1.7. Limitations and delimitations of the study

Due to budget, time and security constraints the study is conducted only in Addis if there is more time the experience from other neighboring countries might be included as a testimony. Since the research objective of the papers needs expertise and depth experience responses the study embraced the responses of head office level experts, directors, branch managers, marketing managers from the banking sector. From the institutions it includes mangers responses. Even if the study used nonprobability sampling it includes thematic relevant entities.

1.8. Organization of the paper

The paper is comprised of five chapters. Chapter One dealt with the introductory parts that includes background of the study, Statement of the Problem, Major objective, and specific objectives of the study, Research Questions of the study, Scope and limitation of the study, Significance of the study and finally Organization of the paper. chapter two encompasses a review of literature on both theoretical literature and theoretical literature. The research design and methodology with sampling technique and data collection tools is presented in chapter three. Chapter four deals about data analysis and presentation which is discussion of the results and findings which is collected from questionnaire, interviews, and document analysis. The final chapter five covers the conclusion, implications and areas for Future research that are suggested considering of the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This section provides an overview of the literature on opportunities and challenges of foreign entry bank on domestic bank of Ethiopia. It includes a comprehensive review of foreign bank impacts as well as the potential challenges. Moreover, this chapter examines existing empirical research in the topic before presenting a review of summary and highlighting gaps in the available literature.

2.2. Theoretical Literature

2.2.1. Opening banking sector

One of the most prominent manifestations of the advert of a timely globalizing world was the multinational growth of bank operation. Large banks from financial advanced industrialized Europe responded to epoch shifts in communication technology, international trade, and sovereign and private borrowers demand for capital by rapidly expanding their cross border and cross currency business (Cameron,1991 cites in Battilosi,2005). Basically, globalization has increased at an unparalleled rate in recent decades particularly in financial services. Many banks from both developed and developing nations have expanded internationally and established a presence in other countries besides boasting of cross boarder banking and capital movements (Classens and VanHoren,2014).

As per proclamation 592/2008 which is amended state that foreign nationals' origins or organization fully owned by foreign nation may not be allowed to open banks, subsidiaries, or branch offices. However as per the Reuters by Dawit Eshetu on May 4,2023 Ethiopia will issue up to five banking licenses in the next five years more over the current government has promised to open up sectors previously controlled by state firms to appreciate foreign investment inflows and economic Growth. While the banking business dominates the monetary area in significantly less monetized nations like Ethiopia, the banks' efficient and successful operation plays a significant role in speeding financial expansion (Fentaw and Sharma,2017). In supporting better financial operation, the internalization theory which is based on international business transaction which includes managerial practices such as allocation of world product mandates to subsidiaries (Rugman and Verbeke, 2008) and internal technology transfer practices. Over the past three decades the removal of investment regulations and institutional barriers that hamper capital flows has resulted in a major increase in global capital movement as per Mulder and West (2015) these innovations have altered the competitive structure of organization and internationalization has become a strategic need for firm seeking to maintain their competitive advantage. Consequently, multinational cross-border investments have expanded year after year.

Whether it comes to internal or international changes, the banking industry is one of the most significant and influential sectors of the economy. The most significant of these changes are the ones related to technology advancements, the global nature of money markets, the elimination of restrictions on all banking operations, the removal of obstacles preventing certain financial institutions from operating in particular industries, and the trend toward developing and managing lending risks in light of the rise in global competition in this industry while attempting to draw in foreign capital with the emergence of massive banking entities (Kenawy, 2009).

The foreign banks motivate the banking sector by increasing innovation and facilitate better access to financial services which boost aggregate lending, growth, and stability. This works when the foreign banks operate in the developing countries face less advanced technology that will create an opportunity to them. (Rashed,2011) contends that the choice of foreign market entry is critical factor in the success of a foreign organization. As per Jasmid (2005) who contends that choosing an effective entry strategy is a vital and necessary component of a company’s strategic decision when investing overseas. Changing entry routes maybe costly and time consuming, making it a crucial strategic decision for organization looking to expand internationally. Additionally foreign banks’ mode of entry and their organizational form affect their character of acting towards the host country so when countries open up the financial system to other countries the mode of entry should be considered. The mode of entry can be decided based on the regulatory restrictions of the host country or the profit opportunities of the host country. foreign banks may enter into the host country by opening a representative office, a branch, an agency, or a subsidiary form. They might also prefer cross-border lending which does not allow the foreign bank to directly involve on the operation instead lending directly to the business.

Representative offices -The representative's office is an easily established organizational form which is not directly involved in attracting deposits and facilitating loans. It is establishing to oversee the opportunities for further engagement (Goldberg 1992). Based on the reporter disclosure on November 26,2022 written by Ashenafi Endale, KCB group, Bank of Africa, the Export Import Bank of India, Equity Bank, The European Investment Bank and others have opened representative offices in Ethiopia. Furthermore, the representative offices will be officially recognized by NBE (National Bank of Ethiopia) and can operate as commercial representative offices. In other words, the representative offices can now be representative with an agency to make commercial loans, while business related to consumer loans or deposits is not permitted (Goldberg,1992).

Subsidiaries banks -it is a type of foreign bank located and incorporated in foreign country, but it is majority is owned by parent corporation. They are usually engaged in retail banking. (Song,2004) Opening branches - a foreign bank branch is an entity which operates in the host country by following both the host and home country's rules and regulation. It is opened to provide a better service for their multinational customers since there is no local lending limits for the branches however there is a limit for the subsidiaries (Naaborg, 2007)

Joint venture - it is a business arrangement where two or more banks agree to pool their resources to achieve their common goals. Based on (Kellezi,2013) foreign companies used such kind of entry in order to increase their competitive advantage by using host country knowledge and information.

The above mode of entries is commonly used by foreign entry banks. According to the institutional theory, foreign banks choose a mode of entry that is consistent with the institutional environment of the host country (Li, 2017). For example, joint ventures or strategic alliances are preferred in countries with high levels of regulatory and cultural barriers, while wholly owned subsidiaries are preferred in countries with favorable regulatory and market conditions. In support of the above statement transaction cost theory suggests that foreign banks choose a mode of entry that minimizes transaction costs associated with information asymmetry, monitoring, and contracting (Fischer et al., 2016).

Finally, resource-based theory suggests that foreign banks choose a mode of entry that leverages their core competencies and resources, such as technology, branding, and distribution networks (Glaister & Buckley, 2018). Several studies have examined the effects of mode of entry on the performance of foreign banks in host countries. For example, Li (2017) found that foreign banks that entered the Chinese market through joint ventures or strategic alliances outperformed those that entered through wholly owned subsidiaries. This was attributed to the greater access to local knowledge, networks, and resources that joint ventures provide.

There are a lot of push to reverse the decision prohibiting foreign banks from investing in the country, fully privatize the state-owned commercial banks, allow market forces to determine interest rates and the exchange rate of the Ethiopian currency, Birr (ETB), and upgrade the regulatory and supervisory capacity of the National Bank of Ethiopia to facilitate customer access, improving efficiency and encouraging competition in the banking market (Bezabeh and Desta, 2014; Ensermu, 2020).

Allowing foreign banks to operate in Ethiopia will bring both prospects and challenges to the incumbent state owned and private banks in particular and the financial sector in general. Ethiopia is already allow liberalizing the banking system as per the Reporter Magazine reported by Endale, in October 2022, with in a year the draft proclamation ratification the licensing of foreign entry banks under the permitted modalities will start and the declaration by central bank will be authorized soon. Their operation will enhance capital flows, credit availability, sounder lending practices, reductions in cost and risk, improvements in operational efficiency, higher profitability, improve credit availability, improved marketing skills, betterment of management and corporate governance structures, increasing skilled man-power, increase access to new technologies and innovative financial services and products, improved and harmonized regulatory and supervisory procedures and standards, avoiding of political patronage for credit to state-owned enterprises more than private businesses, and increase competences of domestic banks to cross-border mergers and takeovers (Yin, 2021). Whereas (Beck and Martinez, 2010) argue that foreign banks trend on the host country is ‘cream skimming’ of the credit market into which they enter. The foreign banks may act this way due to the advantage that they possess to raising capital even if they might suffer with lack of soft information results to fail regarding the small and medium enterprises credit and thereby encouraging domestic banks to shift more of their lending to SMEs. This may cause foreign exchange and/or liquidity shortages, with potentially adverse effects on the country's capital account.

Liberalization in a weak and ineffective regulatory and supervisory environment is more likely to fail. Foreign banks may concentrate on lending rather than mobilizing of savings. The key regulatory changes that should be taken place pertaining to foreign bank entry are the amendment of better supervision and governance strengthen, stringent capital requirements and foreign equity limits, higher market entry barriers, effective credit information sharing and the timing and pace of the deregulation process to protect and keep the continued health of the infant domestic banking industry. Merger and acquisition are an optimal strategy from niche, do nothing and joint venture to cope the competition from foreign banks (Ensermu, 2020). These help not to leave the financial sector in the hands of others and to be able to compete effectively against foreign banks which have much larger and more diversified capital bases. Therefore, this conflicting evidence warrant us to carry out a study on the prospects and challenges of entering a foreign bank on the financial sector of Ethiopia (domestic banks) in order to recommend the necessary policy measures to utilize the positives and to minimize the adverse of entry of the foreign banks into the nation's economy especially in Ethiopia.

2.2.2. Benefits of foreign bank entry

In this section the opportunities of foreign entry banks will be discussed from domestic bank, foreign bank itself and from regulatory bodies perspectives.

2.2.2.1. Access to finance and financial stability

Banks that bound their operation on domestic funding limit their activities on local economic activities consequently the risk is high if it faces local crisis. On the contrary foreign banks have diversified portfolios since they access international sources of funds from the several world part that helps to reduce the liquidity risk. Foreign bank entry to the host country may attract capital inflows from foreign companies and it will prevent capital flight by domestic investors during crises. Since capital inflows enhance growth for undeveloped countries by providing credit access for the need one. In the case of foreign banks, the capital inflows from surplus funds to shortage since the foreign banks' funds are international. The cost of credit is directly proportional to fund availability (Giannetti &Ongena,2005). The local banks are usually frustrated due to liquidity problems thus their lending system is not sound. According to (Song,2004) foreign bank presence may contribute to the stability of available lending by diversifying the capital and funding bases. All this helps the operational country(host) to resist liquidity problems and volatile exchange rates movements (Peek and Rosengren,2000). In supporting the above description, the portfolio theory which assumes the diversification of portfolios and better asset composition increases the ability to make a profit. Since resistance of risk and diversification by better management skill put the company in a better position and consistency. Apparently foreign banks have diversified portfolios as they are not shaken easily by negative shocks in the operating country and less exposed to risk. Last and most, if foreign banks dominate the banking sector, governments are less likely to rescue banks when they have liquidity problems. (Classness,2006)

2.2.2.2. Improvement of Financial sector

According to Sufian and Habib, (2010), the arrival of foreign competition has a beneficial effect on the efficiency of incumbent domestic and international banks it implies that foreign bank entry has a strong positive influence on banking efficiency however the effect doesn’t occur immediately. As per (Ofori-sasu,2018) there are three main ways foreign banks influence the bank efficiency in developing countries. The one is by setting interest rate in a more effective way than domestic banks. This turns to reduce the domestic bank’s profit by putting downward pressure on financial services. The other is by adopting advanced technology which works in other countries this makes the competition high for domestic banks until it imitates this attracts both employees and customers for this reason domestic banks may lose their skillful employees. Lastly, foreign banks enhance efficiency in the banking sector when domestic banks noninterest revenue businesses improved if domestic banks learn from their overseas counterparts through the demonstration effect and labor mobilization. Likewise, as per Goldberg (2007) and Reddy (2009) in terms of credit risk analysis, human capital, enhanced prudential and regulatory measures, economic and financial sector stability, lower overhead, better allocative efficiency, technology transfer and diffusion, wage spillovers, institutional building, and modified macroeconomic cycles, the entry of foreign banks can aid in the development of the domestic financial sector.

The entry of foreign banks into a country's banking system has been a topic of significant interest to scholars and policymakers alike. (Caves,1996) supports the resource-based view of the firm, foreign banks' entry can bring new resources and capabilities to the domestic banking system, such as technology, managerial expertise, and access to international financial markets. This anticipation is frequently viewed as part of a larger plan to modernize to local financial system since new technologies introduced by foreign entry banks are expected to imitate by domestic banks.

Training of foreign banks has a good impact on local experts and management in terms of the application of the new technologies, it results in the expansion of most local banks' knowledge and human capital. Moreover, different studies have provided mixed evidence regarding the impact of foreign banks' entry on domestic banks. For example, a study by Demirguc-Kunt and Huizinga (1999) found that foreign bank entry led to increased competition and improved efficiency for domestic banks in Argentina, but not in Mexico. Similarly, a study by Buch and DeLong (2004) found that foreign bank entry had a positive effect on the profitability of domestic banks in Eastern Europe, but not in Latin America. For beginning their domestic operation will aid local producers, particularly export /import firms & multinational corporation. These industries can benefit from foreign banks' greater experience and competence in internal payment systems. Moreover, international banks are projected to promote foreign currency inflows into the country.

As per the institutional theory suggests that foreign banks' entry can lead to institutional changes in the domestic banking system, such as improvements in regulatory standards and corporate governance practices Zhang & Hu (2008). This pushes the experts that works in the regulatory body, in the case of Ethiopia (NBE) to build their capacity since the new exposure needs global standard supervision and knowledge.

Finally, this can benefit both foreign and domestic banks by creating a more stable and predictable business environment. This directly stimulate the economy by appreciating Entrepreneurs. Similarly, a study by Demirguc-Kunt and Huizinga (2010) found that foreign bank entry increased the capacity of the host country's regulatory body to supervise and enforce regulations, as foreign banks brought with them new technologies and best practices for risk management and compliance.

Not only does the host country obtain benefit from allowing the entry of foreign banks since bank has emerged to make profit like other business firms. According to Focarelli and Pozzolo (2000) banks operate at multinational level due to several reasons the one is following their customer. Since banks may actually be leading their customers, well established banks in a country abroad can often provide useful information, consulting their business option and financial services. foreign banks have an interest in working with other countries when they expected better profits. Even though foreign bank entry has occurred in many developing countries, the pattern has not been uniformed (IMF 2000). For instance, as per the reporter (Ashenafi, Nov26,2022) the Chinese banks are expecting to operate in Ethiopia especially to resolve the currency problem in the country whereas the issue in country is unlike other African countries the parallel market is a bit high it circulates around 4billion USD (assumption), it is one of the challenges to compete with. However, using cost benefit analysis, the existing representative banks specially have better information to decide whether to join the Ethiopian financial market or not.

2.2.3. Drawbacks of allowing foreign bank

Besides several benefits allowing foreign banks to operate in the banking system of Ethiopia it has its own draw backs.

2.2.3.1. Capital flight

According to Uibopon (2005) foreign banks attract the most profitable segment of domestic markets by providing more innovative services and goods in other words foreign banks scoop up the most creditworthy customers the riskiest customers are left to domestic banks. For developing nations with limited capital, capital flight is a worry for four basic reasons. First of all, flight of capital can seriously harm development growth by limiting savings, which lowers local investment. In general, it may be anticipated that these money, if retained domestically, can be used to lessen the amount of external debt and the underlying liquidity constraints in bridging the gap in foreign exchange. Moreover, there is concern that the capital flight out of developing nations would indicate to foreign private investors the dangers involved, which would cause a drop in or possibly a stop to private capital flows. Third, the domestic tax base in developing nations is weakened by the capital flight that results in the flight of capital.

Moreover, foreign banks blamed for encouraging in capital flight from less developed to more affluent countries as per Sarker and Mukherjee (2018) this might put further pressure on the exchange rate this leads to a problem on domestic banks with an open capital account.

2.2.3.2. Unhealthy competition

The entry of foreign banks enhances competition among domestic banks however when the competition becomes beyond the optimum level it follows with negative effect in that it encourages risk taking because as prices trend near marginal cost profit margin must be squeezed. The marginal loan then determines a bank's success or failure. According to Alfaro and Chen, (2017) the effect that competing domestic companies have on their profits also known as the 'market stealing' effect is a significant direct effect. Domestic business demand and revenue maybe displaced by more aggressive international corporation as foreign entry increases competitiveness in product markets. At the end domestic banks become vulnerable to operate in this environment and the economy suffers substantial damage.

As per Berger and DeYoung, (2001) suggestion, foreign bank entry had a negative impact on the profitability of small domestic banks in the United States, but not on large banks. Another study by Carbo, Fernandez and Rodriguez (2006) found that foreign bank entry had a negative impact on the stability of the Spanish banking system during the global financial crisis. A few previous studies, including Kim and Lee (2004) and Barajas et al. (2005), contend that as competition increases, the concomitant decline in domestic banks' profits and loan quality may outweigh any operational efficiency gained by the arrival of foreign banks.

2.2.3.3. Impact on regulatory bodies

The entry of foreign banks may also have an impact on the regulatory body's capacity to supervise and enforce regulations, as foreign banks may be less familiar with the local regulatory environment and may require more resources to monitor effectively (Levine, 2001). However, other studies have found that the entry of foreign banks can create regulatory challenges for the host country's regulatory body. For example, a study by Cerutti, Claessens, and McGuire (2012) found that foreign bank entry increased the complexity of the regulatory framework in the host country, since foreign banks undergo complex transaction which need different regulatory frameworks because they operate in different countries with different customers need or may be subject to weaker regulations in their home country.

2.3. Empirical Literature

Ethiopia's NBE statutes would be changed to allow international banks to operate there through December 2022, according to a February 2022 announcement made by Prime Minister Dr. Abiy Ahemmed. This is just one example of how the Ethiopian government has shown its dedication to upgrading the country's financial sector and privatizing a number of governmental entities. As he stated Ethiopia needs additional wealth and hard currency to compete in the Economy with other African countries. According to his speech private banks plays a huge role to motivate the financial sector. Fortunately, the Ethiopian government announces the amendments of policy which allows the foreign banks to enter in to in the Ethiopian banking industry even if it is not clearly stated how will they perform further announcements will be follow in the near future (Abera,2022). Moreover, the foreign banks are expected to play a positive role in the coming financial market in Ethiopia which beliefs to bring a huge economic shift in the Ethiopian economy and financial infrastructure of a country.

Based on the empirical study of (King and Levine,1993) which used eighty countries data it shows a positive relationship between financial development and economic growth since the country which have a better financial infrastructure are better to grow fast economically so it is a dominant issue to revise the financial sector of Ethiopia specifically the banking sector. The status of the financial system of a country indicates the future economic growth of a country. Since foreign banks possess better experience in the financial sectors and have different fund sources, it is expected the foreign bank will provide stable financial support than domestic banks. They are well fitted to provide credit for entrepreneurs because they are exposed to various countries' experiences, challenges, and ideas plus they can access multinational markets easily. This may encourage high economic growth of a country.

Levine, (1996) found out that foreign bank encourages the upgrading of financial institutions such as auditing, accounting and business consulting thus enhancing the overall financial system of a country. Foreign bank Prescience may force the government to revise its policy toward the financial regulations. The participation of foreign banks helps in building transparent system and enhances better supervisory and legal framework. Moreover, it initiates the involvement of multi-National companies in the country in the meantime it will minimizes the rate of unemployment by providing work opportunity, experience sharing, knowledge transfer collectively it has a positive effect on the economic growth of a country.

In supporting of the above study Kiyota.et.al (2007) analyzed the issue of liberation financial sector for the international market in the case of Ethiopia referring the domestic banking sector, the finding indicates two factors the one is the closed system of Ethiopia which is resolved at present time even if it is not effective currently and the other Dominant role of state own banks, which is not fulfilling demanding services. Based on the observation and analysis pass through Ethiopian economy would benefit from allowing foreign banks to its economy.

The Empirical research investigative shows that the effects of foreign bank entry on the cost of funds has generally supported the view that foreign bank entry lowers the cost of credit and improves access to credit for less politically connected borrowers (Classness and Van Horen,2014).On the contrary some studies argue that the entry of foreign banks has negative impact on the financial performance of a host country (Mian 2006,Gormely 2010).

(Raba ,2017) has examined the challenges and prospects of opening up the banking sector for foreign market. To meet its objective the paper uses both primary and secondary data using questionnaires and interviews for primary data, the secondary gathered from authorized documents. Purposive sampling was undertaken, and the collected data analyzed using descriptive statistics techniques. The results shows that foreign bank entry in Ethiopia could offer new banking technology, encourages financial innovation, and improve financial development. Furthermore, it improves access to international capital and may prompt domestic bank overseas expansion and greater integration of Ethiopian banks into international financial system. The study indicates as a challenge that intense competition from foreign banks may endanger domestic banks survival.

(Kebede, 2017) conducted a thesis to investigate the potential benefit and risks resulting from entry of foreign owned bank in Ethiopia. He analyzed the data collected from primary sources and bounded in five commercial banks using explanatory statistics The aim of the paper is to assess the potential positive and negative impact of allowing foreign banks to the Ethiopian banking system. In doing the paper the researcher uses judgmental sampling based on the total asset and achievement experience select 5 banks and collect primary data from 97 employees. The collected data analyses using explanatory statistics. The result of the study highlighted the potential benefit such as knowledge transfer, technological innovation, enhances competition and improve the overall financial system that will give a chance for Foreign Direct Investment on the contrary allowing the financial system to foreign investors results capital flight, vulnerability to domestic banks and challenges to the regulatory bodies. The researcher conclude that the domestic banks should build their capacity in order to deliver better or competitive services and the government better to develop supervisory bodies. Additionally, he insisted that the regulatory bodies should built their capacity to resist the foreign banks, the introduction of new technologies and knowledge transfer also stated as a potential.

(Huressa,2017) conducted research that asses the possible effects of opening up the Ethiopian banking sector to foreign banks. The main focus of the paper is to evaluate the potential impacts of foreign entry banks and to assess the resistance and competitive scope of existing domestic banks. The paper uses quantitative approach by using purposive and random sampling techniques. The sampling relies on banks and other institutes from banks including NBE and CBE 12 banks selected and EEA, EDRI and PEAAA were selected from institutes. Among the target population 134 survey questionnaires were distributed and analysis done using descriptive statistics techniques. The study reveals that if foreign banks enter into a country the domestic banks would benefit in four directions such as potential benefit, potential efficiency, macroeconomic and social indicator, and potential benefits.

Finally, it concludes that by giving a tip for government to open up a sector to foreign investors and to obtain experience from neighboring countries like Kenya and Egypt.

(Deressa ,2018) conducted research on the potential opportunities and challenges of foreign banks entry in Ethiopia banking sector. The purpose of the study is to analyze the potential opportunities and challenges of foreign entry banks in the Ethiopian banking sector. The study uses Exploratory research design with mixed approach (Qualitative and Quantitative). It demonstrates how the banking industry in Ethiopia characterized by lack of banking technology and know-how and a limited regulatory capability that makes it difficult for foreign banks to enter Ethiopia. (Shkuri,2023) examine the potential opportunities and difficulties of foreign banks. Data were gathered using a purposive sample technique using mixed approach. The research uses explanatory design and a mixed research approach. The researcher gathered data from two policy makers institutes and eighteen private banks using semi structured questionnaire. The study recommends that joint venture arrangement as a better mode of entry to Ethiopian banking sector. The paper indicated that the regulatory bodies better to build their capacity before allowing foreign banks to operate in Ethiopian banking sector.

(Ensermu,2020) in his Journal lists contribution of foreign entry banks enhances market efficiency credit availability and advanced technology additionally he recommended that the mode of entry which is better for the Ethiopian banking industry is the Mergers and Acquisition. Additionally, he showed the possible opportunities from liberalization of financial sector of Ethiopia. Although they exhibited little progress in the regulatory body of the Ethiopian banking sector almost all studies concur that the banking system has to be liberalized.

2.4. Summery and Gap in existing literature

Global capital markets have experienced significant expansion, diversity, and integration since the beginning of globalization. Greater markets, new technologies, and foreign direct investments are made possible by globalization. Nonetheless, different nations are able to take advantage of and profit from these opportunities differently (Ali and Yao,2004). This has resulted in a shift to advance the financial system as per the global standard. A more advanced financial system helps such nations' economies grow by supplying pertinent information, reducing management risks, promoting saving, improving oversight, and smoothing transactions (Juzhong.et.al.2009)

As per Shama and Kukerja (2003) for inclusive growth of developing nations and financial inclusion is the key to inclusive growth. Inclusive financing is the provision of financial services at low or no cost to disadvantage and low-income parts of society. There have been huge challenges in the area of financial system, providing financial literacy and strengthening credit delivery mechanism in order to improve financial economic growth. In developing country more of the society is living in poor status to assure the economic growth of a country the poor section become financially self-sufficient so as liberalizing the financial unit of Ethiopia has numerous advantages such as (Kebede,2017), improve overall financial system, (Roba, 2017) access to international finance ,to attract FDI that will create jobs and knowledge transfer to the society it results overall macroeconomic development.

Even though opening up the sectors renders several benefits it poses some challenges which is revealed by researchers meanwhile it is not yet experienced the operation of foreign banks in our country. International banks can conduct complicated cross border financial transaction which can be difficult to supervise by regulatory bodies (Roldos,2001) especially like Ethiopia which is using less advanced technologies since foreign banks characterized by capital flight activities (Sarker and Mukherjee,2018). As per Deressa, (2018) in order to regulate the coming foreign banks with better management the regulatory bodies need to complete their assignment by obtaining experiences from other neighboring countries (Huressa,2017).

The majority of extent studies on foreign bank entry focuses mainly in developed and Asian countries. The results vary from one country to another country. There has been few research on data from developing countries especially from there are very few research conducted in Ethiopia regarding foreign banks. Despite the previous studies on prospect and challenges of foreign entry banks in Ethiopia the researcher believes that prior studies don’t adequately address the scope in terms of the time horizon and under investigation specially collect include the representative offices as a result this study will attempt to bridge the gap.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the approach that was employed in order to conduct the study and then analyzes the procedures and methods that were used to carry it out. In contrast to the other available options, it explains the kinds of techniques that were chosen for data gathering and analysis as well as rationale behind their selection.

3.1. Research Design

Research design is a plan and procedure for study that spans the decision from abroad assumption to detailed methods of analysis (Creswell,2009). In order to broad the insight of the raised research questions the researcher used descriptive research design since it enables to gather in-depth information about the idea using different approaches.

3.2. Research Approach

Examining the opportunities and challenges of foreign entry bank is the goal of this study. In executing a certain research three approaches are employed Quantitative, Qualitative and Mixed (Creswell,2003). Quantitative approaches use systematic record of data which consists of numbers that the researcher constructs by applying measurement and imposition of structure (Kent,2007) while qualitative research can't be measured. When using a mixed research approach researchers make extensive use of both qualitative and quantitative hypotheses.

This study employed a mixed research approach which is a combination of two quantitative and qualitative. In order to overcome drawbacks of single approach by combining the specifics of qualitative research with the numerical values from quantitative research to better comprehend research problem as Creswell (2009) states the mixed research strategy balances the shortcomings of one method. The rationale for using a mixed approach is that it provides flexibility and increases the likelihood of receiving comprehensive and in-depth answers to the research questions as well as achieving the research objective of identifying the challenges and prospects of foreign entry banks which cannot be obtained by using a mixed techniques allows the researcher to turn opinion and impression in to numbered code.

3.3. Data Sources

For the purpose of gathering information regarding the opportunities and challenges of foreign bank entry on domestic banks of Ethiopia the study used only primary data sources. Through the interviews and questionnaire primary data were gathered. The questionnaire was comprising both open-ended and close ended questions. Key informant interviews which is semi structured were conducted from representative office such as Commerz Bank, Exim Bank (Tanzania) and Standard Banks regarding the opportunity, obstacles, experience, and challenges of foreign entry banks on domestic banks of Ethiopia.

3.3.1. Population

The study includes private banks, state owned bank and the National bank of Ethiopia. Among the nine Representative offices of foreign entry banks Standard, Exim bank (Tanzania) and Commerez are included in this paper. From the firms Ethiopian Professional Association of Accountants and Auditors (EPAAA) and EEA (Ethiopian Economic Association) found in Ethiopia.

3.3.2. Sample size

The study was conducted on commercial/private banks, one state owned bank, National Bank of Ethiopia (NBE), Exim bank and Standard bank and two non-bank relevant firms Ethiopian professional Association of Accountants and Auditors (EPAAA) and EEA (Ethiopian Economic Association) found in Addis Ababa, Ethiopia. The sampling frame 10 private banks, Commercial Bank of Ethiopia (CBE) and NBE is included in a target population as presented in below table 3-1. All private banks included in the sample have an experience of more than 10 years in the area.

Table 0-1: Banks and institution in a sample

No	Name of the banks	N	Remark
1	Commercial Bank of Ethiopia	7	District managers, Customers service managers, operational Managers and Marketing manager
2	Awash Bank	5	District managers, Customers service managers, operational managers and Marketing managers
3	Dashen Bank	5	District managers, Customers service managers, operational managers and Marketing managers
4	Abyssinia Bank	5	District managers, Customers service managers, operational managers and Marketing managers
5	Wegagen Bank	5	District managers, Customers service managers, operational managers and Marketing managers
6	United Bank	5	District managers, Customers service managers, operational managers and Marketing managers
7	Nib International Bank	5	District managers, Customers service managers, operational managers and Marketing managers
8	Cooperative bank of Ethiopia	5	District managers, Customers service managers, operational managers and Marketing managers
9	Lion bank	5	District managers, Customers service managers, operational managers and Marketing managers
10	Oromia International Bank	5	District managers, Customers service managers, operational managers and Marketing managers
11	Zemen Bank	5	District managers, Customers service managers, operational managers and Marketing managers
12	NBE	3	Managers
13	Exim bank (Tanzanian)	1	Manager
14	Standard Bank	1	Manger
15	Commerz Bank	1	Manager
	Institution		
1	EPEAA	3	Manager
2	EEA	3	Manager
	Total	**69**	

Source: from (NBE)

3.3.3. Sampling Technique

The study applied non-probability sampling techniques which is the selection of the sample were non-random. The sampling technique was purposive sampling. Purposive sampling refers to a class of non-probability sampling procedure it is also known as judgmental selective or subjective sampling, it is relying on the researcher judgement when picking the units to be investigated. Since it carries non-probability-based sampling in which the researcher makes decision on which individuals should be included in the sample based on a variety of criteria such as specialist knowledge of the research issue, capacity, and willingness to participate in the research in order to obtain the desired results. The major purpose of purposive sampling is to focus on specific characteristics of population that are of interest in order to effectively answer the research questions. (Kothari, 2004).

3.4. Data Collection Instruments

The study used a mixed approach that includes both quantitative and qualitative approach to collect useful information through self-administered electronic questionnaires using the Kobo Toolbox and key informant interviews. The study employed a cross-sectional design, enabling the collection of data from multiple individuals at a specific point in time. This method allows for the examination of the current state of private banks in Addis Ababa, including their performance indicators and the policies implemented by the NBE. The paper used primary sources of data and the primary data was gathered from filled questionaries by expertise which is directly related with the research objectives and interviews from representative offices.

3.4.1. Questionnaire

Questionnaire were distributed to the listed banks, the banks that include in a sample was selected based on their experience year in the Ethiopia banking system in other words it is selected based on their emergence year. Engaged employees in this study are whose operate in managerial position from National Bank of Ethiopia. Likewise, the questioner is distributed and filled by Employees whose work in a managerial position of Ethiopian professional Association of Accountants and Auditors (EPAAA) and EEA (Ethiopian Economic Association).

The feedback is expected to aid in understanding the opportunities and constraints of foreign entry banks on domestic banks of Ethiopia close ended and open-ended queries used to collect the evidence. Mixed questionnaires offer the advantage of being adoptable. Respondents are asked to indicate their levels of agreement on five points of Likert scale ranging from 1(strongly disagree) to 5(strongly agree).

Finally, the five scale were calculated and interpreted to degree of agreement on the statement using the following formula.

$$\text{Interval} = \frac{\text{the highest score-the lowest score}}{\text{Number of Interval}}$$

$$= \frac{5(SA)-1(SDA),}{5}$$

$$= 0.8$$

The highest score is 5 which is strongly agree (SA)

The lowest score is 1 which is strongly disagree (SDA)

The mean (average score) attained from each item will be interpreted into degree of agreement. A mean score between 4.21-5.00 means that the respondents strongly agreed, 3.41-4.20 means they agreed ,2.61-3.40 means the respondents are neutral, between 1.81-2.60 means they disagreed and a mean between 1-1.80 means respondents strongly disagreed.

3.4.2. Interviews

Semi structured interview was conducted at the representative office of foreign bank which is Standard, Commerz and Exim banks. Since the interviewees are who works in the managerial position because it is believed that they are the one who involved in the decision-making process, that are concerned on implications and consequences and with better experience. The semi structured interview is used to increase insight from the foreign bank representative offices regarding on the opportunity they identified, the expectations from NBE and Ethiopian government, which mode of entry is profitable from their side and the possible bottle necks they will expect if they are willing to operate in the financial system of Ethiopia.

3.5. Method of Analysis

The collected primary data from the questionnaire is analyzed quantitatively using Descriptive statistics such as means and standard deviation. The mean offers a general overview of the data concerned and the standard deviation provides a dispersion of the data according to the variability of the data (Sekaran,1992). The analysis was done via Statistical Package for the Social Scientists (SPSS). The data, which is obtained from interviews of representative office analyzed using Thematic analysis.

3.6. Validity

A study's validity is determined by how closely it replicate the particular idea that the investigator is attempting to quantify or explain. Researcher should be keen on both external and internal validity. The degree to which the conclusion may be applied to the entire population refers to the external validity as per (Yin,1994) in contrast the internal validity refers to as according to (Grix,2004) the degree to which the researcher can show that he/she has sufficient and trustworthy evidence to support his/her assertion is referred to as internal validity.

This study uses multiple sources of data including questionnaires, interviews, and document reviews to help cross-validate the data. Furthermore, the questions are scrutinized by professionals in the field to ensure that they are simple to comprehend, which enhances both the internal and external validity. In order to retain validity, the researcher selected respondents who are knowledgeable about the topic and experts in the field, which strengthens the external validity of the result. As stated by Yin (1994), multiple sources of evidence are used to ensure construct validity.

3.7. Reliability

The trustworthiness of the questionnaire and the general reliability of the constructs it measures were assessed using a reliability test based on the Cronbach's Alpha coefficient. Cronbach's Alpha coefficient is similar t a correlation coefficient in that it has a range of values from 0 to 1. Acceptable dependability is defined as having alpha reliability coefficient of at least 0.7. This indicates that the specific questions posed in the questionnaires are able to address the study goal.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Introduction

The presentation and interpretation of the gathered data are covered in this chapter. Triangulating the findings from the questionnaire, interview, and document review results allows for a discussion of the study's findings. The goal of the discussion is to address the research questions and achieve the study's objectives.

Among the total of 66 questionnaire which is distributed in Addis Ababa for private Bank employes, NBE employes, Ethiopian Economic Association employees and Ethiopian professional out of it 62 usable responses were obtained. Based on the gathered data the results are analyzed through descriptive statistics. SPSS version was used to code and enter the data. Qualitative analysis is used to interpret the data from the document review and interview.

4.2. Reliability study

Cronbach's coefficient alpha is estimated to ensure consistency among the items included in each scale. Greater scale reliability is indicated by higher Alpha coefficient. The excellent internal consistency falls between 0.91 and 1, good is between 0.81 and 0.9, acceptable is between 0.71 and 0.8, questionable is between 0.61 and 0.7, poor is between 0.51 and 0.6, and unacceptable is between 0 and 0.5. (Hinkin, Tracey, & Enz, 1997).

Table 0-1: Cronbach's Alpha Reliability Test

Dimensions	**Cronbach's Alpha**
Potential benefits of foreign bank entry	0.720
Potential draw backs of foreign bank entry	0.855
Foreign bank entry positively impacts the NBE	0.969
Area of the NBE needs improvement	0.933
Challenges for the coming foreign banks	0.701
Prospects for the coming foreign banks	0.920
Reliability across all variables	**0.755**

Source: from SPSS

From the Cronbach's Alpha test output from SPSS, the potential benefits of foreign bank entry had a Cronbach's Alpha coefficient of 0.720, indicating an acceptable level of internal consistency among the items. While reliability is within the acceptable range, there is room for improvement to ensure that the items consistently measure the construct of potential benefits.

In contrast, the dimension measuring potential drawbacks of foreign bank entry exhibited a higher level of internal consistency with a Cronbach's Alpha coefficient of 0.855, suggesting that the items reliably capture the potential drawbacks associated with foreign bank entry.

The dimension assessing the positive impact of foreign bank entry on the national bank of Ethiopia showed an excellent level of internal consistency, as evidenced by a Cronbach's Alpha coefficient of 0.969. The items in this dimension consistently measured the positive effects of foreign bank entry on the national bank.

Similarly, the dimension focusing on areas in the national bank of Ethiopia that require improvement demonstrated a strong level of internal consistency, with a Cronbach's Alpha coefficient of 0.933, indicating that the items consistently measured the areas needing enhancement within the national bank.

However, the dimension measuring challenges for the coming foreign banks showed a questionable level of internal consistency, with a Cronbach's Alpha coefficient of 0.701, indicating a moderate level of internal consistency among the items.

Finally, the dimension exploring prospects for the coming foreign banks demonstrated a strong level of internal consistency, with a Cronbach's Alpha coefficient of 0.920, suggesting that the items reliably assessed the prospects associated with foreign banks entering Ethiopia.

In general, the reliability across all variables is in the acceptable range with Cronbach's Alpha coefficient of 0.755 and most dimensions showed good to excellent levels of internal consistency, the dimension measuring challenges for the coming foreign banks exhibited relatively weak reliability.

4.3. Respondent Profile

The majority of respondents (83.3%) have a master's degree or higher, indicating a highly educated sample the rest 16.7% are a bachelor's degree holders this implies that the respondents are knowledgeable to understand and address the questions. The current employment institutions, most respondents which is 83.3% work in private banks, the rest with only a small percentage of 7.6% in the National Bank of Ethiopia and other institutions such as EPAAA/EEA. The NBE is serve as central bank of Ethiopia every financial policy is under its control and the other institutes other than banks are included in this study their input is very crucial for the growth of Ethiopian financial sector. Because they contribute lots of information by conducting different research and show direction for the government that needs improvement. Moreover, the institutions both EEA and EPAAA include experts, so they even provide policy recommendation for the government regarding financial and economic sector (ROSC,2007).

In terms of positions Branch Managers comprised the highest proportion (45.5%), followed by Marketing Managers (25.8%) and Customer Service Managers (21.2%) - reflecting frontline roles that would understand customer perspectives and competitive challenges. Representation from District Management (4.5%) to other senior roles (1.5%) provided strategic insights. This diversity of employment backgrounds, tenure, and positions within the Ethiopian banking sector offers multifaceted views on the prospective opportunities and challenges foreign bank penetration may bring to domestic banks.

Regarding experience, respondents ranged from those with less than 5 years in the industry (7.6%) to over 15 years (15.2%), with most possessing 6-10 years (50.0%) or 11-15 years (27.3%) more over the views of different group of well experienced stakeholders have been entertained by including them in the study.

4.4. Information on impact of foreign banks on overall Economy

In order to determine whether the entry of foreign banks helps the economies the respondents asked. The perception among 62 respondents regarding the potential impact of incoming foreign banks on stimulating Ethiopia's banking sector and consequently fostering better economic growth is multifaceted. A significant majority, comprising 55 respondents, express optimism, believing that the influx of foreign banks will indeed yield positive outcomes. Their optimism is grounded in several factors, with the most commonly cited being the anticipated influx of investment, cited by 23.6% of respondents. Additionally, respondents foresee enhanced access to capital (18.2%) and increased employment opportunities (18.2%) as direct benefits. Furthermore, they anticipate a boost in the gross domestic product (GDP), with 14.5% of respondents highlighting this as a significant factor. The perceived positive impacts also include heightened competition (12.7%) and the modernization of the banking sector (12.7%).

Contrariwise, a smaller fraction of respondents (7 individuals) express reservations regarding the arrival of foreign banks. Their concerns primarily revolve around potential risks, particularly the fear of capital flight (42.9%) and the perceived threats to domestic banks (28.6%). Additionally, a subset of respondents (14.3%) also raises concerns about the potential inflationary pressures and its adverse effects on the economy.

Therefore, while a majority of respondents anticipate positive effects on Ethiopia's banking sector and subsequent economic growth from the introduction of foreign banks, a smaller respondent remains cautious, highlighting potential risks and challenges that need to be addressed. Moreover, it is also suggested by interviewers it will create a new economic direction since Ethiopia financial sector suffer with liquidity problem This diversity of perspectives underscores the complexity of the issue and the importance of carefully managing the entry of foreign banks to maximize the benefits while mitigating potential drawbacks. It is supported by a journal written by (Folouso and Nicholas,2017) the liberalization of financial sector strengthens a nation’s financial infrastructure. In particular, these reforms ought to incorporate measures intended to stimulate faster economic growth. According to the majority of pertinent literature, financial liberalization increases financial market efficiency, which leads to savings, investment, and faster growth.

Table 0-2: Perception on the existing financial policy of Ethiopia

Question	Response	N	Reason	Percentage
Do you think that the coming foreign banks stimulate the banking sector of Ethiopia that result better economic growth?	Yes	55	Investment	23.6%
			Access to capital	18.2%
			Employment	18.2%
			Gross domestic product	14.5%
			Increased competition	12.7%
			Modernization	12.7%
	No	7	Risk of capital flight	42.9%
			Risk for domestic banks	28.6%
			Gross domestic product	14.3%
			Inflation	14.3%

Source: from SPSS

4.5. Benefits and draw backs of foreign bank entry to the domestic banks.

4.5.1. Potential Benefit of foreign entry Banks

The descriptive statistics which based on the responded questionnaires from 62 respondents and qualitative responses through interviews provide a comprehensive understanding of the potential benefits and drawbacks of foreign bank entry into Ethiopia's domestic banking sector since the offices have emerged to observe the potential financial sector of Ethiopia. They suggest that involvement of foreign banks will stimulate the banking sector via new products, new technology, different experiences As per the below table 4-3 quantitative data shows that respondents generally agree that foreign bank entry can lead to various positive outcomes. In this regard eight question were raised to assess the potential benefits of foreign entry banks on the domestic banking sector. For example, foreign banks can improve service quality due to their international branding, with a mean score of 3.94 and a Std. deviation of 1.240, indicating moderate agreement and some variability in responses. They can also enhance financial regulation, with a mean of 3.92 and a Std. deviation of 1.178, showing similar patterns of agreement and variability. Attracting multinational companies received a mean score of 4.52 and a Std. deviation of 0.784, demonstrating strong agreement and relatively lower variability among respondents. This result also supported by Raba (2017) the ripple effects are another advantage of having foreign banks present for domestic banks. At times, local banks prepare themselves for internationalization or search for better options by focusing on strategic concerns and transferring skills and technology.

Moreover, experience sharing and knowledge transfer scored a mean of 4.55 with a Std. deviation of 0.645, indicating strong agreement with low variability. Foreign banks can also stimulate the banking industry with new products (mean = 4.26, Std. deviation = 0.788), and create access to global networks through partnerships (mean = 4.34, Std. deviation = 0.676), both showing strong agreement and moderate variability. Enhancing competition as per global standards had a mean of 3.60 and a Std. deviation of 1.032, reflecting moderate agreement and higher variability. Finally, the role of foreign banks as a backbone for the coming stock market received a mean of 4.55 and a Std. deviation of 0.783, showing strong agreement with moderate variability.

Overall, the mean score of 4.23 with a Std. deviation of 0.638 indicates that respondents generally agree on the potential benefits of foreign bank entry, with relatively low variability in their responses. These findings are supported by qualitative data, which lists additional benefits such as innovation in financial products and services, increased investment opportunities, technology and knowledge transfer, and improved access to capital, among others.

As per Benedict (2014) that witness Africa is characterized by relatively large interest margin that reflects lack of financial infrastructure, low competition in domestic banking and poor lending system for effective monetary policy interest rates are used to distribute credit and savings, and secondary markets that are in good working order affect the value of important financial indicators like the interbank interest rate are prerequisites for an efficient monetary policy. The arbitrage between domestic and foreign financial assets is by integration into international markets. In addition to highlighting the need of macroeconomic stability, Bittencourt (2012) highlights the necessity of a more transparent and competitive banking sector by providing financial resources to businesses. Additionally, as per King and Levine, (1993) the tough system of foreign banks may create pressure on the existing domestic to review their service quality, products, overall operation plus give a chance to share knowledge and imitate their products. The interviewers also mentioned that Ethiopia is a little be delayed from the international market that may help to overcome the shortage of hard currency.

Table 0-3: Potential benefits of foreign entry banks

Statements to be evaluated Potential benefits of foreign bank entry	N	Mean	Std. Deviation	Remark
PB.1. Improves service quality because of international branding	62	3.94	1.240	Agree
PB.2. Improves financial regulation	62	3.92	1.178	Agree
PB.3. Attract multinational companies	62	4.52	.784	Agree
PB.4. Experience sharing and knowledge transfer	62	4.55	.645	SA
PB.5. Stimulate the banking industry with new product	62	4.26	.788	Agree
PB.6. Create an access to global network by partnership	62	4.34	.676	Agree
PB.7. Enhances Competition as global Standard	62	3.60	1.032	Agree
PB.8. It serves as a backbone for the coming stock market	62	4.55	.783	SA
Overall Mean	**62**	**4.23**	**.638**	**Agree**

Source: from SPSS

4.5.2. Potential Draw backs of allowing foreign banks

However, there are also concerns or drawbacks associated with foreign bank entry. The descriptive statistics below indicate that respondents are somewhat concerned about the potential negative impacts. For instance, respondents believe that foreign bank entry could lead to capital outflow from Ethiopia to their home countries (mean = 3.03) and introduce new risks to the banking industry (mean = 3.10). There are also concerns about foreign banks not adhering to the cultural beliefs of Ethiopia (mean = 2.48) and creating financial instability (mean = 2.35). The responses from interviews also highlight challenges such as capital flight, loss of market share for domestic banks, and difficulties in monitoring and supervising foreign banks due to their complex operations. As shown on the overall mean is about 3.08, which the respondents in these this instance showed Neutral.

In general, while foreign bank entry into Ethiopia's domestic banking sector offers several potential benefits, such as improved service quality, financial regulation, and access to global networks, there are also concerns about capital outflow, risks to the banking industry, and cultural and financial instability. To maximize the benefits and minimize the drawbacks, policymakers and stakeholders need to carefully consider these factors and develop strategies that promote a balanced approach to foreign bank entry.

According to the journal by Adusei, (2013) growth is hampered by the expansion of the financial intermediary sector, which suggests that financial deregulation is not optimal mentioned the Ghanaian economy as an example. While it is anticipated that competition will grow as the industry grows, this should ideally lead to higher quality intermediary services and more affordable rates for consumers, competition may also lead to unusual activities that could have disastrous effects on the economy. In the Ghanian economy, the operation of foreign banks creates currency crises.

Table 0-4: Potential draw backs of foreign bank entry

Statements to be evaluated **Potential draw backs of foreign bank entry**	**N**	**Mean**	**Std. Deviation**	**Remark**
PDB.1. Capital outflow from host country to their home country	62	3.03	.905	Neutral
PDB.2. Foreign entry banks may introduce new risks to the banking industry of Ethiopia	62	3.10	.783	Neutral
PDB.3. The foreign banks may not obey the cultural believes of the Nation	62	2.48	1.004	Disagree
PDB.4. The entry of foreign banks may create financial instability	62	2.35	.726	Disagree
PDB.5. The foreign banks may not encourage domestic products of a country, it will affect the GDP	62	2.35	1.010	Disagree
PDB.6. Difficult to monitor and supervise since they operate multinational	62	3.90	.718	Agree
PDB**2.3**.7. Domestic banks may lose their market share	62	4.16	.486	Agree
Overall Mean	**62**	**3.08**	**.522**	**Neutral**

Source: from SPSS

4.6. Perception on the financial policy of Ethiopia

Based on the responses from the 62 participants regarding the adequacy of the existing Ethiopian financial policy to promote and regulate the coming foreign banks, a significant majority expressed skepticism. Only one respondent believed that the current policies are sufficient, citing their ability to promote fair competition and financial inclusion. However, the overwhelming majority, constituting 61 respondents, disagreed. Their reasons varied, but the primary concerns were related to service quality, with 25% expressing dissatisfaction in this regard. Additionally, 23% of respondents highlighted concerns about a poor credit system, indicating potential weaknesses in lending practices. A further 20% identified liquidity problems as a significant issue within the existing financial policy framework, suggesting potential constraints on the availability of funds. Other significant concerns included a poor management system, cited by 17% of respondents, and a perceived lack of innovation, mentioned by 15%. These responses collectively suggest a widespread perception among respondents that the current Ethiopian financial policy may not be adequately equipped to handle the challenges associated with the arrival of foreign banks. From the respondents of interviews some of them believed that Ethiopia has an adequate financial system to promote foreign banks. The journal of (Foluso and Nicolas,2017) supports the idea that to prevent jeopardizing financial stability, financial liberalization measures should be executed cautiously, paying attention to the order and timing of the policies. Indeed, further research is necessary to fully understand certain concerns surrounding the relationship between financial liberalization and growth. Moreover, as per Weijing, Agyenim and Patric, (2019) stated that Emerging Economies companies could frequently be less capable of innovation, have lower-quality, human capital, have fewer globally recognized brands and be less capable of managing people suggest being cautious while allowing foreign banks in infant financial structure.

Table 0-5:Perception on existing financial policy adequate to promote foreign banks

Question	Response	N	Reason	Percentage
Do you think the existing Ethiopian financial policy is adequate to promote and regulate the coming foreign banks?	Yes	1	The existing policies promote fair competition and financial inclusion	100%
	No	61	Service quality is not sufficient	25%
			Poor credit system	23%
			Liquidity problem	20%
			Poor management system	17%
			Poor innovation	15%

Source: from SPSS

4.7. Perception on the mode of Entry

From the below response summary on the mode of entry perception do you think will be best fit to the Ethiopian banking sector, the majority of respondents (61.3% or 38 people) believed that merging is the best mode of entry for the Ethiopian banking sector. Merging allows two existing banks to combine their operations and integrate their business fully. This could help banks achieve economies of scale, gain market share, and expand their product and service portfolio more rapidly in the Ethiopian market.

Acquisition was the second most preferred option at 17.7% (11 people). Acquisition means a larger existing bank would take over a smaller local bank. This provides faster entry than establishing a new subsidiary but gives the acquirer more control over business operations compared to merging.

Setting up a new subsidiary ranked third at 14.5% (9 people). This allows international banks to have a locally incorporated presence in Ethiopia while leveraging the parent company's expertise, capital, and networks. However, it requires more time and investment than merging or acquisition to set up business infrastructure from scratch.

Only 6.5% (4 people) thought entering through branches is suitable. While branches provide a quick physical presence, they offer limited autonomy and scope for growth compared to other modes. Therefore, merging is perceived as the most effective way for international banks to enter and expand operations in Ethiopia. Even though it is not clearly declared from the government side experts mention different modes of entry as refers in the descriptive statistics Joint Venture mode of entry also commented from representative offices as a better way.

Table 0-6: Perception on the mode of entry

Responses	Frequency	Percentage
Merging	38	61.3%
Acquisition	11	17.7%
Subsidiary	9	14.5%
Branches	4	6.5%
N	**62**	**100%**

Sources; from SPSS

4.8. Regulatory and policy required to facilitate and regulate foreign bank entry

The descriptive statistics and qualitative responses provide valuable insights into the perceived impact of foreign bank entry on the National Bank of Ethiopia (NBE) and areas requiring improvement within the NBE itself.

4.8.1. Foreign bank entry positively impacts National Bank Ethiopia

The descriptive statistics provide an overview of the responses from 62 respondents regarding the impact of foreign bank entry on the National Bank of Ethiopia (NBE). The respondents believe that foreign bank entry positively impacts the NBE, with high mean scores for statements such as "Foreign banks may create financial policy reform" (Mean = 4.15, Std. deviation = .743) and "Infrastructure changes will be demanded by foreign banks" (Mean = 4.13, Std. deviation = .757). These responses suggest that the arrival of foreign banks is seen as an opportunity for policy reform and infrastructure improvement within the Ethiopian banking sector, as indicated by the overall mean score of 4.15 with a Std. deviation of .721, showing general agreement among respondents.

The Std. deviation values provide additional insight into the respondents' views. For instance, the statement "Foreign banks may create financial policy reform" has a Std. deviation of .743, indicating a relatively consistent agreement among respondents. Similarly, the statement "Infrastructure changes will be demanded by foreign banks" has a Std. deviation of .757, reflecting a slightly higher but still consistent level of agreement. The statement "Foreign banks create coordination among policy makers globally (cross border supervision)" (Mean = 4.10, Std. deviation = .740) and "Capacity building for NBE (National Bank of Ethiopia)" (Mean = 4.10, Std. deviation = .804) also show consistent agreement among respondents, though with slightly higher variability in opinions for capacity building.

Moreover, the National bank of Ethiopia will demand better infrastructure, human capacity, experience sharing, better monitoring system from other neighboring countries in order to operate with the coming foreign banks. As stated by the Journal of (Lensink and Hermes,2004) the entry of foreign banks may lessen the government's power over the domestic financial industry, which might mitigate the significance of direct credit policies. The application of financial repression policies which are characterized among other things by promoting or generating fragmented markets, is one of the primary causes of developed financial systems (Fry,1955). Over time the arrival of international banks would boost competition and lessen the impact of financial repression laws, which might lead to lower costs and margins.

Table 0-7: Foreign bank entry positively impacts the National Bank of Ethiopia

Statements to be evaluated Foreign bank entry positively impacts the NBE	N	Mean	Std. Deviation	Remark
PI.1. Foreign banks may create financial policy reform	62	4.15	.743	Agree
PI.2. Infrastructure changes will demand by foreign banks	62	4.13	.757	Agree
PI.3. Foreign banks create coordination among policy makers globally (cross boarder supervision)	62	4.10	.740	Agree
PI.4. Capacity building for NBE (National Bank of Ethiopia)	62	4.10	.804	Agree
Overall Mean	**62**	**4.15**	**.721**	**Agree**

Source: from SPSS

4.8.2. Foreign bank entry negatively impacts National Bank of Ethiopia

The descriptive and qualitative responses highlight areas where the NBE needs improvement to effectively manage the entry of foreign banks. For instance, respondents noted that the NBE needs to review its policy and monitoring strategy to cope with advancements made by foreign banks (Mean = 4.34, Std. deviation = 0.571). Additionally, there is a consensus that the NBE's technology needs revision (Mean = 4.32, Std. deviation = 0.566), and that its human resources require capacity building to effectively communicate with foreign banks (Mean = 4.16, Std. deviation = 0.751). These responses suggest that while foreign bank entry is generally viewed positively, there are areas where the NBE needs to strengthen its capabilities to effectively regulate and manage the entry of foreign bank.

The Std. deviation s indicate the level of agreement among respondents. For instance, the relatively low Std. deviation for the statement about the need for policy review (Std. deviation = 0.571) suggests a high level of agreement among respondents. In contrast, the slightly higher Std. deviation for the statement on human resource capacity building (Std. deviation = 0.751) indicates more varied opinions among respondents on this issue.

The qualitative responses also provide suggestions for supporting the NBE, such as sharing experiences with other African banks, providing technical assistance in risk management and regulations, and developing payment systems infrastructure. These suggestions indicate a need for collaboration and support from other institutions to enhance the NBE's capacity to manage foreign bank entry.

In general, while foreign bank entry is perceived positively overall, there is a recognition of the need for the NBE to strengthen its policies, human resources, technology, and collaborative efforts with other institutions to effectively navigate the changing landscape of the banking sector. The suggested support measures outlined by respondents can serve as a roadmap for the NBE to address these areas of improvement and harness the potential benefits of foreign bank entry while mitigating associated risks.

Table 0-8: Area of the National Bank of Ethiopia needs improvement

Statements to be evaluated Area of the National Bank of Ethiopia needs improvement	**N**	**Mean**	**Std. Deviation**	**Remark**
ANI.1. The NBE needs to review its policy and monitoring strategy to cope up with foreign banks advancement	62	4.34	.571	Agree
ANI.2. The direct related human resource of NBE needs capacity building in order to communicate with the coming foreign	62	4.16	.751	Agree
ANI.3. The technology needs revision	62	4.32	.566	Agree
ANI.4. It needs experience sharing with other African banks	62	4.23	.734	Agree
Overall Mean	**62**	**4.27**	**.632**	**Agree**

Sources: from SPSS

4.9. The outcomes of foreign bank entry on domestic banks

The descriptive statistics from 62 respondents, the information gathered from interviews plus data from various authorized documents provide valuable insights into the potential positive and negative impacts of foreign bank entry on the existing domestic banking sector of Ethiopia.

4.9.1. The possible positive effects of foreign banks on Domestic banks

Starting with the possible positive effects, the descriptive statistics reveal a positive sentiment among respondents. The mean scores for various aspects, such as increased competition (4.26), improved services from foreign banks (4.26), and access to international expertise and finance (4.16 and 4.19 respectively), indicate a favorable perception of the outcomes of foreign bank entry. Additionally, the Std. deviation s provide insight into the consistency of these perceptions among respondents. For instance, the Std. deviation for increased competition by enhancing efficiency is .676, which suggests relatively low variability and a strong consensus on this benefit. Similarly, the Std. deviation for improved services from foreign banks is .700, indicating consistent agreement among respondents. Access to international expertise has a slightly higher Std. deviation (.772), implying more variability in responses, but still showing overall agreement. Access to finance, with a Std. deviation of .765, also reflects consistent positive sentiment with some degree of variability.

The overall mean score of 4.23, coupled with a Std. deviation of .711, further underscores the general agreement and moderate variability across all evaluated aspects. These statistical insights align with the qualitative responses, which highlight the potential for transfer of manpower, economic growth, enhanced supervision, cultural exchange, customer education, risk preparedness, financial literacy, employment opportunities, market conduct, fair competition, transparency, operational excellence, financial inclusion, consumer protection, financial deepening, liquidity management, risk diversification, product differentiation, job market flexibility, export promotion, governance systems, import substitution, reduced cost of services, balance of payments management, competition policy, access to foreign markets, systemic stability, customer-centricity, digital innovation, poverty alleviation programs, foreign exchange earnings, money laundering prevention, financial innovation, technological adoption, regulatory compliance, tax revenue generation, and organizational culture change.

As asserted by Sama and Pais (2008), that all entrepreneurs will have simple access to and usage of the official financial system using the financial inclusion system allows the involvement of foreign banks. Thus, it is possible to reinterpret financial inclusion in order to increase public knowledge of the financial system, enhance accessibility and clarity, and guarantee that all societal segments profit from fundamental financial services and products.

Table 0-9: Descriptive Statistics on the possible positive effects of foreign entry banks on domestic banks

Statements to be evaluated The possible positive effects	N	Mean	Std. Deviation	Remark
PE.1. Increase competition by enhancing efficiency	62	4.26	.676	Agree
PE2. Stimulate the existing foreign banks to provide better services to their customers	62	4.26	.700	Agree
PE.3. It improves the access of global market for domestic banks by creating global platforms	62	4.21	.727	Agree
PE.4. Access to international expertise will increase regarding risk management	62	4.16	.772	Agree
PE.5. Access to finance will increase because of international source of funds	62	4.19	.765	Agree
PE.6. Foreign banks access to advanced technology and Innovative banking solution, knowledge will be transfer	62	4.21	.771	Agree
Overall Mean	**62**	**4.23**	**.711**	**Agree**

Sources from: SPSS

4.9.2. The possible Challenges of foreign banks on existing domestic banks

The analysis of both the challenges and prospects for the upcoming foreign banks reveals crucial insights into the Ethiopia banking system they may encounter. On the other hand, the descriptive statistics for possible negative effects show a more mixed response. For instance, the introduction of multinational products has a mean score of 4.18, indicating that respondents agree this will attract potential existing customers of domestic banks, effectively skimming the cream and leaving non-potential customers to domestic banks. The Std. deviation of 0.736 suggests moderate agreement among respondents on this issue. Similarly, the high capital injection of foreign banks into the financial sector, with a mean score of 4.24, indicates strong agreement that this will create pressure on domestic banks to compete in the market. The Std. deviation of 0.694 reflects a relatively consistent perception among respondents regarding this competitive pressure.

The potential shift of professional employees to foreign banks has a mean score of 3.76, showing agreement that human capital may migrate due to the allure of new challenges, knowledge sharing, and recognition. The Std. deviation of 0.619 indicates a higher degree of consensus on this point compared to other issues. Concerns about monitoring and supervision, with a mean score of 2.90, are viewed with more caution. This suggests that respondents are neutral to slightly cautious about the difficulty in monitoring and supervising foreign banks, as they operate multi-nationally and are known for complex transactions and advanced technologies. The Std. deviation of 0.740 indicates some variability in responses, reflecting differing levels of concern among respondents. The overall mean score of 3.69 suggests that, on average, respondents agree that the entry of foreign banks has negative effects. The overall Std. deviation of 0.499 shows a moderate level of agreement across the different negative effects. The qualitative responses further expand on the potential negative impacts, highlighting concerns about the control capacity of the National Bank of Ethiopia (NBE), reduced operational autonomy, and the need for enhanced supervision.

In conclusion, while foreign bank entry into Ethiopia's domestic banking sector presents numerous potential benefits, such as enhanced competition, access to global markets, and technological advancements, it also poses challenges, including talent migration, competitive pressure, and regulatory complexities.

Table 0-10: Descriptive statistics shows negative effects of foreign entry banks

Statements to be evaluated. The possible negative effects	N	Mean	Std. Deviation	Remark
NE.1. Professional employees from domestic banks may shift to the coming foreign banks	62	3.76	.619	Agree
NE.2. Cream skimming' the foreign banks want to serve only potential customers, left the residual to domestic banks.	62	2.95	.818	Neutral
NE.3. By Introducing multinational products, they will attract potential customers of Domestic banks	62	4.18	.736	Agree
NE.4. High resources of the foreign banks from International Funds may lead to the domestic banks to pressure to compete with in the existing Market.	62	4.24	.694	Agree
NE.5. Difficult to monitor and supervise since they operate multinational	62	2.90	.740	Neutral
Overall Mean	**62**	**3.69**	**.499**	**Agree**

Sources: from SPSS

4.10. The possible opportunities and drawbacks expected by foreign banks.

The analysis of both the challenges that might be faced by and opportunities they insight from the upcoming foreign banks reveals crucial insights into the Ethiopia banking system they may encounter.

4.10.1. Prospects for the coming foreign banks

Starting with the prospects, the descriptive statistics show that respondents perceive several hurdles. The mean scores indicate an optimistic view regarding untapped market potential (mean = 4.19, Std. deviation = 0.698), the growing economy (mean = 4.15, Std. deviation = 0.721), cheap labor costs (mean = 4.13, Std. deviation = 0.757), and unused natural resources (mean = 4.13, Std. deviation = 0.713). These factors suggest that there are attractive opportunities for foreign banks in the market. The relatively low Std. deviation s for these statements indicate a strong consensus among respondents about these positive prospects. However, concerns arise regarding the uneven distribution of benefits (mean = 2.87, Std. deviation = 0.713), indicating a perceived discrimination against local customers, which could pose a challenge to foreign banks' acceptance. The Std. deviation for this item is slightly higher, suggesting more varied opinions among respondents about the extent of this issue.

The overall mean score is 3.81 with a Std. deviation of 0.398, reflecting general agreement and moderate variability in perceptions about the challenges and prospects for foreign banks. This indicates that while there is general optimism, there are also significant concerns that need to be addressed.

The qualitative data further elucidates various aspects affecting the entry of foreign banks. Key points include regulatory frameworks, investor confidence, skilled workforce availability, and the overall business climate index. These factors collectively underscore the complex environment foreign banks must navigate, highlighting the importance of establishing a conducive environment for their operations. As per King and Levine, (1993) stated that less developed countries characterized by infant financial system this can be a good opportunity for the coming foreign banks since they have international branding, better products and well experience.

Table 0-11: Prospects for the coming foreign banks

Statements to be evaluated. **Challenges for the coming foreign banks**	**N**	**Mean**	**Std. Deviation**	**Remark**
CHA.1. There is untapped market potential	62	4.19	.698	Agree
CHA.2. Un even distribution of benefits local and their international customer /discrimination of local customers	62	2.87	.713	Neutral
CHA.3. The growing economy of the country will support their entry	62	4.15	.721	Agree
CHA.4. Cheap labor cost (skillful and unskillful)	62	4.13	.757	Agree
CHA.5. Unused natural resources like gold and oil	62	4.13	.713	Agree
Overall Mean	**62**	**3.81**	**.398**	**Agree**

Source: from SPSS

4.10.2. Challenges for the coming foreign banks

About the prospects and challenges, the descriptive statistics not only provide insight into the mean values but also shed light on the variability of responses through Std. deviation analysis.

Table 0-12: Challenges for the coming foreign banks

Statements to be evaluated. Prospects for the coming foreign banks	**N**	**Mean**	**Std. Deviation**	**Remark**
PRO.1. Competition from local banks	62	3.66	.542	Agree
PRO.2. The NBE policy might be a bottle neck to operate	62	3.29	.524	Neutral
PRO.3. Political instability all over the country	62	3.03	.940	Neutral
PRO.4. Cultural and language barrier	62	2.85	.721	Neutral
PRO.5. Limited infrastructure	62	2.95	.798	Neutral
Overall Mean	**62**	**2.95**	**.777**	**Neutral**

Source: from SPSS

The moderate challenges indicated by the means are accompanied by Std. deviation s that reveal the extent of dispersion within the data. While competition from local banks (mean = 3.66, Std. deviation = 0.542) is acknowledged, it does not appear overwhelmingly daunting. However, concerns regarding political instability (mean = 3.03, Std. deviation = 0.940), cultural and language barriers (mean = 2.85, Std. deviation = 0.721), and limited infrastructure (mean = 2.95, Std. deviation = 0.798) exhibit notable variability in responses. The overall mean of 2.95, accompanied by a Std. deviation of 0.777, suggests a neutral stance among respondents. These challenges, albeit moderate, could impede foreign banks' prospects if not adequately addressed.

The qualitative responses supplement the statistical findings, highlighting additional concerns such as taxation policies, compliance burdens, and technological challenges of particular note are data privacy concerns, which are mentioned in both challenges and prospects, emphasizing their significance in the banking sector's landscape. Furthermore, Ethiopia is delayed from other Arican countries to liberalize its financial system so that the coming foreign banks have experiences from other African countries, which is somehow similarly characterized. Thus, as per the interview respondents it minimizes the risks for foreign banks especially opened their representative office in previous years.

In general, while there are promising opportunities for foreign banks in the market, they must navigate through a myriad of challenges, ranging from regulatory issues to socio-political instability. Addressing these challenges effectively and leveraging the identified prospects will be crucial for foreign banks to establish a successful presence in the banking sector.

CHAPTER FIVE

CONCLUSION AND IMPLICATION

5.1. Introduction

The conclusion, policy implications of the findings and potential directions for further research are presented in this chapter. There are three sections to it. The study's conclusion is presented in the first section. The consequences are discussed in the second section, and potential areas for future research are presented in the third section.

5.2. Conclusion

The research has provided a comprehensive analysis of the potential benefits and drawbacks of foreign bank entry into Ethiopia's domestic banking sector, as well as the regulatory and policy measures required to facilitate and regulate such entry. The questions were designed in three sections. The first part is to assess more about the expertise perception on the advantage of financial liberalization as announced by prime minster office and National Bank of Ethiopia which is already on the process. The second part was to focus on the possible obstacles that might occur while foreign entry banks operate in Ethiopia. The third and final was focused on the representative office of foreign banks which opens their offices and providing some corresponding financing and supporting activities for importers and Exporters. Specifically, to obtain information regarding the opportunities in the banking sector and to overview possible bottle necks expected that may hamper the operation when foreign banks start their operation. Moreover, the respondents were asked their perception on mode of entries which will be engaging for better results since they were operating in other neighboring countries.

The respondent profile and descriptive analysis revealed that while there are significant potential benefits such as improved service quality, access to funds, minimize shortage of hard currency, financial regulation, knowledge transfer, financial inclusion and access to global networks, on the other hand there are also concerns about capital outflow, risks to the banking industry, and cultural and financial instability.

The research also highlighted areas where the National Bank of Ethiopia (NBE) needs improvement to effectively manage the entry of foreign banks, including policy review, technology enhancement, and capacity building for human resources.

In terms of the outcomes of foreign bank entry on the existing domestic banking sector, the research found that while there are numerous potential benefits, such as enhanced competition, access to global markets, and technological advancements, there are also challenges, including talent migration, competition pressure, and regulatory complexities. Addressing these concerns while capitalizing on the opportunities will be crucial for maximizing the positive impacts and mitigating the negative consequences of foreign bank entry on Ethiopia's banking sector.

Finally, the research also identified challenges and prospects for upcoming foreign banks, with respondents acknowledging opportunities such as untapped market potential and a growing economy, but also highlighting challenges such as uneven distribution of benefits, political instability, and limited infrastructure. Addressing these challenges and leveraging the identified prospects will be crucial for foreign banks to establish a successful presence in the Ethiopian banking sector.

5.3. Recommendations

Based on the research findings, several recommendations can be made to policymakers and stakeholders in the Ethiopian banking sector:

- **Policy and Regulatory Reforms:** The National Bank of Ethiopia should review and update its policies and regulations to accommodate the entry of foreign banks while safeguarding the interests of domestic banks and customers. Clear guidelines on capital controls, risk management, and cultural sensitivity should be established.
- **Capacity Building:** The NBE should invest in enhancing its technological infrastructure and human resources capabilities to effectively regulate and supervise foreign banks. Training programs on international banking practices, risk assessment, and cross-cultural communication should be implemented. Moreover, before officially opening up its sector to foreign entry banks the NBE should measure and take action to build the capacity of domestic banks in order to maintain in the financial market.

- **Collaborative Partnerships:** The NBE should collaborate with international financial institutions and regulatory bodies to share experiences, best practices, and technical assistance in regulating foreign banks. This collaboration will strengthen the NBE's regulatory framework and oversight capabilities.
- **Market Monitoring and Evaluation:** Regular monitoring and evaluation mechanisms should be established to assess the impact of foreign bank entry on the domestic banking sector. Valuable research and assessment should be conducted by EEA and EPAAA as this will enable the National Bank of Ethiopia to make informed decisions and adjustments to regulatory frameworks as needed.
- **Community Engagement:** Foreign banks should actively engage with local communities, government agencies, and regulatory bodies to build trust, foster transparency, and ensure alignment with local development goals. This includes supporting initiatives for financial literacy, inclusion, and sustainable economic development.
- **Risk Management:** Foreign banks should develop robust risk management strategies to mitigate potential risks associated with operating in a new market. This includes addressing political, economic, and operational risks, as well as ensuring compliance with local regulations and international standards.
- **Long-Term Sustainability:** Foreign banks should adopt a long-term perspective in their operations in Ethiopia, focusing on building sustainable relationships with customers, stakeholders, and the broader community. This includes investing in local talent development, corporate social responsibility initiatives, and ethical business practices.

By implementing these recommendations, policymakers, regulators, and foreign banks can work together to maximize the benefits and minimize the challenges associated with foreign bank entry into Ethiopia's domestic banking sector. This collaborative approach will contribute to the growth, stability, and inclusivity of Ethiopia's banking industry, ultimately benefiting the economy and society as a whole.

5.4. Future Research Areas

Since the financial liberalization idea of Ethiopian government is new and not yet applied even if Ethiopia is somehow delayed accepting financial liberalization from other African countries. It is a good opportunity for Ethiopia to obtain operation experience from neighboring country. Financial liberalization is a big concept it has a capacity to change all over the economic activity of a particular country for this reason it touches every economic activity of a country. It needs further surveys and research as the paper focus the benefits and draw backs of foreign entry banks on the domestic bank even if there is no clear proclamation and policy from the government and national bank of Ethiopia. In the coming years they will start to operate in Ethiopia through different entry mode as announced by the government and following the emergence of capital market. As a result, it will be appropriate for further studies on the entry mode and its consequences, even on the advantages and disadvantages of foreign entry banks, asses their service quality and so on.

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Appendices

QUESTIONARIE

Behailua Zerihun Negusse

ADDIS ABABA UNIVERSITY

Faculty of Business and Economics

Department of MBA finance

Dear respondent,

The objective of this questionnaire is to seek information regarding the prospects and challenges of foreign bank entry on the domestic banks of Ethiopia. I would like to assure you that the information you provide will be used only for the purpose of achieving academic Award.

Part 1-General background of respondents

Please (   ) your respond on the appropriate space or box

1. Gender
   A. Male ☐
   B. Female ☐
2. Academic Level
   A. Certificate ☐
   B. Diploma ☐
   C. Bachelor’s degree ☐
   D. Master’s degree and above ☐
   E. Other specify ____________
3. Current organization you are working.
   A. Private banks ☐
   B. National bank of Ethiopia ☐
   C. Government banks ☐
   D. Other institution (EPAAA /EEA) ☐

4. Working Experience
   A. Less than 5years ☐
   B. 5 to 10 years ☐
   C. 10 to 15 years ☐
   D. More than 15 years ☐

5. Current position
   A. Branch manager ☐
   B. District Manager ☐
   C. Marketing Manger ☐
   D. Customer service manger ☐
   E. Director ☐
   F. Other specify_____________

Part-II Overall Economy

A) Please put ( ) for the appropriate response

6. Do you think that the coming foreign banks stimulate the banking sector of Ethiopia that result better economic growth?

   A. Yes ☐   B. No ☐

7. If your answer is yes for the above question, how it positively influences the economy?
   A, Gross domestic product ☐
   B, Employment ☐
   C, Investment ☐
   D, Other specify__________________________
8. If your answer is no for the above number 1 question how it influences negatively?
   A. Gross Domestic Product ☐
   B. Inflation ☐
   C. Investment ☐
   D, Other specify____________

9. Foreign banks entry into Ethiopia helps by

		SA	A	N	DA	SDA
A	Improves service quality because of international branding					
B	Improves financial regulation					
C	Attract multinational companies					
D	Experience Sharing and Knowledge Transfer					
E	Stimulate the banking industry with new product					
F	Create an access to global network by partnership					
G	Enhances Competition as global standard					
D	It serves as a backbone for the coming stock market					

10. Please list if there is another benefit obtained from financial liberalization.
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11. The possible negative results from the operation of foreign banks in the overall Ethiopian banking system.

		SA	A	N	DA	SDA
A	Capital Outflow from host country to their home country					
B	Foreign entry banks may introduce new risks to the banking industry of Ethiopia.					
C	The foreign banks may not obey the cultural believes of the Nation.					
D	The entry of foreign banks may create financial. instability					
E	The foreign banks may not encourage domestic products of a country, it will affect the GDP.					
F	Difficult to monitor and supervise since they operate multinational.					
G	Domestic banks may lose their market share					

12. If there are any other negative effects, please mention it.

____

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13. Which of the following considered as a challenge when foreign banks operate in Ethiopian banking sector?

   A. Capital flight may occur from host to their home country. ☐

   B. They only provide credit access to Potential customers and the residue to domestic banks. ☐

   C. Domestic banks may lose their market share. ☐

   D. Their complex operation might face difficulty for NBE to monitor and supervise.

   E. If there are others, please mention it____

Part III -National Bank of Ethiopia and Policy makers

14. Do you think the existing Ethiopian financial policy is adequate to promote and regulate the coming foreign banks?

A. Yes B. No ☐

15. If you choose yes, please mention your opinion.

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____

16. If you choose no, in which area the NBE needs improvement?

____

____

17. Please mention at least three gaps that are seen by the operating domestic banks in Ethiopia.

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18. Which mode of entry do you think will be fit to the Ethiopian banking sector

A. Merging ☐
B. Acquisition ☐
C. Joint Venture ☐
D. Subsidiaries ☐
E. Please specify if there is other ______________________________

19. Foreign bank entry positively impacts the NBE by:

		SA	A	N	DA	SDA
A	Foreign banks may create financial policy reform					
B	Infrastructure changes will demand by them					
C	Foreign banks create coordination among policy makers globally (cross boarder supervision)					
D	Capacity building for NBE (National Bank of Ethiopia)					

20. If there are any, please list on the space provided below.

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____

21. Which part of the National Bank of Ethiopia needs improvement?

		SA	A	N	DA	SDA
A	The NBE needs to review its policy and monitoring strategy to cope up with foreign banks advancement					
B	The direct related human resource of NBE needs capacity building in order to communicate with the coming Foreign					
C	The technology it uses needs revision					
D	It needs experience sharing with other African banks.					

22. If there are any points that will help for the support of National Banks of Ethiopia, please list down on the below space.

____

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Part IV- The outcomes on the existing domestic banks

23. What do you think regarding the possible benefits from allowing foreign entry banks which results efficiency on domestic banks?

   A. Availability of credit supply ☐

   B. Enhances efficiency using advanced technology ☐

   C. Better management skill will be practiced ☐

   D. Knowledge transfer ☐

   E. If there are others, please specify. ___________________________

24. The possible positive effects of allowing foreign bank operation on the existing domestic banks.

		SA	A	N	DA	SDA
A	Increase competition by enhancing efficiency					
B	Stimulate the existing foreign banks to provide better services to their customers					
C	It improves the access of global market for domestic banks by creating global platforms					
D	Access to international expertise will increase regarding risk management					
E	Access to finance will increase because of international source of Funds					
F	Foreign banks access to advanced technology and Innovative banking solution, knowledge will be transfer					

25. If there are any other points regarding the possible positive effects of foreign banks on the existing domestic banks.

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26. Foreign entry banks negatively impact Domestic Banks by:

		SA	A	N	DA	SDA
A	Professional employees from domestic banks may shift to the coming foreign banks.					
B	Cream skimming' the foreign banks want to serve only potential customers, left the residual to domestic banks.					
C	By Introducing multinational products, they will attract potential customers of Domestic banks.					
D	High resources of the foreign banks from International Funds may lead to the domestic banks to pressure to compete with in the existing Market.					
E	Difficult to monitor and supervise since they operate multinational.					

27. If there are other impacts, please list on the space provides below.

____

____

Part V- Challenges and prospects for the coming foreign banks

28. Opportunities for the coming foreign banks please rank it.

		SA	A	N	DA	SDA
A	There is untapped market potential					
B	The government will support it since it is new experience					
C	The growing economy of the country will support their entry					
D	Cheap labor cost (skillful and unskillful)					
E	Un used natural resources like gold and oil.					

29. If there are any points to sum up, please list on the space provided below.

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30. Challenges of foreign entry banks.

		SA	A	N	DA	SDA
A	Competition from local banks					
B	The NBE policy might be a bottle neck to operate					
C	Political instability all over the country					
D	Cultural and language barrier					
E	Limited infrastructure					

31. If there are any other points regarding the challenges of foreign banks entry, please list on the space provided below.

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Appendix B

Interview Guide

Behailua Zerihun Negusse

Addis Ababa University

Faculty of Business and Economics

Department of MBA finance program

Dear sir/Madam

The purpose of this interview is to assess the prospects and challenges of foreign bank entry on the domestic bank of Ethiopia, Since the Ethiopia government is already liberalizing its financial system and create a plat form to accept foreign banks that shows interest toward the market. For this reason, the paper wants to identify the challenges that might face and analyses its benefit using your professional explanation. It Helps the domestic banks, the policy influencer and the NBE to be alert on the regulation, operational procedure, protecting the domestic banks, etc. your kind response will be a milestone input for the paper in addition with the questionaries.

I would like to assure that the information you provide will be use for the study purpose hence it is confidential.

Your kind response is substantial for the paper.

Thank you for your cooperation!

1. Do you believe that entering of foreign banks to the Ethiopian banking system bring substantial benefit? what are the basic benefits?
2. Do you think that the existing Domestic banks can resist the change while foreign banks enter into financial system of Ethiopia? What should they do to stay in a market?
3. Which mode of entry of foreign banks is better for Domestic banks to operate in the system?
4. What can be the possible challenges while the foreign banks operate in Ethiopia? How can the domestic market and the NBE resist it?
5. Does u think that the existing law and regulation works for the coming foreign banks? If not, how should it amend?
6. Do you think that the foreign banks will minimize the hard currency shortage? How?
7. What is your suggestion for the existing Domestic banks regarding their operational efficiency and readiness of the coming foreign banks?