Saint Mary's university

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Investigation of potential benefit and risks resulting from entry of foreign owned bank in Ethiopian banking sector.

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ACRONYMS

- **AIB Awash International Bank**
- **ATM Automated Teller Machine**
- **BOA Bank of Abyssinia**
- **CBB Construction and Business Bank**
- **CBE Commercial Bank of Ethiopia**
- **DB Dashen Bank**
- **DBE Development Bank Of Ethiopia**
- **IMF International Monetary Fund**
- **NBE National Bank of Ethiopia**
- **SME Small and Medium Sized Enterprises**
- **SPSS: Statistical Package For Social Science**
- **WTO World Trade Organization**

ABSTRACT

Up to now, the Ethiopian banking sector has not been opened up completely for foreign banks. This refers mainly to the still existing restriction to set up branches in the Ethiopia that will even remain in force after the accession to the World Trade Organization. The restrictions due to them have the potential positive effects and risks on the banking sector. Foreign banks have a positive and negative impact on banking sector of Ethiopia. This research paper concerned with investigation of the potential positive effects and risks results from foreign banks entry in Ethiopian banking sector especially on domestic commercial banks. The main objective of this research is to assess the potential positive and negative effects of foreign banks entry on the banking sector of Ethiopia. From total domestic commercial banks 5 (Five) domestic commercial banks were selected through Non probability sampling technique that was judgmental sample based on their total assets and year of establishment. In addition, 100 employees were selected from these domestic commercial banks. From total respondents 97 respondents were considered and 3 respondent's response were missed. For the purpose of this study primary data were collected using questionnaire and. The collected data was analyzed using Explanatory statistics and SPSS software. The result of this study shows that, foreign banks entry in to Ethiopian banking sector has its own positive and negative potential effects on Ethiopian banking sector. The potential negative effect of foreign bank entry on Ethiopian banking sector are Lack of domestic strong supervisor body, fear of foreign bank domination, lack of domestic commitment, and Capital Flight. And, the potential positive effects of foreign bank entry on Ethiopian Banking Sector are introducing new technology and financial innovation, possible economics of scale and scope, improvement of the competitive environment, development of financial market, improve the financial systems infrastructure and attracting foreign direct investments. In addition, the result shows why foreign banks open their representative and factors that attract foreign banks. The study concludes and recommends that domestic commercial banks in Ethiopia should develop their products or service cost and quality. And, update their technology to compute with foreign banks when entry is allowed. And also, they should develop their employee's knowledge and skill. Finally, government should develop supervisory body efficiency to manage the sector efficiently when foreign banks join Ethiopian banking sector.

Key words: Foreign bank, Domestic bank, Ethiopian banking Sec

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

1.1.1 History of Banking Sector Development in Ethiopia

The agreement was reached in 1905 between Emperor Minilik II and Mr.Ma Gillivray, representative of the British owned National Bank of Egypt. This agreement marked the introduction of modern banking in Ethiopia. Following the agreement, the first bank called Bank of Abyssinia was inaugurated on February 16, 1906 by the Emperor. The Bank was totally managed by the Egyptian National Bank and the following rights and concessions were agreed upon the establishment of Bank of Abyssinia.

The Bank was given full rights to issue bank notes and monitor coins which were to be legal tender. Profits gained from running the bank and freely exchange against gold and silver on cover by the Bank as well as to establish silver coins and abolish the Maria Theresa.

The successor Bank of Ethiopia became a purely Ethiopian institution and it was the first indigenous bank in Africa. It was established by an official decree on August 29, 1931 with capital of £750,000. During the invasion (1935-1940 G.C), the Italians also established branches of their main banks, namely Banca d'Italia, Banco di Roma, Bancodi Napoli and Banca Nazionale del lavoro and started operation in the main towns of Ethiopia. However, they all ceased operation soon after liberation except Banco di Roma and Banco di Napoli which remained in Asmara. In1941 another foreign bank, Barclays Bank, came to Ethiopia with the British troops and organized banking services in Addis Ababa until its withdrawal in 1943 (Belay Giday, 1987).

There were two other banks in operation, namely Banco di Roma S.C and Banco di Napoli S.C. that later reapplied for license according to the new proclamation. The first privately owned bank was Addis Ababa Bank Share Company. This was established on Ethiopian's initiative and started operation in 1964. A capital of Birr 2 million was raised in association with National and Grindlay Bank, London which had 40 percent of the total share (Belay Giday, 1987).

Following the downfall of imperial regime in 1974, the foreign participation of these banks was first nationalized in early 1975. Addis Bank and Commercial Bank of Ethiopia S.C were merged by proclamation No.184 on August 2, 1980. Commercial bank was sole bank in the country till the establishment of private commercial banks in 1994 (WTO reports October 2015).

Monetary and Banking Proclamation of 1994 established the National Bank of Ethiopia as a judicial entity. It was separated from the government and outlined its main functions. Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 laid down the legal basis for investment in the banking sector. Consequently, shortly after the proclamation the first private bank, Awash International Bank was established in 1994. Dashen Bank also comes to the scene, on September 20, 1995 as a share company. The last bank established was Enat International Bank that started operation on November 24, 2012. In total, there are 19 domestic banks of which 16 banks are private owned and 3 banks government owned. And, out of 19 domestic banks 18 banks are domestic commercial banks and 1 bank is Development Bank (NBE report 2014/15).

1.1.2 Review of Existing Regulation and Policy on Foreign Banks

Countries may prohibit all forms of foreign banks. Countries may permit foreign banks presence only via representative offices. Countries may prohibit foreign banks from purchasing any interest in indigenous banks. Countries may specify a maximum number of foreign bank participation by law or by practice. Countries may have no majority control and no specific maximum number. Countries prohibiting all forms of foreign banks presence by law include Afghanistan, Cuba, Guinea, Iraq, Laos, Libya, Madagascar, Nepal and Somalia. Ethiopia is one of the countries prohibiting all forms of foreign bank by law.

In the 1960s, foreign banks participated in Ethiopian banking sector. In 1905, Ethiopia introduced the modern banking system by the foreign banks of British owned by the National Bank of Egypt. Minilik II allowed this bank by looking in to their positive effects like monitoring government fund or deposit. In the 1960's foreign banks are highly expand and

increased in number. But at the end of 1970's this foreign banks are overtaken by the governor and established domestic banks. After this period foreign banks are deported and the market is dominated by only domestic banks (Belay Giday, 1987).

Even today foreign banks are not allowed to join the banking sector of Ethiopia. Currently, only domestic banks operate in banking sector of Ethiopia. No foreign banks are entering into Ethiopian banking sector until now. That is, financial sector is closed or prohibited to foreigners. The final prohibition of foreign banks to enter in the banking sector of Ethiopia as per banking business proclamation No. 592/2008, article 9 state that:

"Foreign nationals or organizations fully or partially owned by foreign nationals may not be allowed to open bank or branch offices or subsidiaries of foreign banks in Ethiopia or acquire the share of Ethiopian banks." (Ethiopia banking business proclamation No. 592/2008, article 9)

However, some foreign banks have opened their representative offices in Ethiopia. Since Ethiopia is on the way to become a member of the World Trade Organization (WTO), the market should be open to foreign investors in every sector including in financial services. By hoping this there are some foreign banks that opened their representative offices. These are the Germany based, COMMERZ Bank, the U.S based CITY Bank and others (Capital News paper March 9, 2015).

These foreign owned banks representative offices are not involved in any operational banking activities, as Ethiopia's investment law reserves engagement in financial sector for local investors only. The National Bank of Ethiopia (NBE) is revising the regulation to accommodate the foreign banks (Capital News paper March 9, 2015). And when the market is fully liberalized foreign banks will continue to come to the country and compete with local banks. The importance of this study was assessing the potential positive and negative effects of foreign banks on domestic banks before the prohibition policy is lifted.

1.2 Statement of the Problem

A foreign bank is a financial institution engaged in provision of routine banking services in countries other than the one it was original presented. In recent years there is an increased importance of international trade in goods and services. To facilitate such trade banking institutions have also became international. Banks expand internationally by establishing foreign subsidiaries and branches or by taking over established foreign banks. The internationalization of the banking sector is financed and facilitated by the liberalization of financial market worldwide.

Banking market is liberalized by the government in order to attract new capital and to promote the restructuring of their often rather inefficient banking system. Banks contribute their part to the countries development. Many transition economies have been making different reform and liberalization of their financial sector in order to enhance the economical development. The recent relatively high economic growth achievement in Ethiopia is also a result relatively productivity of this sector. This to be true, private banks which started to evolve after the reform in 1994 has been contributing their prominent role towards the sector development.

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

Developed and developing countries alike now increasingly allow the entrance of foreign banks. Especially in less developed countries the interest of foreign banks has increased dramatically during the 1995‘s (IMF, 2000).

The effects of foreign bank penetration on the domestic banking sector depend on its mode (offshore lending versus physical presence), the underlying motivation (following clients versus home country opportunities), and the scope of their activity (wholesale versus retail). If banks enter the market to follow their clients, they are not expected to outperform domestic banks or have substantial effects on the entire banking industry (Theodre H. Moran; December 1998).

On the other hand, when banks enter a range of market niches to exploit their comparative advantages they are sure to trigger competitive pressure on domestic banks. However, this effect may be limited to the market segment in which they are present. It may also happen that foreign entrants provide new, previously non-existent services in the host country, which contributes to better services, but does not exert competitive pressure on their domestic peers (Theodre H. Moran; December 1998).

Most countries impose substantial restriction on the ownership or presence of foreign banks in their domestic markets- either by law, policy, or administrative practice.

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

1.3 Research Questions of the Study

In line with the above problem, the following questions are formulated to be answered as a result of the study:

1. Why foreign banks are interested to open representative offices in Ethiopia?

2. What are the positive potential effects of foreign banks on the domestic Commercial Banks in Ethiopia if they are allowed entering in to Ethiopian banking sector?

3. What are the negative potential effects of foreign banks on the domestic Commercial Banks in Ethiopia if they are allowed entering in to Ethiopian banking sector?

1.4 Objectives of the Study

Ethiopia is on the way to become a member of WTO and allowing entry of foreign bank in to the banking sector are one of the questions raised by member countries. So, soon or later the openness of the financial sector will become inevitable, under the condition that, the countries long and strong desire to be a member. The study would have a general objective and specific objectives.

1.4.1 General Objective

The general objective of this study was assess the potential effects of foreign banks entry in the in the Ethiopian banking sector.

1.4.2 Specific objectives

The specific objectives of the study will be:

1. To assess the reason why foreign banks are interested to open their representative offices in Ethiopia.

2. To assess the positive potential effects of foreign banks on the domestic Commercial Banks in Ethiopia; when foreign banks are allow entering in to Ethiopian banking sector.

3. To assess the negative potential effects of foreign banks on the domestic Commercial Banks in Ethiopia; when foreign banks are allow entering in to Ethiopian banking sector.

1.5 Significance of the Study

The findings of this study are expected to be significant for the following reasons:

First, it would help stakeholder that is government body, domestic commercial banks and others, when they consider the policy related to foreign bank entrance into Ethiopia financial sector.

Secondly, domestic commercial banks would get benefit from this study to predict the effects of foreign banks on domestic commercial banks, when foreign bank entry is allowed in to the Ethiopian banking sector.

Thirdly, other sectors can use this research who may directly or indirectly affected by the entrance of foreign banks into the Ethiopian banking sector.

Finally, it may be used as a reference for other researchers who are interested to conduct further study related to this problem.

1.6 Scope of the Study

This paper addresses the potential effects of foreign banks entry on the domestic commercial banks if foreign banks are enter into the Ethiopian banking sector. This paper would not cover the effects of foreign banks on the other types of financial sector like insurance company, micro financial institution, pension funds and other. Further this paper would not cover the effects of foreign banks on others sector like manufacturing, agricultural and others. It only covers the potential effects of foreign bank on the local commercial banks in Ethiopia.

1.7 Limitations of the Study

Although Ethiopia‘s banking sector has a long history, domestic commercial banks little or no experience working with foreign owned banks. Historical data is not available. So the researcher would face difficulties to directly measure the effects of foreign banks on the domestic commercial banks. It depends on the view and perception of respondents in selected domestic commercial banks.

The second limitation of this study is secondary data accessibility. There is a shortage of secondary data resource documentation. The final limitation of the study would be geographical location. In other word, the study specifically focuses on Head offices and branches around Addis Ababa or city branches of the selected banks due to time and finance constraint. And, branches were selected data in detail about the current status of domestic commercial banks and mass population was found at the branch.

1.8 Structure of the Thesis

This paper is organized in to five chapters. The first chapter includes the introduction covering background of the study, statement of the problem, objectives, scopes, limitations of the study and others. The second chapter presents a review of the related literature. The third chapter presents the research methodology and data sources. The fourth chapter provides the findings and analysis. Finally, chapter five provide summary, conclusion and recommendation.

CHAPETER TWO
LITRATURE REVIEW

2.1. Overview

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

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

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

Second, according to Claessens et al. (2001) the foreign banks entry stimulates competitions with domestic banks and, consequently, helps domestic banks in costs reduction, diversification of financial services. As a rule foreign banks enter domestic market bringing more sophisticated products. So, in order to be able to receive or at least keep existing market shares domestic banks have an incentive to diversify their service portfolio, improve the quality of financial services. Elimination of out-of-date methods from banking practices and smaller margins of interest rate are examples of such improvements.

In the same research there is mentioned the third positive effect. Presence of foreign banks may have positive spill-over effects. For example, foreign banks implement new banking products at domestic market. Those domestic banks that want to keep their positions or expand their market share must follow foreign banks example and to implement new banking products as well. Not only new services but new techniques in management and business doing are often introduced by foreign banks. And again domestic banks are induced not to fall behind their foreign competitors and implement new techniques as well.

Besides, since foreign banks are interested in protection of their rights as non-residents, this may indirectly force the local authority to improve banking regulation. Otherwise, domestic banking market will be too risky for foreign banks and no entry occurs. Additionally, as Goldberg et al (2000) have noted, entry of foreign bank may eliminate excessive interference of authorities to banking sector.

All these effects stimulate reduction in costs. Still, timing of such cost reduction is not easy to define. Usually these effects come into force only in long run perspective, since banks first should invest in innovations and only then receive cost reduction. Claessens et al. (2001)

Proceeding, with positive effects of foreign bank entry it worth it to note that professionalism of banking workers may also be improved. This improvement is stipulated with change of best banking practices between domestic bankers and foreign ones. As a rule such human capital improvements are possible due to trainings organized by foreign banks for local bankers. Since for foreign banks it is hard to do without local specialists, so they have incentive to invest in human capital too. Improvements in human quality will also be noticed only after some period of time. Claessens et al. (2001)

Finally, both Claessens et al. (2001) and Goldberg et al (2000) say that the entrance of foreign banks may weaken the effect of domestic banking in a host country. Because foreign banks have more sources from which they attract funds, since they have more access to international markets. Consequently, foreign banks may perform better during banking crises in domestic countries and continue to provide people with credits.

However, the presence of foreign banks also causes certain disadvantages and risks. First, foreign banks may lend only to the most credit worthy and borrowers. As a result small domestic banks may leave without profit and be pushed out of business. This may lead to reduction in level of crediting. Detragiache et al. (2006) pointed out that high penetration of foreign banks lowers possibility of private sector to obtain loans due to lower access of less trust worthy borrowers to credits. Besides, foreign banks may stop crediting or substantially to reduce it due to negative economic tendencies in countries from where investors originate. Martinez-Peria et al. (2002) also notes that due to negative developments in foreign country the multinational banks may cut back on crediting.

Detragiache and Gupta (2006) have focused on Asian region and have discussed that the relative ease to attract funds from international markets would allow foreign banks to save credit growth even during periods of financial turmoil. For Malaysia, they showed that foreign banks demonstrated better performance during the Asian financial crises, in terms of profitability and loan quality; moreover, they managed to continue their work in the country after the banking crisis. Peek and Rosengren (1996) showed that the stock market fall, tightening capital regulation in Japan caused reduction of credit supply from Japanese banks to USA. But in general, this effect of internal crises influence Japanese bank subsidiaries in USA to less extent than their parent banks because those subsidiaries do not fall under regulation field of Japan.

The problem of sustainability of foreign banks during turmoil was also raised for Latin America countries. Peek and Rosengren (2000) have found that foreign banks have not cut back on crediting during economic crunch in parent country, because these foreign bank subsidiaries considered this crisis as a chance to expand their presence in other countries in form of new branches or acquisitions.

Dages et al (2000) showed for Argentina and Mexico, and Crystal et al. (2002) for Chile, Colombia and Argentina that credit growth was more stable and higher rather in foreign banks than in domestic. Additionally, during critical times, diversity of bank ownership has stimulated greater stability of credit provision, since foreign banks demonstrated high credit growth during crisis periods and afterwards. However, Dages et al (2000) also found that despite type of ownership banks with good performance (both domestic and foreign) demonstrated high growth of their credit portfolios. That means factor of ownership is not decisive. Crystal et al. (2002) have found that foreign banks may have positive impact on domestic banking system due to higher credit growth.

2.2. Definitions

Foreign banks mean any company or any subsidiary or affiliate of a company, organized under the laws of a foreign country, a territory of the country that engages in the business banking. Foreign bank includes without limitation, an institution that engages in banking activity usually conducted in connection with the business of banking in the country that granted its charter or countries where the foreign institution is operating. LAWriter Ohio Laws and Rules

Foreign Branch Bank: - A type of foreign bank that is obligated to follow the regulations of both the home and host countries. Because the foreign branch banks' loan limits are based on the parent bank's capital, foreign banks can provide more loans than subsidiary banks.

A foreign branch is a branch of a bank located in a foreign country. It is a legal operational part of the parent bank. Creditors of the foreign branch have legal claims on the bank's whole assets and therefore creditors of the parent bank have legal claim on its branches' assets.

Foreign bank "is a bank that has branches or agents in other country and main headquarter or head office in other country. Foreign banks are subject to the banking regulations of the home country and those of the other country. A bank may choose to open foreign bank branches to meet the needs of multinational corporate customer. Foreign bank branch is a type of foreign bank that is obligated to follow the regulation of both the home and host countries. Because the foreign branch bank‘s loan limits are based on the parent bank‘s capital.

Foreign and domestic banks play a key role in international trade and investment. Partly because of the need to facilitate such transactions, banking has become increasingly international.

2.3. Types of Foreign Banking Offices

There are various types of foreign banks offices opened in various countries it depends on banks and regulation of the countries. Most foreign banks maintain either a branch office or an agency office. Each host country determines the types of foreign bank operations it will permit. Desired forms of entry may vary from bank to bank and from country to country, depending upon business-strategy considerations and host country-laws and banking structures. (Inwon Song, 2004, p. 4)

Banks initially extend their services abroad in order to assist their home-country customers with international transactions. With a growing understanding of foreign markets and a more developed network of relationships with local financial institutions, some banks subsequently increase the range of their operations by adding local customers. Following this pattern, foreign banks would first establish representative offices. At a later stage, they would open branches and, eventually, establish subsidiaries. (Song, Inwon 2004)

Today, the actual pattern of foreign bank entry depends on a wider range of factors. In particular, the profit opportunities in the destination market have become a key factor in determining the pattern of foreign bank entry. As a result, forms of foreign participation have become more varied, including full acquisition, targeted purchases of specific activities, joint ventures, alliances with local banks, and outsourcing of administrative and financial services.

a) Representative offices: - A representative office of a foreign bank in the county cannot accept deposits or make loans and investments. However, it enables foreign banks to establish a presence in the country and to promote their services to residence customer. They can provide information and handle administrative matter for resident‘s who have dealings with the foreign bank (Song, Inwon 2004).

Foreign banks establish their representative offices as a means of assessing whether market conditions warrant their opening a branch or agency in a particular location in the country. Representative offices are generally prohibited from performing any banking operations. They do, however, offer opportunities for contracts with the parent bank and its clients concerning a variety of commercial and financial business that relates to the foreign market. (Song, Inwon 2004)

b) Foreign branch: is an overseas office of a bank incorporated in a foreign country and constitutes a higher level of commitment than a representative office. Foreign bank branches are typically involved in wholesale banking. Any office of foreign bank in which accepts domestic deposits is considered a branch.

An agency office of foreign bank is an office of a foreign bank that cannot accept deposits from the citizens or residents, but otherwise operates as a full service bank. Many foreign agencies have been granted powers by the state banking department issue larger denomination certificates of deposit to both domestic and foreign residents. In effect these agencies function as branches.

c) Bank subsidiaries: are separately incorporated from the parent bank, whose financial commitment to the subsidiary consists of the capital invested. Subsidiaries are usually involved in retail banking markets. However, in some countries such as the United Kingdom, subsidiaries are often involved in wholesale investment banking operations.

Investment companies are similar in form to foreign owned commercial bank subsidiaries, but they accept deposit unrelated to the conduct of investment business. These investment companies are not subject to banking regulations limiting the amount of money a commercial bank may lend to any one borrower. Any bank office in the country owned or controlled by a foreign bank holding company is considered a bank subsidiary. Country subsidiaries of foreign banks can operate as full services banks in accordance with the bank holding company

d) Establishing an affiliate relationship or participating in a joint venture: can be another way to engage in foreign banks expansion. This usually involves taking minority stakes in local entities, and the level of involvement in the management of the local banks by the foreign bank is normally low.

Foreign banks owned by domestic banks, are offices that engage exclusively in international banking and investment business. They can make loans, accept deposits, and provide full banking services, but only if these activities relate to foreign or international transactions. Banks have been permitted to establish such limited purpose offices in the country.

2.4. Reason of Foreign Banks to Open Offices in Other Countries

Most foreign banks open either a branch office or an agency office. Any office of a foreign bank that accepts domestic deposits is considered as branch. An agency is an office of a foreign bank that cannot accept deposits from the citizen or residence, but otherwise operates as a full service bank.

The foreign or multinational banks have advanced four broad reasons as to why banks establish offices, branches and subsidiaries in foreign countries. Their reasons are as follow.

2.4.1. Home-Country Customer Relations

There are various hypotheses to explain why banks expand their activity abroad. The first such theory introduced into the literature by Williams (1997, 2002) is called the defensive expansion hypothesis. This claims that multinational banks follow their clients abroad (either their trade or investment). Information about the client is one of the main assets of banks. There is, however, no external market for this information, i.e. markets where banks could sell this knowledge.

Hence, they have to follow their client if they do not want to lose them. Often the motivation behind following client is not so much to earn more profit but rather to avoid loss at existing locations. On the other hand, it is also in the interest of the clients, who must bear the transaction costs of changing banks. Although defensive expansion is found to have strong explanatory power in more developed countries, it only provides a partial explanation.

The most cited explanation has been the follow the customer. Banks go other country to better serve the foreign operation of domestic corporate entities. Intuitively if the home country has extensive trade link with a foreign nation, then the demand for a variety to trade- related intermediary services reedits, foreign exchange, credit insurance will typically be high. Foreign banks may have a comparative advantage over local banks in that over the years through investments in information and relationship capital, they have reduced the cost of monitoring the financial condition.

In addition, (Walter 1988): explanation has been the ― follow-the-customer hypothesis, banks go multinational to better serve the foreign operations of domestic corporate entities.

Intuitively if the home country has extensive trade links with a foreign nation, then the demand for a variety of trade related intermediary service like provision of documentary credits, foreign exchange credits, insurance etc) will typically be high.

Foreign banks may have a comparative advantage over local banks in that over the years through investments in information and relationship capital, they have reduced the cost of monitoring the financial condition of the multi-national companies in question(below what the local bank can). Vastup (1983) points out that there is a substantial fixed cost element in credit rating activities; thus banks can lend more cheaply to existing clients than can competitors. It has also been suggested that failure to follow the customer may make the way for others to come in and even on existing domestic business with the parent company.

Following earlier studies reviewed by Khoury (1980), Cho,Krishnan and Nigh (1986) showed that regardless of a country‘s level of development of the geographic region it was in, business presence in the county had a positive effect. Goldberg and Saunder (1981), and others have also presented evidence that support this view that found no significant relationship between foreign bank participation and size of import-export activity with the country.

A complementary hypothesis (Walter 1988) suggests that banks may actually a leading their customers. Well –established banks in a country abroad can often provide useful information contacts, advice and financial service of foreign firms considering entering the foreign market.

In the domain of international retail banking, Tschoegl (1983) presents evidence that banks sometimes go multinational to serve the banking needs of a few specific communities abroad.

2.4.2. Business Opportunities

Bank in some countries may be inefficient (outdated technologically) or uncompetitive (organized as an unstable oligopoly). Such conditions may attract foreign entrances to penetrate these markets by employing newer technology or better marketing tools (Walter 1985). This is especially true in the case of retail banking. The first foreign entrants are often large banks with sufficient existing geographical diversity. The size of the foreign economy may serve to attract these entrants. Often the pull factor comes from low price-earnings ratios of bank stocks in other countries. Note however that this only explains foreign purchases of bank stocks but not the establishment of branches and subsidiaries.

Often the pull factor comes from low price earning rations of banks stocks in other countries (Hultman and McGee 1989. Note however that this only explains foreign purchases of banks stocks but not the establishment of branches, subsidiaries etc. Also it is not clear why this makes a way specifically for foreign entry and not simply buyouts by local firms. The argument however is strengthened if we include the changing value of the foreign currency.

2.4.3. Regulatory Arbitrage

Banks, in general, face strict regulatory practices whatever they are based. However, some nations may choose to open up and allow foreign financial firms to enter in a relatively lax regulatory regime if the perceived gains are high. These accesses to a less—restrictive set of regulation often translate into higher profits and thus attract foreign banks. Regulatory arbitrage is only possible when home-country regulation do not prohibit establishment of banks abroad, in this perspective that countries have a comparative advantage in the production of banking services are more likely to be in favor an open system (Joydeep Bhattacharya 1994).

2.4.4. Diversification and interest rate differentials

From a portfolio-choice perspective, the optimal policy for a foreign bank is to maximize profit for a given level of risk or to minimize risk given a desired level of profit. ― A convergent conclusion of the empirical literature in this area is that total portfolio risk of both the domestic and foreign portfolio assets has been lower than the risk of purely domestic portfolio, while the return on international assets may or may not be higher than the rate of return on domestic assets‖ (Joydeep Bhattacharya 1994).

2.5. Benefits and Costs of Foreign Banks Entry

2.5.1. The Benefits of Foreign Bank Entry

Countries allowing foreign banks to enter broadly expect two types of benefits to flow in to the domestic economy. Foreign banks have provided economies with greater access to international financial market than what their own domestic bank could. Often as a side benefit, foreign banks helped to introduce the latest financial technology, enhanced efficiency and increased inter-bank competition. In this section we document evidence on these beneficial effects of allowing foreign bank entry.

2.5.1.1. A Boost of the Domestic Banking Sector

In the past, this has been a major controversial benefit. Counties expect foreign banks to enter and galvanize the domestic banking sector by bringing in ―healthy competition‖. Domestic banks, long ―protected‖ under an infant-industry argument, are accepted to react to the foreign presence and compete fiercely to retain their previous market share, there by lifting the domestic banking sector to international levels of efficiency.

This expectation is often seen as part of a broader intention to modernize the local banking sector. Foreign banks typically carve out market niche by bringing in new management and advertising techniques, more advanced financial technology (Credit card, ATM machines, swaps, off-balance-sheet accounting) and the latest in computing methods. It is hoped that the introduction of new technology ‗should cause local banks to imitate the foreign banks' (Germidis and Michalet 1984). A positive effect arising from this is training of foreign banks is to impact the local staff and management on the use of these new technologies. This helps to increase the information and human capital of most local bankers.

It also ignores the effects of taxation. The more competitive a banking system, the lower the margins Countries that permitted foreign bank entry reported a lower gross earnings margin to volume of business, lower pretax profits to volume of business and lower operating costs to volume of total business. Banks in counties that exclude foreign bank entry thus appeared on balance to earn larger profits and to be less efficient (Terrell 1986, p 302). The benefits of increased competition seem to be reflected in higher deposit rates, foreign banks continued to increase the interest rate they paid on 6 month and 12 deposits over the period.

The increased competition from foreign banks has led to lower prices for banks service, especially foreign exchange transactions, Letters of credits bring commission fee , letter of guarantee. Some of the local banks there are being forced to weed out the inefficiencies; the traditional week-long wait on letters of credit has been cut to one day.

Foreign banks have pioneered some major changes in the banking sectors of many counties. Where foreign banks have been allowed to start the commercial paper market and traduced swaps. Foreign banks were the first to in computerization of all accounts, a technology that was later adopted by many local banks. They also introduced affiliation to the SWIFT network. Modern budgeting and planning tools were introduced for the first time. Banking as a profession became more attractive; the employees in the banking sector had university degree. Foreign bank has introduced like phone banking, mortgage on houses and cars, Leasing and first rate consulting. Credit card and Automated Teller Machines (ATM) have almost always been introduced into country foreign banks. Training of local bankers in another beneficiary fall out, commercial banks routinely holds sessions on credit –risk has established a training facility for bankers.

2.5.1.2. Greater Access to International Market

Countries, on opening their doors to foreign banks, expect them to aid in the developing of trade and foreign direct investment (Germidis and Michalet 1984). First, their domestic operations will benefit local producers and in particular export/import companies and multi- national companies. These companies can take advantage of the superior experience and expertise of foreign banks in internal payment systems, while conducting their businesses; secondly, foreign banks are expected to increase foreign currency inflows into the country.

2.5.2. Costs of Foreign Banks Entry

This section evaluates some of the commonly discussed concerns about the countries that have decided to allow foreign bank entry. An early attempt to analyze some of these issues will be clear, some of these are similar to concerned countries that have when debiting whether to allow a foreign firm; some, of course are peculiar to the whole business of banking.

2.5.2.1. Fear of Foreign Bank Domination

A stated fear in the minds of central banks and governments is that unrestricted entry of foreign banks may result in their assuming dominant positions in the domestic market, by driving out less efficient or less resourceful domestic banks. They fear that local depositors may have more faith in a big international bank than in smaller domestic banks. This is especially true in economies plagued by large domestic banks failures or panics, but even otherwise, large international banks have and exceptional aura of safety around them. The protection of domestic banks is justified by an infant industry argument. As Stiglitz (1993) points out, _there is sufficient learning by doing argument.

Anti-protections claim that domestic banks could be cutting prices to compete more efficiently. This reasoning suffers from at least two drawbacks:

1st demand for banking services may be quite price-inelastic, and

2nd the resultant dog eat dog satiation may not be socially desirable, given the public good nature of bank services (Stiglitz 1993).

This however in no way justifies the protection of essentially inefficient firms. After all, there is always a danger of protecting inefficiency and perpetrating a possible economy wide financial disaster.

2.5.2.2. Lack of Local Commitment

The argument here is presented in two parts;

1st under times of local distress, it is believed that foreign banks, will be the first ones to leave the ship. The reason is that for a large international bank with solid financial strength, it is relatively painless to suffer shut down losses (resulting from non recoupable fixed costs), while it is in case of small domestic banks.

2nd in times of distress (bad recession) in the foreign banks home country, foreign banks may wide-up foreign operations in order to stabilize earnings at home.

The above argument suffers from at least two draw backs, first large international banks within solid financial strength may better withstand the jolts of a few bad business years (especially, during a local recession) than domestic banks. (Thus if foreign banks leave a country, it may be properly viewed as a signal of low future bank profitability in the home county rather than as sign of poor commitment. Secondly foreign banks will selectively wind- up foreign operations when the parent is in financial distress, only if foreign operations are not expected to be sufficiently profitable (Joydeep Bhattacharya 1994).

2.5.2.3. Cream-Skimming Behavior

Another concern of policy makers and domestic bankers has been that foreign banks crave out a niche for themselves in the upper/richer end of the market, and rarely extend their services outside (the retail segments of the market).Consequently, they cream-skim the market taking a disproportionate share of the best of local business away from domestic banks (Joydeep Bhattacharya 1994).

2.5.2.4. Capital Flight

Foreign banks are often blamed (Sarker 1987) for encouraging an increasing flight (from less developed countries to more developed ones). In times of an external crisis, this can put added pressure on the exchange rate. Closer scrutiny however reveals again that the problem is not peculiar to foreign banks but to all domestic banks with an opened capital account (Muselem, Vittas and Demirguc_ Kunt 1993).

The problem is usually traceable to macroeconomic incentives that arise from say an imminent devaluation prospect or the presence of a substantial interest rate differential. Adverse political environments may also exacerbate this problem. In any case, as Duwendag (1987) and others have pointed out, accurate capital flight measurement are difficult to perform, and in any case, the specific claim that is presented by of foreign banks induces capital flight is even harder to substantiate.

2.5.2.5. Unhealthy Competition

Entry of foreign banks is often believed to increase competition in the domestic banking industry beyond healthy levels. Excessive completion is harmful to the extent that it induces risk taking because as prices gravitate toward marginal cost, profit margins are necessarily squeezed. The marginal loan then decides the success or failure of a bank. Banks become extremely susceptible to runs in this setting and the economy faces real losses. Policy makers therefore express concern that the entry of foreign banks and the consequent increase in competition may precipitate a financial disaster (Joydeep Bhattacharya 1994).

2.6 Empirical literature

Claessens and Horen (2013) conducted research on the impact of foreign banks. The paper provides a critical assessment of the costs and benefits of foreign bank ownership. It reviews the extensive literature on the impact of foreign banks and uses a unique database on bank ownership, covering 129 countries; to (re-)examine a number of the issues discussed. It documents (changes in) foreign bank presence between 1995 and 2009, highlighting important differences across host and home countries and strong bilateral patterns. It finds that foreign banks tend to outperform domestic banks in developing countries, countries with weak institutions and where foreign banks do not play a major role. In terms of impact, it shows that foreign banks can deter domestic financial sector development in developing countries, countries with weak institutions and where foreign banks play a minor role. Examining the impact of foreign banks on financial stability, it finds that during the global crisis, foreign banks reduced credit more compared to domestic banks in countries where they had a small role, but not when dominant or funded locally.

Related study banks conducted by Bruno and Hauswald (2008) on the real effect of foreign shows that foreign banks alleviate the consequences of financial constraints and increase real growth. The greater their presence the less does external financial dependence impedes firm performance. Although foreign banks can act as catalysts for financial and economic development their role remains controversial because they might simply displace local lenders thereby tightening firms' overall access to credit. They also found foreign banks mitigate the adverse consequences of banking crises on growth but do not significantly affect economic activity in advanced countries with well-functioning financial markets. The results provide strong evidence that foreign entry alleviates financial constraints without hurting economic growth prospects, especially in developing countries whose companies often lack access to alternative sources of finance.

Abrham (2009), conducted a study having general objective to assess the potential impact of foreign bank entry in domestic banking efficiency and performance so that to forward the remedial actions. The researcher analyzed both primary and secondary data in order to conduct the study using qualitative and quantitative data analysis method. In the research it was found that the performance of domestic banks as a result of foreign banks entry identified to have with adverse effect.

This becomes true in that foreign banks possibly attract domestic banks qualified staffs , reduces the market share , and reduces local bank total growth are identified to be the highest effect according to the orders listed. In the study it was recommended that the government should build the capacity of the supervising body and the banks need to upgrade themselves technologically, if foreign banks allowed to operate the cost of this may be costly for the infant banks to update.

In order to avoid possible costs and to manage the capital banks with lower capital need to merge. The supervisory body also needs to encourage this trained.

In this regard, the works of different scholars at different time is seen; they focus on the impacts of foreign banks entry on the domestic performance banks in general, but this paper will try to assess the effects of foreign banks entry on the Ethiopian domestic banks performance in terms of their profitability and capacity (operation).

2.7. Conceptual framework of the study

Typically, the opening up of home markets is part of a broader liberalization process. In addition, it is often driven by the need for capital and also for expertise during privatization or following a banking crisis (Maria Lehner and Monika Schnitzer, Sep 2006). It is regarded as an important way of importing knowledge and enhancing competition. The decision on opening up is based on thorough consideration of its costs and benefits. Benefits cited in relation to developing countries are numerous. It is expected that foreign banks contributes more in building a more efficient and resilient financial system by introducing and spreading technology, providing new services and products, raising standards and practices, by exerting competitive pressure on domestic banks and increasing the efficiency of resource allocation (Robert Cull-2007).

Increased competition lowers the cost of intermediation and leads to cheaper credit for borrowers. It can even lead to stronger regulation and supervision. During turbulent times, foreign banks can also provide a ―safe haven‖ for depositors and a stable source of funds compared to domestic banks (Peek and Rosengren). Foreign banks might attract other foreign investors in the non-bank sector.

On the cost side, summarizes the counterarguments under the headings of economic and regulatory. Among the former ones are the followings: domestic banks need time to mature (the so-called infant industry argument); newcomers can engage in cherry picking; in contrast to existing banks they do not have bad loans, and hence a level playing field is not ensured; a lack of commitment to the local economy might cause capital flight. On the other hand, there are fears that regulators cannot control foreign banks properly (Terrell H.S 1986). Others add to this list the loss of monetary autonomy and increased volatility of capital flows. There are also concerns that foreign banks ignore certain markets segment or propagate shocks originating from their home country (Stiglitz J.E 1993).

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

Explanatory analysis method was used to identify business constraints that contribute towards the entrance of foreign bank and their effects on domestic commercial banks. Explanatory method was chosen to explain potential effects foreign banks entry in the Ethiopian banking sector. Attempts were made to provide explanation about potential effects of foreign banks entry. This study used mainly a cross sectional study, which aimed at analyzing and explaining the research questions.

3.2 Source of Data

To collect the required data, the researcher was used two types of data collection techniques that are primary and secondary.

3.2.1 Primary Data

The population of the study was 20 banks that were 18 Commercial banks, 1 development bank and 1 National Bank. And, the data were collected from employees who work in banks and their job related to international trade and experts or advisor in the financial sectors with the focus on banking sector. The primary data was collected through questionnaires distributed to the selected sample of domestic commercial banks employees.

3.2.2 Secondary Data

A secondary data source, relevant document was review. These secondary data were collected from newspaper and magazines printed in Ethiopia that was Capitan newspaper and Fortune newspaper. Data were collected from newspaper from they wrote made interview with government officials, foreign banks representative officials and with other.

3.3 Sampling Design

The total population size of the research is 20 domestic banks (18 commercial banks,1 development bank and 1 Public body (National Bank of Ethiopia)) To judge the financial soundness, from 18 domestic commercial banks the top 5 commercial banks were selected in non-probability manner that is judgmental sampling based on their total assets and year of establishment. Total assets and year of establishment was used as a factor to select sample due to this factors are important in domestic banks relation with foreign banks for international trade. Therefore, the selected bank are experienced about foreign banks.

To select samples the researcher use National Bank of Ethiopia reports. Based on annual report 2015/16 the following commercial banks were selected due to they were at the top on the banking sector by their assets and year of establishment. These are Commercial Bank of Ethiopia (CBE), Construction and Business Bank (CBB)1, Dashen Bank S.C (DB), Awash International Bank (AIB) and Bank of Abyssinia (BoA).

In total 100 questionnaire were distributed, that is 20 questionnaire for each bank. The reason of 100 questionnaire were distributed because they were represent the population and convenient to the research.

Currently Construction and Business Bank merged with Commercial Bank of Ethiopia start from April, 2016.

3.4 Methods of Data Collections

The researcher used two types of data collecting methods structured interview and questionnaires. The researcher was hold interview with the selected sample commercial banks and concerned departments or experts. And also questionnaires were distributed and data collected from the employees who work in the banks.

3.5 Data analysis methods

Both primary and secondary sources of data were analyzed using both qualitative and quantitative methods. The data collected through questionnaire were analyzed through quantitative method and data collected through interview and secondary data analyze through qualitative method. Explanatory statistics was used to provide details of the potential effects of foreign bank entrance. In this respect, frequency distribution was used to evaluate the potential effects of foreign bank entrance as per the responses of bank employees using SPSS statistical software.

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1. Introduction

The preceding chapter presented the research method adopted in the study. The purpose of a previous chapter was to present the result of the different methods used. This chapter presents about results and discussion of potential effects of foreign banks entry on the banking sector. These presentation and discussion was made by using the data collected through questionnaires and interview. Descriptive statistics associated with frequency distribution are used and SPSS software was used to analysis responses.

Except for the general information about the respondents, reform required by foreign bank and some few inquiries, ordinary scaling was used. The scaling range was from 5 to 1. This is made to require respondents indicate the degree of agreement or disagreement about the impact of foreign banks. The number are ranked from highest to lowest, where 5 refers to << strongly agree >> 4 refers to << agree >> 3 refers to << neutral >> 2 refers to << Disagree >> and 1 refers to <<Strongly Disagree>>

4.2. Background Information from Respondents

One Hundred questionnaires were distributed to the respondents and out of 100 questionnaires 97 of them were collected, with a response rate of 97 percent. The demographic characteristics include: respondents gender, bank respondents are working, service year of respondents, position of respondents in the bank and educational background of respondents. This aspect of the analysis deals with the personal data on the respondents of the questionnaires given to them. The tables below show the details of background information of the respondents.

TABLE 1. BACKGROUND INFORMATION FROM THE RESPONDENTS

Demographic Data		Frequency	Percent	Valid percent	Cumulative percent
Bank Names' of Respondents	Valid Commercial Bank of Ethiopia	20	20.6	20.6	20.6
	Construction and Business Bank	18	18.6	18.6	39.2
	Dashen Bank	20	20.6	20.6	59.8
	Awash International Bank	19	19.6	19.6	79.4
	Bank of Abyssinia	20	20.6	20.6	100.0
	Total	97	100.0	100.0	
Gender of respondents	Valid male	64	66.0	66.0	66.0
	female	33	34.0	34.0	100.0
	Total	97	100.0	100.0	
Respondents Experience in the Banking Sector	Valid < 5 years	73	75.3	76.8	76.8
	5 to 10 years	14	14.4	14.7	91.6
	11 to 20 years	44.4	4.2	95.8	100.0
	> 20 years	4	4.1	4.2	79.4
	Total	95	97.9	100.0	100.0
	Missing System	2	2.1	100.0	
	Total	97	100.0		
Respondents Position in the Bank	Valid manager	6	6.2	6.6	6.6
	supervisor	10	10.3	11.0	17.6
	clerk	52	53.6	57.1	74.7
	others	23	23.7	25.3	100.0
	Total	91	93.8	100.0	
	Missing system	6	6.2		
	Total	97	100.0		
Educational Qualification of Respondents	Valid Masters degree	10	10.3	10.3	10.3
	Bachelor degree	85	87.6	87.6	97.9
	Diploma	2	2.1	2.1	100.0
	Total	97	100.0	100.0	

Source: own survey, 2017.

As shown in the Table 1, the frequencies related to data collected from 5 domestic commercial banks through distribution of questionnaires and their frequencies were 20 from each bank. But 3 questionnaires were not collected, from Construction and Business Bank 2 questionnaires and from Awash International Bank 1 questionnaire.

There were more males as compared to females. From total respondents 66.00% of respondents were male and the remaining 34% of respondents were female. This indicate that the researcher consider responses from both sex male and female.

From total responses 76.80% of the respondents have less than 5years experiences, and 14.7% of the respondents have 5 years to 10 years experiences. Respondents who have 11years to 20 years and greater than 20 years working experiences share 4.2% in each out of total respondents. This implies that the respondents have enough experience in the financial institution, which enables them to identify the gap in the current condition to bring the domestic bank to the level playing field with their possible foreign competitors.

From the total respondent 6.6% Managerial position, 11.00% of respondents Supervisors position, 57.1% of respondents clerk position and remaining 25.3 % of respondents categorized under other position which include (Internal Controller, Auditor, Customer Relation Officer, and other. This indicate that the survey collect responses from employees who are working in different position of the organization that helps to identify the impact of foreign banks and the possible remedial action to be made in order to safeguard from unfair competition for the financial sector particularly the banking industry, as a result of foreign banks entry.

From total respondent 10.3% of respondents have Masters Degree, 87.6% of respondents have Bachelor Degree and 2.1% have Diploma. This implies that the respondents of the study are educated and know about foreign banks

4.3. Current Status of Domestic Commercial Banks in Ethiopia

In this part the researcher assess a current status of domestic commercial banks based on their service cost, service quality, new product or service innovation, capacity to innovate new product or service and their capacity as compared to foreign banks.

Table 2 CURRENT STATUES OF DOMESTIC COMMERCIAL BANKS IN ETHIOPIA

			FREQUENCY	**PERCENT**	**VALID PERCENT**	**CUMULATIVE PERCENT**
Responses on whether Domestic Commercial Banks are Delivering Efficient Service at reasonable cost	Valid	yes	56	57.7	58.3	58.3
		No	40	41.2	41.7	100.0
		Missing system	11.0	2.1	2.1	100.0
		Total	97	100.0		
Responses on whether foreign banks will deliver better service than domestic commercial banks	Valid	yes	75	77.3	77.3	77.3
		No	22	22.7	22.7	
		Total	97	100.0	100.0	100.0
Responses on whether domestic commercial banks have the initiative to provide new products or services to customers	Valid	yes	79	81.4	81.4	81.4
		No	18	18.6	18.6	100.0
		Total	97	100.0	100.0	
Responses whether on foreign banks have better initiative to provide new products or services to customer than domestic commercial banks	Valid	yes	85	87.6	87.6	87.6
		No	12	12.4	12.4	100.0
		Total	97	100.0	100.0	
Responses on whether domestic commercial banks have the capacity to provide new products or services to customers	Valid	yes	57	58.8	58.8	58.8
		No	40	41.2	41.2	100.0
		Total	97	100.0	100.0	

Responses on whether foreign banks have better capacity to provide new products or services to customer than domestic commercial banks	Valid yes No Total	85 12 97	87.6 12.4 100.0	87.6 12.4 100.0	87.6 100.0
Responses on whether existing staff possess the required knowledge and skill at the desired level	Valid yes No Total	63 34 97	64.9 35.1 100.0	64.9 35.1 100.0	64.9 100.0
Responses on the existing technological level place domestic bank to a competitive position with their foreign competitors	Valid yes No Total Missing system Total	30 65 95 2 97	30.9 67.0 97.9 2.1 100.0	31.6 68.4 100.0	31.6 100.0
Responses on whether the current financial sector policy is likely to make the domestic commercial banks competitive enough with their foreign competitors	Valid yes No Total Missing system Total	26 67 93 44 97	26.8 69.1 95.9 4.1 100.0	28.0 72.0 100.0	28.0 100.0
Responses on whether domestic commercial banks are beneficiary by working together with foreign banks	Valid yes No Total Missing system Total	57 40 97 97 100.0	58.8 41.2 100.0 2.1	58.8 41.2 100.0	58.8 100.0

Factors that attract foreign banks to enter the Ethiopia banking sector	Valid To reduce the	28	28.9	29.5	29.5
	population to bank	39	40.2	41.1	70.5
	ratio	22	22.7	23.2	93.7
	The demand for foreign	44	4.1	4.2	97.9
	exchange	22	2.1	2.1	
	To speed up the investment	95	2.1	100.0	100.0
	reform	22	97.9		
	To lower bank lending rate	97	100.0		
	To facilitate credits				
	Total				
	Missing System				
	Total				

Source: own survey, 2017

Table 2 depicts that, From 97 total respondents 1 respondent response was missed. Respondents who said Yes domestic commercial banks deliver efficient service at reasonable cost 57.7% of total respondents. But 41.2% of total respondents said No domestic commercial banks not delivering efficient service at reasonable cost. This indicates that domestic commercial banks in Ethiopia deliver services at reasonable cost and customers in the current situation and the cost reasonability are as compared to respondent expectation but not compared with foreign banks.

From total respondents 77.3% of respondents said that foreign banks can deliver better service than domestic commercial banks if foreign bank entry is allowed. On the other hand 22.7% of respondent said that if foreign banks entry is allowed in to Ethiopian banking sector, foreign banks will not deliver better service than domestic commercial banks. This indicates that, foreign banks will deliver better service than domestic commercial banks if foreign bank entry is allowed in to Ethiopian banking Sector. And also, domestic banks better to improve their service quality today to competitive with foreign bank in the future when foreign bank entry is allowed.

From total respondents 81.4% of respondent said domestic commercial banks have the initiative to provide new products or services to the customers and the other 18.6% of respondent said domestic commercial banks have no initiative to provide new products or services for the customers. This implies that, domestic commercial banks have initiative to provide new products and services to customers.

From total respondent 87.6% of respondents said domestic commercial banks have no better initiatives than foreign banks. The remaining 12.4% of respondent said that domestic commercial banks have better initiative than foreign banks. This indicates that, domestic commercial banks have initiative but it is not better than foreign banks.

From total respondent 58.8% of respondent said yes domestic commercial banks have a capacity to provide new products and services, and the remaining 41.2% of respondents said domestic commercial banks have no a capacity to provide new products or services. This implies that, domestic commercial banks have capacity to provide new product and services to customers.

From 97 respondents 87.6% of respondents said foreign banks have better capacity to provide new products and services and the remaining 12.4% of respondents said domestic commercial banks have better capacity than foreign banks to provide new products and services. This indicates that, domestic commercial banks have capacity to provide new product and services to customers although their capacity as compared to foreign bank it is not better.

From total respondent 64.9% of respondents said existing staffs have the required knowledge and skill at the desired level and the remaining 35.1% of respondent said the existing staffs have no the required knowledge and skill at the desired level. This indicates that, majority of staffs have the required knowledge and skill but some of staffs need additional training and education.

From total respondent 68.4% of respondents said existing technology cannot bring domestic commercial banks competitive position and the remaining 31.6% of respondent said existing technology can bring domestic commercial banks competitive position. This indicates that, the existing technologies cannot bring the domestic commercial banks fully competitive with technology of foreign banks if entry is allowed.

From total respondent 72.0% of respondents said existing financial sector policy not make domestic commercial banks competitive with foreign banks if entry is allowed and the remaining 28.0% of respondent said existing financial sector policy make domestic commercial banks competitive with foreign banks if entry is allowed. This indicates that, the existing policies have not made domestic commercial banks competitive with foreign banks if entry is allowed.

Out of total respondent 58.8% of respondents said domestic commercial banks are beneficiary by working together with foreign banks. The summarized reason of respondents, why they said domestic commercial banks are beneficiary: domestic commercial banks will share new technologies, new product or service types, quality service, working experience and knowledge and leadership styles.

The remaining 41.2% of respondents said domestic commercial banks are not beneficial by working together with foreign banks. The summarized reasons of the respondents why they said domestic commercial banks are not favorable working together with foreign banks: our domestic commercial banks not use latest technology, our domestic commercial banks are not financially strong, and our domestic commercial banks cannot deliver quality service, foreign banks have better lending capacity and a market may be dominated by foreign banks.

Out of total respondents, 41.1% of respondents said foreign banks are attracted by their demand for foreign exchange. 29.5% of respondents said foreign banks are attracted by the ration of population to bank. 23.2% of respondent said foreign banks are attracted by speed up the investment reform of Ethiopia. The remaining 4.2% and 2.1% of respondent said that foreign banks are attracted by low bank lending rate and to facilitate credits respectively.

To summarize the responses, foreign banks are highly attracted by their demand for foreign currency, secondly to reduce the population to bank ration and thirdly speed up investment reform of Ethiopia.

4.4. Foreign Bank Representative Offices in Ethiopia

Foreign banks open their representative offices for different reason in Ethiopia. Foreign banks were open their representative office in Ethiopia not for business operation they are helping domestic commercial banks in one reason. And also, the offices will perform representative functions and carry out market research is another reason. Establish an office in Ethiopia is in recognition of increasing interest by investor and their client, in the country economy. This will act an entry point for client seeking to investor in Ethiopia and will administrate by representative office.

The growth potential of the Ethiopian continuous to attract significant investment and remarkable growth has been under printed, under high public investment and growing customer base. Ethiopia is the second largest population on the African continent and the GDP growth has average around double digit. The energy sector is also set to boom with power projects at various stages of development, and with Ethiopia emerging as major power hub in the region, energy exports will likely become a major foreign exchange earner in the near future.

The foreign banks representative offices are indeed coming, but not consider them as competition. But rather as collaborators because domestic commercial banks obtain knowledge and technology since their service is as old as the banking history in Ethiopia. For these reason, representative office to seize the opportunity and use their expertise to provide clients with on-the-ground support. Foreign bank representative offices in Ethiopia will help its clients to save their time and money. The representative offices will serve as an intermediate office where clients can communicate with the bank without leaving the country. And the offices will also provide information and facilities investment opportunities in Ethiopia for foreign investor as it advances its presence in Ethiopia supervisory authorities. To that end, the two offices foster the exchange of information and data, facilitate the organization of meetings and seminars, and contribute to the bank‘s financial economic research on the country.

Finally, foreign bank representative office in Ethiopia would not be involved in any operational banking activities, due to Ethiopia‘s investment law reserve engagement in the financial sector for local investors only. However, they have a good relation with domestic commercial banks and they have no any treat on domestic commercial banks in Ethiopia.

4.5. The Potential Positive Effects of Foreign Bank Entry

This part the researcher will present about the potential positive effects of foreign bank on domestic banks if foreign banks entry is allowed. The respondents express their thought on the potential effect by selecting strongly agree, Agree, Neutral, Disagree and Strongly Disagree.

			Frequency	Percent	Valid Percent	Cumulative Percent
Effects on introduction of new banking technology and financial innovations	Valid	disagree	2	2.1	2.1	2.1
		Neutral	4	40.2	41.1	70.5
		agree	23	23.7	24.2	30.5
		strongly agree	66	68.0	69.5	100.0
		Total	95	97.9	100.0	
		Missing System	2	2.1		
		Total	97	100.0		
Effects on possible economies of scale and scope	Valid	disagree	8	8.2	8.4	8.4
		Neutral	34	35.1	35.8	44.2
		agree	27	27.8	28.4	72.6
		strongly agree	26	26.8	27.4	100.0
		Total	95	97.9	100.0	
		Missing System	2	2.1		
		Total	97	100.0		
Effects on improvement of the competitive environment	Valid	strongly disagree	2	2.1	2.2	2.2
		Disagree	2	2.1	2.2	4.4
		agree	31	32.0	34.1	38.5
		strongly agree	56	57.7	61.5	100.0
		Total	91	93.8	100.0	
		Missing System	6	6.2		
		Total	97	100.0		

Effects on development of financial markets	Valid disagree	4	4.1	4.2	4.2
	Neutral	6	6.2	6.3	10.5
	agree	40	41.2	42.1	52.6
	strongly agree	45	46.4	47.4	100.0
	Total	95	97.9	100.0	
	Missing System	2	2.1		
	Total	97	100.0		
Effects on improvement of the financial system's infrastructure	Valid disagree	8	8.2	8.8	8.8
	Neutral	5	5.2	5.5	14.3
	agree	30	30.9	33.0	47.3
	strongly agree	48	49.5	52.7	100.0
	Total	91	93.8	100.0	
	Missing	6	6.2		
	System	97	100.0		
	Total				
: Effects on attracting foreign direct investments	Valid disagree	6	6.2	6.6	6.6
	Neutral	12	12.4	13.2	19.8
	agree	17	17.5	18.7	38.5
	strongly agree	56	57.7	61.5	100.0
	Total	91	93.8	100.0	
	Missing System	6	6.2		
	Total	97	100.0		

Source: own survey, 2017.

Majority of respondents 68.00% strongly agree, 23.7% of respondents agree, 4.1% of respondents neutral, neither agree nor disagree and 2.1% of respondents disagree. These indicate that, above average of the respondent agreed on foreign banks entry have positive effects through introduction of new technology and financial innovation in Ethiopia banking sector with mean 4.61 and standard deviation 0.673.

The other effect may be possible economics of scale and scope. 35.1% of respondents neutral about a benefit, 26.8% of respondents strongly agree, 27.8% of respondents agree, and 8.2% of respondents disagree. This indicates that foreign banks will have possibility of economies of scale and scope if foreign bank entry is allowed in to Ethiopian banking sector with mean ―4.61‖ and standard deviation ―0.673‖. The above result is due to the fact that the entry of foreign banks as described in experience of other countries encourages the consolidation of the banking system, and they have knowledge and experience of other financial activities.

The third potential positive effect of allowing foreign bank entry in Ethiopia banking sector may be improvement of the competitive environment. From total respondent 57.7% of respondent strongly agree, 32.0% of respondent agree, strongly disagree and disagree respondents equal 2.1%, and there no neutral respondent. In addition, the respondents mean 4.51 and the standard deviations 0.808. These means, more than average of respondent or 87.7% of respondents agreed if foreign banks entry allowed, they will improve banking sector competitive environment. Foreign banks will improve the banking sector competitive environment by delivering quality service for customers and by introducing new products or services

The fourth potential positive effect of allowing foreign bank entry in Ethiopian banking sector. The potential positive effect will be development of financial market. The mean of the respondent was 4.33 and the standard deviation was 0.778. From total respondent 46.4% of respondent strongly agreed, 41.2% of respondents agreed, 6.2% respondents neutral and 4.1% disagreed. These indicate that majority of the respondent agree if foreign bank entry allowed, they will have positive effect on the development of financial market in Ethiopia banking sector.

Foreign banks entries develop the financial market in a way that help to deepen the inter-bank market and attract business from customers that would otherwise have gone to foreign banks in other countries. Moreover they potentially bring the necessary skilled human resources in this market from their home country.

Fifth potential positive effect of allowing foreign bank entry. The potential effect may be improvement of financial system‘s infrastructure of Ethiopian banking sector. From total respondent 49.5% of respondent strongly agreed, 30.9% of respondents agreed, 5.2% respondents neutral and 8.2 % disagreed with mean of the respondent 4.30 and standard deviation 0.925. These indicate that, majority of the respondent found above the Neutral agreed on foreign bank entry will improve the financial systems infrastructure of Ethiopian banking sector.

The result above clues that foreign bank with better practice and know-how spillover the trained to domestic financial sector to fill the gap in the development. Supporting this foreign banks could make improvement in the financial sector includes accounting and transparency, financial regulation, and through the increased presence such supporting agents as rating agencies, auditors, and credit bureaus

The sixth potential positive effect of allowing foreign bank entry in Ethiopian banking sector. This potential effect may be attracting foreign direct investment. From total respondent 57.7% of respondent strongly agreed, 17.5% of respondents agreed, 12.4% respondents neutral and 6.2 % disagreed. The respondents mean was 4.35 and the standard deviation of the respondents was

0.947. These indicate that the respondents above agree in total 75.2% agreed on foreign banks presence may increase the amount of funding available to domestic projects by facilitating capital inflows, and diversifying the capital and funding basis

4.6. The Potential Negative Effects of Foreign Bank Entry

In section 4.5 the potential positive effects of foreign bank entry on Ethiopian banking sector are presented but in this section the potential negative effects of foreign bank entry on domestic commercial banks will be presented. Foreign banks entry has a negative effect on domestic banks on the other side of their benefit. In this part the researcher will present about the six identified negative effects off foreign banks.

		Frequency	Percent	Valid Percent	Cumulative Percent
Responses on whether foreign banks reduce domestic bank total growth	Valid strongly	3	3.1	3.3	3.3
	disagree	22	22.7	24.2	27.5
	Disagree	10	10.3	11.0	38.5
	neutral	26	26.8	28.6	67.0
	agree	30	30.9	33.0	100.0
	strongly	91	93.8	100.0	
	agree	6	6.2		
	Total	97	100.0		
	Missing				
	system				
	Total				
Responses on whether foreign banks reduce domestic bank credibility	Valid strongly	2	2.1	2.2	2.2
	disagree	21	21.6	23.1	25.3
	Disagree	18	18.6	19.8	45.1
	Neutral	66	68.0	69.5	100.0
	strongly agree	22	22.7	24.2	69.2
	agree	28	28.9	30.8	100.0
	strong agree	91	93.8	100.0	
	Total	6	6.2		
	Missing system	97	100.0		
	Total				

Responses on whether foreign banks attract qualified staffs	Valid disagree	4	4.1	4.3	4.3
	Neutral	2	2.1	2.2	6.5
	agree	25	25.8	26.9	33.3
	strongly	62	63.9	66.7	100.0
	agree	93	95.9	100.0	
	Total	93	4.1		
	Missing	4	100.0		
	System	97			
	Total				
Responses on whether foreign banks reduce domestic banks market share	Valid disagree	10	10.3	10.5	10.5
	Neutral	13	13.4	13.7	24.2
	agree	36	37.1	37.9	62.1
	strongly agree	36	37.1	67.9	100.0
	Total	95	97.9	100.0	
	Missing System	2	2.1		
	Total	97	100.0		
Responses on whether foreign banks reduce domestic bank total assets growth	Valid strongly	2	2.1	2.2	2.2
	disagree	16	16.5	17.2	19.4
	Disagree	8	8.2	8.6	28.0
	Neutral	47	48.5	50.5	78.5
	Agree	20	20.6	21.5	100.0
	Strongly	20	95.9	100.0	
	agree	93	4.1		
	Total	4	100		
	Missing	97			
	system				
	Total				

Responses on whether foreign banks reduce domestic banks lending growth	Valid	strongly	2	2.1	2.1	2.1
		disagree	17	17.5	17.9	20.0
		Disagree	14	14.4	14.7	34.7
		Neutral	38	39.2	40.0	74.7
		Agree	24	24.7	25.3	100.0
		Strongly	95	97.9	100.0	
		agree	2	2.1		
		Total	97	100.0		
		Missing				
		system				
		Total				
Responses on Lack of domestic strong supervisory body	Valid	strongly	3	3.1	3.4	3.4
		disagree	18	18.6	20.2	23.6
		Disagree	6	6.2	6.7	30.3
		Neutral	36	37.1	40.4	70.8
		Agree	26	26.8	29.2	100.0
		Strongly	89	91.8	100.0	
		agree	8	8.2		
		Total	97	100		
		Missing				
		system				
		Total				
Effect on foreign bank domination	Valid	strongly	2	2.1	2.2	2.2
		disagree	12	12.4	12.9	15.1
		Disagree	10	10.3	10.8	25.8
		Neutral	26	26. 8	28.0	
		Agree	43	44.3	46.2	53.8
		Strongly	43	95.9	100.0	100.0
		agree	93	4.1		
		Total	4	100.0		
			97			

	Missing				
	system				
	Total				
Effects on foreign bank domestic commitment	Valid strongly	17	17.5	19.5	19.5
	disagree	21	21.6	24.1	43.7
	Disagree	8	8.2	8.6	28.0
	Neutral	28	28.9	32.2	75.9
	Agree	21	21.6	24.1	100.0
	Strongly	87	89.7	100.0	
	agree	10	10.3		
	Total	97	100.0		
	Missing				
	system				
	Total				
Effects of foreign bank Cream-skimming Behavior	Valid disagree	12	12.4	13.8	13.8
	Neutral	31	32.0	35.6	49.4
	agree	21	21.6	24.1	73.6
	strongly	23	23.7	26.4	100.0
	agree	87	89.7	100.0	
	Total	10	10.3		
	Missing	97	100.0		
	System				
	Total				
Effects of Capital Flight	Valid strongly	4	4.1	4.7	4.7
	disagree	10	10.3	11.8	16.5
	Disagree	16	16.5	18.8	35.3
	Neutral	26	26.8	30.6	65.9
	Agree	29	29.9	34.1	100.0

	Strongly agree	85	87.6	100.0	
	agree	12	12.4		
	Total	97	100.0		
	Missing system				
	Total				

Source: own survey, 2017.

The above table shows that, potential negative effect of foreign banks entry in the domestic banks of Ethiopia. This negative effect may be foreign banks reduce domestic banks total growth if the entry is allowed. From the total of respondent 30.9% of respondents strongly agree, 26.8% of respondents agree, 10.3% of respondents neutral views about the risk of foreign bank in this regard, 22.7% of respondents disagreed, and 3.1% of respondents disagreed with the mean of the respondent 3.64‖ and the standard deviation was 1.261. This indicate that, there will be a negative effects that reducing domestic banks total growth due to foreign bank entry Ethiopian banking sector.

The other effect will be foreign banks reduce domestic bank credibility, when foreign bank entry is allowed in to Ethiopian banking sector. The respondents mean was 3.58 and the standard deviation of the respondents was 1.212. From total of respondent 28.9 % respondents strongly agree, 22.7% respondents agree, 18.6% of respondent neutral, 21.6% of respondent disagreed, and 2.1% of respondents Strongly Disagree. This indicates that, foreign banks entry will have negative effects by reducing domestic bank credibility in the Ethiopian banking sector

Foreign banks can attract qualified staffs from domestic banks. This is potential negative effect rise because of foreign banks entry in to Ethiopia banking sector when entry is allowed. From the total of respondent 63.9% of respondents strongly agree, 25.8% of respondent agree, 2.1% of respondent neutral and 4.1% of respondent disagreed. The mean of the respondents is found to be "4.56" with "neutral" scaling and the standard deviation with ―0.744‖. These indicate that more than averages of respondents, 93.6% of the respondent agreed on foreign banks can attract qualified staffs if foreign bank enter in to the banking sector of Ethiopia.

Foreign banks entry has a negative effect on domestic banks by reducing market share. This effect comes to real when foreign banks entry is allowed in to Ethiopian banking sector. From the total of respondent 37.1% of respondents strongly agree, 37.1% of respondent agree, 13.4% of respondent neutral and 10.3% of respondent disagreed. The mean of the respondents is found to be "4.03" with "neutral" scaling and the standard deviation with 0.946. These indicate that more than averages of respondents (74.2% of the respondent) agreed on foreign banks reduce domestic banks market share when foreign bank are entering to Ethiopian banking sector

Foreign banks entry will have negative effect on domestic banks in Ethiopia if the entry is allowed. This effect may be foreign banks will reduce domestic bank total assets growth. The mean of the respondents is found to be "3.72" with "neutral" scaling and the standard deviation with 1.057. From the total of respondent 20.6% of respondents strongly agree, 48.5% of respondent agree, 8.2% of respondent neutral, 16.5% of respondent disagreed and 2.1% of respondent strongly disagree. These indicate that more than averages of respondents (72.0% of the respondent) agreed on foreign banks reduce domestic bank total growth asset if foreign bank are entering to Ethiopian banking sector.

Foreign banks entry has a negative effect on domestic banks. This effect may be foreign banks reduce domestic banks lending growth. From the total of respondent 24.7% of valid respondents strongly agree, 39.2% of valid respondent agree, 14.4% of respondent neutral, 17.5% of respondent disagreed and 2.1% of respondent strongly disagree. The mean of the respondents is found to be "3.68" with "neutral" scaling and the standard deviation with ―1.104‖. These indicate that more than averages of respondents (65.3% of the respondent) agreed on foreign banks reduce domestic banks lending growth if foreign banks are enter to Ethiopian banking sector.

4.7. Cost of Foreign Bank entry in Ethiopian Banking Sector

In this part researcher will present about the potential cost or potential negative effects of foreign bank on Ethiopian banking sector if foreign banks entry is allowed in to Ethiopian banking sector.

I. Lack of domestic strong supervisory body

Foreign bank entries have a potential negative effect on Ethiopian banking sector due to lack of domestic strong supervisor body. From total respondent 26.8% of respondent strongly agreed, 37.1% of respondents agreed, 6.2% respondents neutral, 18.6% disagreed and 3.1% of respondents strongly disagreed. The mean of the respondents is found to be "3.72" with "neutral" scaling and the standard deviation with 1.187. These indicate that more than averages of respondents 69.6% agreed on domestic supervisory body are not strong to manage the banking sector when foreign banks are join the banking sector of Ethiopia.

Fear of foreign bank domination will be another risk or negative potential effect of foreign bank entry in to Ethiopian banking sector. From total respondent 44.3% of respondent strongly agreed, 26.8% of respondents agreed, 10.3% respondents neutral, 12.4% disagreed and 2.1% of respondents strongly disagreed. The mean of the respondents is found to be "4.03" with "neutral" scaling and the standard deviation with 1.137. This indicate that more than averages of total respondents 74.2% agreed on foreign bank will be dominate over domestic banks if foreign bank entry is allowed in to Ethiopian banking sector.

Lack of domestic commitment will be the other potential negative effects or risk of foreign bank entry in to Ethiopian banking sector. From total respondent 21.6% of respondent strongly agreed, 28.9% of respondents agreed, 21.6 % respondents neutral and 17.5 % disagreed. The mean of the respondents is found to be "3.61" with "neutral" scaling and the standard deviation with ―1.060‖. These indicate that more than averages of respondents that are 56.3% agreed on foreign banks will the first one to leave the country under the time of distress. Therefore, they may lack domestic commitment.

Cream-skimming Behavior can be the potential negative effects of foreign bank on banking sector of Ethiopia if foreign banks entry is allowed. From total respondent 23.7% of respondent strongly agreed, 21.6% of respondents agreed, 32.0% respondents neutral and 12.4 % disagreed. The mean of the respondents is found to be "3.63" with "neutral" scaling and the standard deviation with ―1.024‖. These indicate that more than half of the respondents 50.5 % agreed on Cream-skimming Behavior of foreign banks. This means foreign banks will have negative effect the banking sector of Ethiopia by their cream- skimming behavior or segmentation behavior.

The last foreign banks potential negative effects on Ethiopian banking sector when foreign banks entry are allowed. From total respondent 29.9% of respondent strongly agreed, 26.8% of respondents agreed, 16.5% respondents neutral, 10.3 % disagreed and 4.1% of respondents strongly disagreed. The mean of the respondents is found to be "3.78" with "neutral" scaling and the standard deviation with ―1.179‖. To summarize this, more than averages of respondents 64.7% agreed on foreign banks will have potential negative effect on the banking sector of Ethiopia by flight capital to their home country if the entry is allowed.

4.8. Potential positive effect versus Potential negative effect

In previous section the potential positive effects of foreign banks entry and potential negative effects of foreign banks entry separately presented. In this section the researcher presented about which is outweigh the potential positive effect or the potential negative effect of foreign bank entry when they are enter in Ethiopian banking sector.

Table 34 shown that, the respondents answer for the question of does the potential benefit outweigh the potential cost. Majority of the respondent that is 70.8% of total respondents said, the potential benefit of foreign bank entry outweigh the potential cost. On the other hand, 29.2% of respondent said that the potential cost of foreign bank entry outweigh the potential benefits. This indicates that, majority of the respondent agreed on potential positive effects outweighing the potential negative effects if foreign banks are entered in Ethiopian banking sector.

Table 5: Responses on whether foreign banks potential benefits outweigh the potential costs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	63	64.9	70.8	70.8
	No	26	26.8	29.2	100.0
	Total	89	91.8	100.0	
	Missing system	8	8.2		
	Total	97	100		

Source: own survey, 2017

CHAPTER FIVE
SUMMARY AND CONCLUSION

5.1 Summary and Conclusions

The study was conducted to investigate the potential benefit and risks resulting from entry of foreign owned bank in Ethiopia banking sector. The research findings indicated that foreign banks entries have positive and negative effects on the banking sector of Ethiopia. This conclusion was made based on the following responses.

First the respondents gave their response on the current status of domestic banks. Domestic banks deliver product or service at reasonable cost, and have initiative and capacity to provide new products or services for a customer. Although, their capacity and initiation as compared to foreign bank if entry is allowed, domestic banks are at infant stage.

In addition, domestic banks‘existing staffs have knowledge and skill but it is not at the required level for the banking sector. In same case, domestic banking have a technology but it does not bring them competitive with foreign banks. Financial sector policy does not make domestic bank competitive enough with foreign banks if entry is allowed. Finally, respondents with slight difference said domestic banks are beneficiary by working together with foreign banks.

Secondly, majority of respondents agreed on the potential positive effects of foreign banks entry. The following potential positive effects agreed by more than average of respondents, introducing new technology and financial innovation, possible economics of scale and scope, improvement of the competitive environment, development of financial market, improve the financial systems infrastructure and attracting foreign direct investments.

Thirdly, majority of respondents agreed on the potential negative effects of foreign bank on the administrative or public body if entry is allowed. The following are cost of foreign banks entry: Lack of domestic strong supervisor body, fear of foreign bank domination, lack of domestic commitment, lack of domestic commitment and Capital Flight.

Fourthly, the study also considered about the potential negative effects of foreign banks entry on domestic commercial banks. These potential negative effects: foreign banks reduce domestic banks total growth, foreign banks reduce domestic bank credibility, foreign banks attract qualified staffs, foreign banks reduce domestic banks market share, foreign banks reduce domestic bank total assets growth and foreign banks reduce domestic banks lending growth.

Finally, the study compares the potential positive effect and potential negative effects of foreign banks entry on Ethiopian banking sector. Majority of respondents outweigh the potential positive effects than potential negative effect. Therefore, Ethiopian banking sector will be beneficial by entry of foreign banks.

CHAPTER SIX
RECOMMENDATION

Based on the findings and conclusions of the study, the researcher forwards the following recommendations to the public body and domestic banks of Ethiopia and suggestion for other researchers.

- Domestic banks need to upgrade themselves technologically, if foreign banks allowed to operate the cost of this may be costly for the infant banks to update. In order to avoid possible costs and to manage the capital banks with lower capital need to merge. The supervisory body also needs to encourage this trained.
- Domestic banks should build their growth, credibility, engagement with qualified staffs, market share, growth asset and lending growth to defend the effects which bring due to entrance of foreign bank entry.
- Foreign banks benefits overweigh the costs, so to get the benefits the government better to open the door for them after enhancing domestic bank competitive capacity.
- The government should strengthen the efficiency of the supervisory body or public body before allowing foreign banks entry.

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Annexes

Annex I

Table 6: Potential positive effect of foreign bank

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Introduction of new banking technology and financial innovations	95	2	5	4.61	.673	.453
Possible economies of scale and scope	95	2	5	3.75	.956	.914
Improvement of the competitive Environment	91	1	5	4.51	.808	.653
Development of financial markets	95	2	5	4.33	.778	.605
Improvement of the financial system's infrastructure	91	2	5	4.30	.925	.855
Attracting foreign direct investments	91	2	5	4.35	.947	.897
Valid N (listwise)	79					

Source: own survey, 2017

Table 7: Cost of foreign bank

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Foreign banks reduce local bank total growth	95	1	5	3.64	1.261	1.589
Foreign banks reduce local bank credibility	91	1	5	3.58	1.212	1.468
Foreign banks attracts qualified staffs	93	2	5	4.56	.744	.554
Foreign banks reduce local banks market share	95	2	5	4.03	.973	.946
Foreign banks reduce local bank total growth asset	93	1	5	3.72	1.057	1.117
Foreign banks reduce local banks lending growth	95	1	5	3.68	1.104	1.218
Valid N (listwise)	83					

Source: own survey, 2017

Table 8: Potential negative effect of foreign bank

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Lack of domestic strong supervisory body	89	1	5	3.72	1.187	1.409
Fear of foreign Domination	93	1	5	4.03	1.137	1.292
Lack of local commitment	87	2	5	3.61	1.060	1.125
Cream-skimming Behavior	87	2	5	3.63	1.024	1.049
Capital Flight	1	1	5	3.78	1.179	1.390
Valid N (listwise)	75					

Source: own survey, 2017

Annex II

Saint Mary's university

School of graduate studies

Master of business administration

THESIS TITLE: Investigation of potential benefit and risks resulting from entry of foreign owned bank in Ethiopian banking sector.

Dear Respondent

These questionnaires designed to collect information related to when allowing of foreign banks in Ethiopia. I want to look into the potential impacts positive or merits and accompanying negative or risk associated to Permitting of foreign banks to the domestic banking sector. The research output will be useful to both academics and policy making bodies. Therefore these questionnaires are prepared to collect the data from Professional staff of Commercial Banks.

As this is research exercise to fulfill a requirement at SAINT MARY'S University, it will be used for same purpose. Your information will be kept confidential.

Thank you in advance for your cooperation!

A. Respondent General Information

1. Please indicate the bank name you work in

Commercial Bank of Ethiopia ☐

Construction and Business Bank ☐

Dashen Bank ☐

Awash International Bank ☐

Abyssinia Bank ☐

2. Sex

Male ☐ Female ☐

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

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

4. Your position in the organization.

Manager ☐

Supervisor ☐

Clerk ☐

Other please specify_________

5. Your level of educational qualification.

Master degree ☐

Bachelor Degree ☐

Diploma ☐

Above other please specify ____________

B. Assessment of the research question

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

Yes No

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

Yes ▢ No ▢

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

Yes ▢ No ▢

9. If foreign banks entries are allow, do you think they have better initiative to provide new products/services to customer than domestic commercial banks.

Yes ▢ No ▢

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

Yes ▢ No ▢

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

Yes ▢ No ▢

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

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

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

13. If foreign bank are allow to enter in Ethiopian banking sector, is domestic

Commercial banks are beneficiary by working together with them?

Yes ☐ No ☐

14. If your choice is yes how?

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15. If your choice is No how?

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____.

16. How would you rate the potential positive impacts on the commercial banks in Ethiopia, if foreign banks are allowed to enter in the banking sector? Please make an (x) in the respective box.

	Responses				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Introduction of new banking technology and financial innovations					
Possible economies of scale and scope					
Improvement of the competitive environment					
Development of financial markets					
Improvement of the financial system's infrastructure					
Attracting foreign direct investments					
If you have other please specify below:					

17. How would you rate the potential negative impacts on the commercial banks in Ethiopia, if foreign banks are allowed to enter in the banking sector? Please make an (x) in the respective box.

	Responses				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Fear of foreign Domination					
Lack of local commitment					
Cream-skimming Behavior					
Capital Flight					
Lack of domestic strong supervisory body					
If you have other please specify below:					

18. According to the above suggestion mentioned in question No 14 and No 17 does the potential benefit outweigh the potential costs?

Yes ☐ NO ☐

19. Is the current financial sector policy likely to make the domestic banks competitive enough with their foreign competitors, if foreign banks are allowed to enter?

Yes ☐ NO ☐

20. If your answer is No to question No. 19 what‘s the solution should be done by concerned body?

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21. What will be the impact of foreign banks on the performance of Ethiopian domestic banks, if allowed to operate within the coming years? Please give your response by placing an (x) mark in the respective box.

	Responses				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Foreign banks reduce local banks market share					
Foreign banks attracts qualified staffs					
Foreign banks reduce local bank credibility					
Foreign banks reduce local bank total growth					
Foreign banks reduce local bank total growth asset					
Foreign banks reduce local banks lending growth					

22. Does the existing staff posses the required knowledge and skill to the desired level?

Yes ☐ NO ☐

23. If your answer is No .please explain the solution to be made.

____

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

Yes ☐ NO ☐

25. If your answer is No .please explain the solution to be made.

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26. If you have any idea that must be included related to the positive and negative impacts of foreign bank on domestic commercial banks please explain it

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THANK YOU