ASSESSMENT OF OPPORTUNITY AND CHALLENGES OF FOREIGN BANK ENTRY TO ETHIOPIAN BANKING SECTOR

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DECLARATION

I affirm that this thesis is my own original work, developed with the help of assistant professor DESTA MULUGERA. I have given due credit to all sources and the works of other academics that I utilized. I further state that this paper has never been submitted in full or in part to a university with the intention of earning a degree of any kind.

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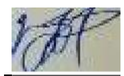
ENDORSEMENT

My approval as the university's advisor led to the submission of this thesis for review at St. Mary's University.

DESTA MULUGERA (Asst. Professor) 

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St. Mary’s University, Addis Ababa Date_07-07-23__

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ABBREVIATIONS

DBE	Development bank of Ethiopia
FDI	Foreign Direct Investment
GAT	General Agreement of trade service
NBE	National bank of Ethiopia
SME	Small and Medium Enterprise
VP	vice president
WTO	World Trade Organization
WB	World Bank

ABSTRACT

Based on the Ethiopian government's significant policy change in 2018 to partially privatize important state-owned firms Like ethiotelecom is an indication to help expect the possibility of allowing foreign banks to operate in Ethiopia in the future.. The state-owned and private commercial banks in particular will have both opportunities and challenge if foreign banks are permitted to conduct business in Ethiopia. The study's primary objectives is to analyze the possible opportunity and challenges of foreign banks entering Ethiopia's banking industry using descriptive study and a mixed approach. The data were collected from all commercial banks operating during the study period through questionnaires by deploying a purposive sampling technique. Furthermore, both primary and secondary sources of data were used and collected data were analyzed by using descriptive analysis techniques such as percentage mean and standard deviation using SPSS software. The finding of the study shows that foreign bank entry in Ethiopia could introduce new banking technologies, financial innovation and promote financial development; On the other hand, the stiff competition with foreign banks may threaten the survival of domestic banks that may lead them to incur high cost in the short run and decline in profit. In addition, it may bring shocks from other country, destabilize domestic credit and may serve more productive sectors only.. As recommendations allowing foreign bank entry in Ethiopia step by step is advantageous with extensive capacity building to all stakeholders and implementation of modern banking technologies. Merger form of entry may be essential for knowledge transfer and entry via joint venture preferable to resource mobilization and enhancing access to finance for the majority.

Keywords: Domestic banks, foreign banks, opportunity and challenge

CHAPTER ONE

INTRODUCTION

The development of an effective and competitive financial system to support economic growth is the goal of both the liberalization of financial services and the structural changes of the domestic financial sector. The background of the study, the problem statement, the research questions, objectives of the study, its significance, and its scope are all included in this chapter.

1.1. Back Ground of the Study

The acceleration of commercial flows during the seventeenth and eighteenth centuries marked the beginning of the globalization movement. Export commerce is carried out through international trade; therefore, a country's place in the world economy is strengthened by signing bilateral or multilateral trade agreements (WTO, 2001) International trade between countries and the advancement of financial institutions have long been intertwined. Prior to centuries, banks played a significant part in this trade. Along with being one of the first financial organizations in history, banks was also among the first businesses to enter foreign markets and provide services abroad (Heffernan, 2015).

The expansion of multinational bank operations was one of the most overt signs of the emergence of a genuinely globalized world. Large banks from financially developed, industrialized Europe quickly expanded their cross-border and cross-currency activity in response to epoch-making changes in communication technology, global trade, and the demand for finance by sovereign and individual borrowers (Battilossi, 2005).

There were over 2,600 foreign bank branches globally in 1913. Over 80% of such branches were attributable to British banks, which was the dominant factor at the time (Slager, 2005.)In the 1970s and 1980s, American banks expanded their influence across the Pacific, particularly in Singapore, Hong Kong, and Japan. Multinational banks from the United States, Europe, and Japan were instrumental in investing the enormous sums of money that petroleum companies received when the price of oil soared globally (Sanya & Gaertner, 2012).

According to Ageba and Bienen (2008) the term "financial services liberalization" denotes to the elimination of discriminatory quantitative or qualitative norms that, by limiting market access or commercial presence, discriminate against domestic and foreign suppliers of financial services. The findings of several researches conducted at various times and places show that financial liberalization has both positive and negative effects on the economies of developing nations. For instance, Demirguc-Kunt (2018) investigated whether increasing the competence of the banking sector by opening it up to international competition would lead to long-term economic growth. Levine R. (2006) asserts that the existence of foreign banks promotes the expansion of the financial sector by increasing domestic banks' access to global capital, encouraging them to enhance. Claessens, (2001) on the other hand, looked at how foreign banks affected domestic bank markets and found that lowering entrance barriers increased competitiveness, which decreased domestic banks' profitability. Foreign competition may also weaken the charter values of domestic banks, increasing their vulnerability. This might lead to the financial system being unstable, especially if domestic prudential rules and monitoring are lax. Intense competition shocks and regulatory worries are only a few of the challenges that the presence of foreign banks offers to domestic banks and the host country's economy, according to studies by Cull and Martinez (2010).

Sanya & Gaertner (2012) evaluated the level of competition in East Africa between domestic and foreign banks. Their case studies centered on Kenya, Tanzania, Uganda, and Rwanda, four nations that are members of the East African Community. Due to Kenya's cross-border connections with its neighbors, these nations have firsthand knowledge of overseas banking practices. Their discovery demonstrates the significant presence of foreign-owned banks in the East African Community.

Fully foreign owned banks have a history of staying in Ethiopia for more than a half a century during the pre-Derge. The first private bank, Addis Ababa Bank S.C, owned by Ethiopian investors 60% and National and Grindlays Bank of London 40%; while Banco di Rome (Ethiopia) S.C and Banco di Napoli (Ethiopia) S.C. was opened with the association of Ethiopian nationals at the last decade of the Imperial Regime. As a result, there are three core phases to the formation of foreign banks in the nation. The first phase, which spans the years

1905 to 1931, was under Menelik II and established the way for the nation's current banking industry. Bank of Abyssinia and three other foreign banks were created in the nation during this time. The foreign bank (Bank of Abyssinia), a subsidiary of the national bank of Egypt owned by the British, was founded in Addis Ababa in 1905 under the terms of a 50-year franchise agreement with an exclusive privilege in relation to banking business, coinage and disuse of notes, bonded warehouse, and guardianship of national resources as well as a preference right to all state loans Following the overthrow of the Haile Sellassie imperial state, the Derge, the interim military government, proclaimed socialism and chose to hand over control of the three commercial banks to the government, creating the large Addis Bank. According to its economic strategy, the banking industry's restructuring was done specifically to promote the socialization of both the production and delivery of goods and services. The three commercial banks were consequently nationalized in 1975. The banking system was designed to support a centrally prearranged economy marked by extensive price control, centralized decision-making, and bureaucratic meddling motivated by socialist ideology, according to research done by (Mian, 2006) Foreign banks are then prohibited from doing business in the nation after that. (Gebeyehu, 2017)

The Ethiopian government is known for its protection approach when it comes to the finance sector, not to be owned by Ethiopian had foreign nationals, let alone allowing them to operate in Ethiopian banking market. However, based on the major policy shift in the government's decision to privatize significant state-owned enterprises, foreign banks will be allowed to operate in Ethiopia .The incumbent state-owned commercial and private banks in particular, as well as the financial industry in general, will face both opportunities and challenges if foreign banks are permitted to conduct business in Ethiopia (Matiwos, 2018)

1.2. Statement of the Problem

Foreign bank participation in underdeveloped nations should unquestionably improve wellbeing in a world with completely competitive markets and complete knowledge. These banks should be able to offer more enticing interest rates and expand the amount of lending since they have access to better technology, more chances to diversify risk, and maybe better corporate governance. On the other hand, banks must screen and keep an eye on potential borrowers when information concerning borrower quality is unreliable. The impacts of foreign bank entry on credit availability, efficiency, and welfare are unclear if foreign banks primarily benefit from lending to consumers who are less opaque (Enrica, 2016) Allowing foreign banks to operate in Ethiopia will present opportunities and challenges for the current state-owned commercial and private banks in particular, as well as the financial sector in general, given the Ethiopian government's significant policy shift in 2018 to partially privatize major state-owned enterprises (Matiwos, 2018)

The possible advantages of foreign bank entry for the domestic economy in terms of improved resource allocation and increased efficiency have been discussed by a number of authors (Levine, 2001; Walter & Gray, 2011; Gelb & Sagari, 2004). Increasing bank competition, enabling the greater application of more modern banking skills and technology, serving to stimulate the development of the underlying bank supervisory and legal framework, foreign banks may improve the quality and accessibility of financial services in the domestic financial market, improve the financial system infrastructure and They may also improve a country's access to international capital (Direslign, 2019) Opening financial markets to foreign competition may have costs in addition to those advantages i.e. the infant industry argument, Skewed credit from small and medium Enterprise, Capital outflow and Local entrepreneurs may have less access to financial services because foreign banks typically focus on multinational corporations, domestic banks may incur costs due to competition with large international banks with better reputations, and governments may notice a decrease in their ability to influence the economy because foreign banks are typically less receptive to their wishes (Matiwos, 2018)

Although, there were considerable amounts of debate on this issue, the argument is inclined to allowing foreign financial market would make a country more beneficial; however, due to its natural complication creating such situations and opening the door to international financial market is not as such easy task due to political, economic, and social factors. Furthermore, while Ethiopia’s financial sector has not been studied to any great extent, despite all these considerations, there are only a very limited number of researches that have been undertaken in the Ethiopian setting to determine the effects of foreign bank presence on local bank behavior in Ethiopia. These papers mostly concentrated on the overview of the financial services sectors generally, and their unique viewpoints include the country's economy, regulatory capability, policies, and welfare when the country liberalizes the financial services sector. Therefore, these studies have not outlined the fundamental difficulties, potential hazards, advantages, or modes of entry that affect domestic banks' operations when foreign banks are permitted to enter the market. This essay fill up the aforementioned gaps and, as a result, provide comprehensive and convincing evidence of the possible opportunity and challenge of foreign banks entering Ethiopia's banking industry. More importantly, the Ethiopian economy continues to be plagued by the urgent need to understand the advantages and difficulties of the admission of foreign banks.

1.3. Basic Research Questions

To achieve both general and specific study objectives, the researcher raised the following basic questions.

1. What potential opportunities could foreign banks have to domestic banks?

2. What potential challenges do domestic banks face when dealing with foreign banks?

3.What is the best way for foreign banks to enter the banking sector in Ethiopia?

4. What possible efficiency adjustments to the Ethiopian banking industry do required in light of the admission of international banks?

1.4. Objective of the Study

1.4.1. General Objective

The study's primary objective is to analyze the possible opportunity and challenge of foreign banks entering Ethiopia's banking.

1.4.2. Specific Objectives

- To assess the potential opportunities that entry by foreign banks might have on domestic banks
- To assess the potential challenge to domestic banks' admission by foreign banks
- To assess the most effective modality for foreign banks to enter Ethiopia.
- To assess the potential efficiency reform to the Ethiopian banking sector, in line With entry Of the foreign banks

1.5. Significant Of the Study

Since the government is interested in learning whether foreign banks operating in Ethiopia have an adverse or favorable impact on local banks and the welfare of the nation, the government would stand to gain the most from this study given the importance and undeniable value of conducting research in this area. Because policymakers would be aware of the advantages or difficulties it would present to the local banks, the study may aid them in developing regulations to control new entrants into the Ethiopian market.

Furthermore, this study will provide local banks, regulatory agencies, and other stakeholders with information about what to expect in the future. Management bodies in the finance business may also make educated decisions about how to approach the financial markets using the study's findings since they would be aware of the effects new entrants have on the banking environment. Additionally, future researchers and academics working on related projects may turn to the study as a source of reference. It will be essential to keep track of the research results for later usage.

1.6. Scope of the Study

The study's primary objective is to analyze the possible opportunity and challenges of foreign banks entering Ethiopia's banking. More specifically, the research is delimited to analyzing the challenge and opportunities of financial sector liberalization, with an emphasis on the banking sector and how it affects the effectiveness and performance of local banks. Additionally, no other financial institutions or sectors are considered in the research; only banks are. Regarding Time Scope In this investigation Researcher used cross-sectional data, which is composed by observing numerous matters at the one point or period of time. In the course of creating a report, the researcher based his conclusions on those records. With respect to geographic location the study specifically focuses on Addis Ababa head office branches of all commercial banks operational during the study period. Methodologically the study was delimited to respondents who would be approached via questioner is main source of documents

1.7. Definition of key Terms

Financial services are defined in the GATS as including any service of a financial nature offered by a financial service supplier, includes all banking and other financial services, as well as all insurance and insurance-related services (Bulto, 2006)

Financial services liberalization- states to the elimination of discriminatory quantitative or qualitative regulations that discriminate against foreign and domestic financial services providers by limiting market entry or commercial presence (Ageba & Bienen, 2008)

Foreign Bank- is a kind of International Bank that is obligated to follow the regulations of both the home and host countries.

***Foreign Bank entry* –** is the expansion of foreign banks in to domestic banking sector abroad.

Liberalization-is any process whereby a state lifts restriction on some activities.

Trade liberalization - is the elimination or decrease of prohibitions or obstacles to international trade in goods and services.

World Trade Organization–is an organization with a goal of liberalizing and regulating international trade and basically facilitates the administration

1.8. Limitation of the Study

Due to limitation of resources, the focus of this study basically is analyzing only the challenges and opportunities of foreign bank entrance in Ethiopian case only; specifically, the research is limited to assessing the problems and prospects of liberalizing financial sectors with a special emphasis on banking sector in terms of its influence on domestic banks efficiency and performance. In addition to this, the research doesn't consider all the financial institutions and sectors; it is limited only to banks and may not generalize the impact and readiness on financial sector in general. With respect to geographic location the study specifically focuses on Addis Ababa branches of the sampled banks.

1.9. Organization of the study

This piece of writing was normally being structured into five chapters. The leading chapter of the study includes a background section, problem statement, general and specific objectives, significance, scope, and limitations. The associated literature review is included in the second chapter. The third chapter provides a summary of the research methods that was implemented in this study, including the data source, sample size and sampling techniques, data collection methods, data quality assurance, and other elements. In the fourth chapter, the researcher provides the analytical findings and interpretation. The fifth and final chapter contains a summary of the major findings, a conclusion, and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

The research will attempt to review many studies, working papers, journals, annual reports, and other relevant materials in order to have a thorough understanding of the study issue and to compare and support the research conclusions with the empirical evidences. As a result, this chapter examines and contrasts the research from the sources described above in light of the study's theme and goal. The theoretical and empirical backgrounds are the chapter's two main subtopics.

2.2. Theoretical Literature

Banks play a key role in improving economic efficiency by channeling funds from entities with surplus resources to those with more productive investment opportunities. Banks also play an important role in transaction and payment systems, significantly reducing transaction costs and increasing convenience (Eshete, 2013). Opening up the domestic banking market to foreign market entrants is a very sensitive issue for emerging markets. On the one hand, foreign banks can play an important role in a struggling economy. On the other hand, the foreign exposure of domestic financial systems can carry significant risks (Berger, 2000).

Banks enter foreign markets to increase profitability while maintaining manageable risk profiles and achieving risk diversification goals (Mucheru, 2011). According to Focarelli (2000) Banks prefer affiliates in countries with higher expected profits due to expected stronger economic growth and the potential to reduce local bank inefficiencies. According to Rugman, (2001) the reasons for internalization are low marginal costs, market information superiority, home country headquarters information, reputation, regulation (such as deposit insurance and foreign exchange regulation), transaction costs, growth, and risk reduction mitigation.

The benefits and costs of entering a foreign bank have been examined in the literature. World bank, (2002) Summarizes the benefits as follows: The entry of foreign banks increases the efficiency of the domestic banking sector Increased competition tends to reduce costs and increase profits. Lending to the private sector could improve as credit risk assessment and pricing are expected to become more sophisticated Clarke, Cull & Soledad Martinez Peria, (2001) This may help promote higher growth (Levine, 2007) The presence of foreign banks helps build the regulatory and legal framework for domestic banks and increases overall transparency. Foreign banks are expected to provide a more stable source of credit as they can rely on their parent companies for additional funding and have easier access to international markets. As a result, domestic financial markets are less susceptible to domestic shocks. Foreign banks can reduce costs associated with bank recapitalization and restructuring after the financial crisis.

The costs of entering a foreign bank are as follows: If the entry of foreign banks reduces the franchise value of domestic banks, there may be incentives to take more risk Hellmann, Murdock and Stiglitz, (2000) with more advanced services and products, foreign banks are attracting the most profitable part of the domestic market. Therefore, the riskier sectors are served by domestic banks. Access to credit in some sectors of the economy may be affected as the presence of foreign banks increases. Foreign banks can increase financial instability by exiting the host country or infecting domestic problems. Lending patterns typically ignore domestic priorities, as foreign banks have different priorities and business focus. (Claessens, Demirguc-Kunt, & Huizinga, 2001) Examine the impact of foreign bank entry on the domestic banking sector. They show that foreign banks in developing countries tend to be more profitable, have higher margins, and pay higher taxes than domestic banks. But in developed countries the opposite is true. Another interesting conclusion is that both the profitability and overhead costs of domestic banks decline with the entry of foreign banks.

Some studies have focused on experiences at the country level. Denizer,(2000) considering the entry of foreign banks into the Turkish banking sector He shows that net profit margins, overhead costs, and return on assets are related to foreign ownership. He also points out that the entry of foreign banks will have a strong competitive effect on the banking sector. This reduces your return on investment and overhead costs.

Hasan,& Marton, (2000) examines the Hungarian banking sector in its transformation process. They conclude that banks with more foreign participation are more efficient. Goldberg, Dages,& Kinney, (2000) examine the role of foreign banks in determining the health of the domestic financial systems of Argentina and Mexico. Health, not bank assets, is the primary determinant of bank loan growth, volatility and cyclicality. However, ownership diversity tends to contribute to greater credit stability during crises or weakening of the domestic financial system.

2.3. Potential Opportunities of Foreign Bank Entry on Domestic Banks

Foreign banks are seen as an important source of new capital to recapitalize banking systems that deteriorate during or after domestic adverse shocks. Crisis while domestic-only banks are expected to be highly dependent on domestic economic conditions, global banks are able to spread risk across different markets and perform much more consistently. Moreover, the penetration of foreign banks can attract capital inflows from non-blank foreign companies and prevent capital flight by domestic investors in times of crisis. In this case, it acts as an alternative 'safe haven' to help the host country overcome liquidity problems and adverse exchange rate movements (Hasan,& Marton, 2000).
Empirical evidence suggests that increasing foreign bank ownership actually reduces the profitability and overall costs of domestic banks. These results suggest that the market entry of foreign banks leads to more efficient domestic banking market functioning, which has a positive impact on the well-being of bank customers. Relaxing restrictions on foreign bank entry may similarly reduce domestic bank profits and force domestic banks to cut costs, but has a positive impact on the overall welfare of the domestic economy (Song, 2004).

There was clear pressure as foreign banks signaled improvements in efficiency. Foreign banks were allowed to open branches in India either through full ownership or as subsidiaries. They were also allowed to set up joint ventures with private banks for merchant banking and investment banking (Sharda, 2014). In addition, it can play an important role in development work, especially for: It supplements domestic savings, creates jobs and growth, integrates into the global economy, and transfers modern technologies, increases efficiency and up skills local workers (Mucheru, 2011).

Introduction of new banking technologies and financial innovations: Although some banks have seen some improvement recently, traditional banking services still dominate in most domestic banks. Modern banking technology has not been fully adopted and developed except for the state-owned banks, Ethiopian commercial banks and some private banks which have started to adopt some modern banking technology (Gebeyehu, 2017). Jonse, (2004) found that competitive pressure from foreign banks has forced domestic banks to reduce waste, improve the quality of operations and services, and become more efficient. I'm here. This means that technology is one of the necessary pillars to transform banking and increase the efficiency of Ethiopian banking, which foreign banks are good at improving foreign capital inflow: The presence of foreign banks tends to attract foreign direct investment because it maintains some relationship with multinational corporations, thereby improving the country's access to international capital (Gebeyehu, 2017) According to Jonse, (2004) foreign banks are attracting foreign direct investment and channeling more funds at lower costs, and their presence can increase capital inflows from their own countries and from around the world. There is a nature. This means that foreign banks play a far-reaching role in facilitating capital inflows into Ethiopia under normal conditions.

Domestic Banks going overseas another advantage that the presence of foreign banks brings to domestic banks is the spillover effect. Through skill and technology transfer, local banks may focus on strategic issues, preparing for internationalization or looking for better alternatives abroad. This may not be short-term as future strategic concerns are at stake. Gebeyehu, (2017) Kenyan banks are the best example of such internationalization. According to an IMF report (2013), Kenyan banks have expanded across East Africa and become dominant players in the region. The report shows that 11 Kenyan banks with 288 branches are operating in East Africa, including South Sudan.

Foreign bank entry will Improving the infrastructure of the financial system: The involvement of foreign banks improves the infrastructure of the country's financial system Good banking practices and know-how, financial regulation, management and supervision skills to achieve international best practice. Levine (2007) Also argued that foreign banks are promoting the upgrading of subsidiary bodies such as accounting, auditing and rating agencies, thereby improving the quality and flow of information about firms and banks Similarly, according to Gopalan & Pajan, (2010) the presence of foreign banks will improve regulatory and supervisory processes and standards, as well as the financial infrastructure as a whole, and ultimately encourage local efforts to align with international best practice. May put pressure on the banking authorities of this means foreign banks engaging in Ethiopian banking will improve the infrastructure of the country's financial system from its current state.

2.4. Potential Challenges of Foreign Banks Entry on Domestic Banks

However, the entry of foreign banks is not without risks and challenges faced by the financial performance of domestic banks. This strong and superior reputation of foreign banks has led to greater and unbalanced competition, particularly among developing countries and domestic banks in developing countries (Hasan,& Marton, 2000; Hasan, 2000, Denizer, 2007). Unequal competition results from domestic banks' inability to innovate, imitate, and compete with foreign banks' innovations, technologies, and systems (Berger, 2000).

Claessens, (2001) argues that unequal competition adversely affects the financial performance and profitability of local banks. Therefore, the financial performance of foreign bank entrants is more pronounced in terms of profitability in the domestic banking sector of developing and emerging economies. According to Clarke (2003) this leaves domestic banks in less industrialized developing countries behind due to unequal competition compared to domestic banks (Lensink & Hermes, 2004). Competition from the entry of foreign banks tends to encourage domestic banks to become more effective and superior, but unbalanced competition prevents them from competing with the competitiveness of foreign banks' entry, it can lead to domestic banks in developing countries and developing countries falling out of competition behind.

Moreover, foreign bank entrants tend to focus on profitable corporate structures of blue-chip domestic companies and be less sensitive to less profitable corporate structures. Practices therefore, less profitable domestic businesses are abandoned in favor of domestic banks. Furthermore, according to Charalambos, (2007), allowing foreign banks also favors low-risk firms in the domestic sector of the economy, leaving firms in the riskier domestic sector of the economy to domestic banks. Increase Domestic banks therefore serve the riskier industries, companies and organizations in the domestic market.

Therefore, domestic banks must compete with foreign banks for quality domestic customers with good credit quality and to secure low-risk firms in domestic economic sectors Dages, (2000.) to counter the entry of foreign banks, domestic banks must bear higher costs and raise deposit rates to attract wealthy individuals and low-risk domestic companies. As a result, domestic banks will pay higher interest rates on deposits, but will not be able to provide short-term loans. Moreover, the introduction of foreign banks will reduce the market share of the domestic banking sector. Therefore, allowing foreign banks is likely to reduce domestic bank profits, net interest income and non-interest income (Kalluru, & Bhat,, 2009).

Due to the fact that international banks typically operate in their target markets and focus on high-value corporate customers, rather than the high-volume consumers and corporate customers of local banks, foreign banks tend to have good financial performance. Levine & Zervos, (2008) Improving the quality of information technology, global networks, access to human resources and market expertise, and other factors that contribute to strengthening financial capabilities through the entry of foreign banks as a result, there are significant differences in efficiency and excellence between international and domestic banks (Naaborg, 2007).

The efficiency and excellence gap situation have led to increased operating costs and reduced net interest margins for domestic banks, adversely affecting the financial performance of domestic banks. Profitability is measured by ROA, non-interest income, and growth in domestic bank overheads Claessens, S., Demirguc-Kunt, A, & Huizinga, H, (2008) from this, it is clear that domestic banks can experience both advantages and disadvantages from the entry of international banks.

2.5. Modality of Foreign Banks Entry

In order to facilitate the internationalization of their banking business, many foreign banks have entered the domestic banking market of other countries through the establishment of overseas subsidiaries and branches, mergers or acquisitions (acquisitions) of domestic banks abroad.

Aliber (2007) As a result, foreign banks are believed to have acquired domestic banks or made new investments to enter the domestic banking sector.

The degree to which foreign bank subsidiaries are integrated into the global financial system also determines their differences from domestic banks. In this context, it is useful to distinguish between affiliates that result from the acquisition of an existing bank and affiliates that are foreign banking entities, also known as Greenfield entities. Greenfields and acquisitions can differ depending on the parent bank's entry strategy Levine R. (2006) foreign banks looking to expand internationally may set up Greenfields to "test the waters" first. On the other hand, acquisitions of existing banks may indicate a more permanent or long-term commitment (Bonin, 2008).

Additionally, some parent banks create subsidiaries from scratch as they want to have full control over the new subsidiary from the start. Other banks are more concerned with being truly local banks and thus prefer to take over existing banks (Levine & Zervos, 2008) . However, in this situation, the acquisition's strategic direction and accounting structure can still show influence from previous management for some time (Cárdenas, 2002). This is especially true when local management and staffs have not been fully or partially replaced Rajan, R. G. & Zingales, L., (2008) In general, the ties between parent bank organization and corporate governance are likely to be looser in acquisitions than in Greenfields built from scratch (Berger, 2000)

Empirical data show that international banks in emerging markets are more effective and profitable than local banks in developed countries (Bonin, 2008). In 2001, Demirguc and Huizinga, these conflicting findings ignited an ongoing debate about whether the entry of foreign banks would benefit customers. According to traditional industry group theory, the introduction of banks will increase competition and ultimately benefit borrowers. In fact, the presence of foreign banks in developing countries makes credit more accessible to large, open companies (Mian, 2006). However, local and foreign banks distribute information in different ways (soft and hard information), so lending to smaller, less transparent companies may not be affected in the same way (Lensink & Hermes, 2004).

Home country banks often control these companies and prohibit them from borrowing from abroad. It determines the types of international banking transactions accepted by each host country. Access preferences may vary from bank to bank and country to country, depending on business strategy, host country laws and banking institution considerations (Song, 2004). The bank initially expanded its range of services abroad to support domestic customers in international transactions. With a better understanding of the global market and a more developed network of regional financial institutions, some banks expanded their reach by adding local customers. According to this, foreign banks will first set up a representative office. They eventually set up subsidiaries and then branch offices (Amanue, 2008).

Today, various variables influence the actual entry patterns of foreign banks. Foreign banks' market entry patterns are increasingly influenced by profit opportunities in their target markets. For this reason, a wider range of foreign participation models are now available. Whole Acquisitions, Targeted Acquisitions of Certain Activities, Joint Ventures, Partnerships with Local Banks, Government and Financial Services Outsourcing

Representative Offices**:** A representative office is the most limited but the easiest form of organization to establish. It does not deal with fundraising or lending, but is generally set up to test the possibility of further participation (Goldberg, 2002). In theory, a surrogate has nothing more than her PR function and is used when regulations are in place or when low per capita income makes the odds of winning low (Jonse, 2004). An agency is a more costly form of foreign bank than a representative office and is justified when the bank engages in very large export services and subsequently becomes heavily involved in the foreign exchange market (Levine & Zervos, 2008). Agency representatives also allow banks to provide commercial lending, but are not permitted to do business related to consumer lending or deposits (Goldberg, 2002).

Representative offices are generally prohibited from conducting banking transactions. However, it provides the opportunity for contracting with parent banks and their customers for various commercial and financial transactions related to foreign markets. Regarding the market maturity of foreign bank entry, all participants (except representatives of foreign banks) believe that the capital, manpower, banking technology and basic infrastructure required at this stage will allow local banks to compete with foreign banks. We agreed that we could not compete with banks. It will take years to prepare all the above critical components. On the other hand, representatives of foreign banks argue that the market demands entry and that entry facilitates the completion of the above-mentioned components (Direslign, 2019).

According to Song (2004), banks first expanded their services abroad to support their home country customers with international transactions. With a better understanding of foreign markets and a more developed network of local financial institutions, some banks have since expanded their scope of operations to include local customers. According to this model, a foreign bank first establishes a representative office. Later, it opened a branch office and eventually a subsidiary. Establishing commercial relations with domestic banks by establishing representative offices or branches to ensure presence in new markets and successfully supervising new markets (Charalambos, 2007)

Foreign Branch: A foreign branch represents a higher commitment than a representative office or agency. The main difference between a foreign branch and a foreign subsidiary is that a branch is an entity that legally has a parent company while a subsidiary is an independent legal entity. Other differences between branches and subsidiaries relate to oversight, risk, and performance. Home country regulators oversee branches, while local regulators oversee subsidiaries. Subsidiaries are subject to local credit limits related to their capital size, while branches are not subject to local credit limits as they rely on foreign parent company capital for consolidation purposes (Naaborg, 2007).

An overseas branch is an overseas branch of a bank established abroad and represents a higher obligation than a representative office. Branches of foreign banks usually conduct wholesale business. Other countries follow the “single entity” principle, treating banks and their overseas branches as a whole and treating all creditors equally regardless of location (IMF, 2013). For example, Canadian and U.S. law permits authorities to "separate" a branch from its parent company and use its assets to meet its regulatory obligations in the host country. Canadian and U.S. law give authorities the right to seize the assets of bank branches that are closed overseas, but if a home country regulator or a third party attempts to challenge such action In particular, countries characterized by a single entity (UK) where branches cannot be separated from their parent banks (Cárdenas,2002).

Based on the real options approach, Jonse, (2004) argues that banks use economies of scale to rationally manage risk when making decisions to enter foreign markets under uncertain conditions. Doing Banks set up small offices to gain a foothold and larger offices to attract new customers and compete in foreign markets. Hasan & Marton(2000) found that when U.S. banks were expanding with large businesses, deregulation, high levels of foreign direct investment by U.S. firms, high relative foreign trade, countries with low GNP and domestic deposits should do (Naaborg, 2007).

Bank Subsidiaries: A subsidiary bank is formed separately from the parent bank and its financial obligation to the subsidiary is the invested capital. Subsidiaries are typically involved in the retail banking market. However, in some countries such as the UK, affiliates are often involved in wholesale investment banking. It is worth noting that, up until 1997, the number of foreign-affiliated banks opening branches (the establishment of foreign bank subsidiaries was almost non-existent) increased significantly for three years in a row, but since 1998 it has declined significantly. That is from 1995 to 1997 (Kim, 2005).

Establishing an Affiliate Relationship or Participating in a Joint venture: This is another method of overseas expansion. This usually involves acquiring a minority stake in a local company, and the foreign bank's involvement in the management of the local bank is usually small. A joint venture mode is formed by multiple companies. They usually have financial interests and board membership. A joint venture is an arrangement in which a company must share the capital and control of a business with a partner in an investee country. This entry-level mode requires less investment compared to other available modes. As a result, it provides risk, return, and control commensurate with an investment firm's level of ownership (Taylor, 2001).

The primary users of this type of input method belonged to the telecommunications industry. Foreign companies have used the know-how and experience of domestic companies to successfully enter this market (Sharda, 2014). The preference for affiliates and subsidiaries is evident in the need for financial institutions to provide professional banking services to their corporate clients while at the same time providing prudent market and transaction surveillance. In addition, banks enter emerging markets in host countries as neighboring companies simply by acquiring local banks and setting up subsidiaries in these countries (Charalambos, 2007).

2.6. Potential Efficiency Reform to the Banking Sector

Economic liberalization began just before the Dreg dictatorship was ousted. However, two proclamations—the Monetary and Banking Proclamation (No. 83/1994) and the License and Supervision of Banking Operations (No. 84/1994)—were made in 1994 in conjunction with the launch of the current administration's program for economic reform. The first proclamation expanded the role of the NBE and made any NBE financing to anyone other than the government unlawful; the second proclamation empowered the Central Bank to regulate financial firms.

Two other proclamations, 200/1994 and 203/1994, also reorganized and changed the names of Ethiopia's Agriculture and Industrial Bank, Housing and Saving Bank, and Construction and Saving Bank. The financial sector reform did not allow for private sector participation in the existing government-owned banks or the entry of foreign banks as partners with Ethiopian citizens in either full or restricted ownership because it was noted in the proclamations that the two banks had been re-capitalized as public enterprises.

After the financial liberalization measures of 1994, the authorities concentrated their efforts on strengthening the financial sector's capability as well as on other crucial areas of economic transition, particularly trade liberalization and further liberalization of the foreign exchange system (Amanue, 2008). Together with this institutional design of the financial industry, a number of policy changes, including adjustments to interest rates and currency rates among others, were made.

Compared to October 1992, when the distinction between public and private charging of deposit rates was erased, financial liberalization accelerated when the lending rate was decontrolled and allowed to the banks' own discretion in January 1998. The whole reform period saw a positive loan interest rate, with the notable exception of 2002–2003, which was clearly known as a catastrophic drought year. However, starting in 2002, the ceiling for saving deposit rates was set at 3.0 percent, which resulted in a negative real deposit interest rate that was prompted by the escalating inflationary pressure.

Changes to financial instruments, such as the introduction of treasury bills and the inter-bank foreign currency market, have also strengthened the liberalization of the financial system. An interbank money market structure has also been built, enabling banks and non-bank financial entities to borrow and lend at market-determined rates.

2.7. Ethiopian Government Concerns and Opposition to Liberalization

It may surprise some people that the Ethiopian government continues to be so adamantly opposed to financial sector liberalization in light of the evidence from the literature and our analysis discussed above regarding the significance of greater openness and foreign participation in enhancing financial intermediation and economic growth. The potential effects of foreign bank entry on the growth of the domestic banking sector, access to and allocation of credit, domestic savings mobilization, the country's capital account, and the ability of the central bank to regulate foreign banks and the new goods and services that they introduce to the market appear to be of particular concern to the prime minister, his economic advisors, and the cabinet of ministers.

In a partially completed manuscript titled "African Development: Dead Ends and New Beginnings," Ethiopia's Prime Minister, Meles (2007), shared his personal opinions on financial sector reform and development in Africa. It would be interesting to hear his opinions on how new reforms should be designed and how past financial reforms failed. In Section 17.2 of his Chapter 17, "Outcome of Economic Reform," he attributes the high prevalence of non-performing loans and excess liquidity in many African nations to financial sector reforms. He places the blame for this failure on the widespread lack of information used to guide bank operations (banks' inability to evaluate credit) and the lack of demand for credit from borrowers in the private sector, which resulted in excess liquidity. Additionally, he mentions that there have been wide interest rate spreads, high real interest rates, and widespread rent seeking. Excess liquidity was a sign that banks had not successfully mobilized savings and encouraged lending. The Ethiopian Prime Minister and his government, as the country's major stakeholders, have five main worries, many of which other stakeholders, such as the management of the nation's private banks and the Ethiopian Bankers Association, also share:

Foreign banks, which have more capital, more experience, and better reputations, are seen by the government as posing a threat to the development of an industry for domestic banking that is both viable and competitive. They contend (the infant industry argument) that Ethiopia's financial sector is too inexperienced and young to compete. Officials from the Ethiopian government also think that the entry of foreign banks will further slant credit allocation in favor of large-scale industrial, real estate, and service enterprises (including trade) and away from agriculture, small-scale, and cottage/micro enterprises (sectors that are prioritized by the government's development strategy). They argue that foreign banks will use foreign funds to focus their lending on major urban centers while doing little to advance the development of rural banking. They also assert that foreign banks will "cherry pick" the top businesses and industries.

Officials in Ethiopia have expressed concern about the mobilization of domestic savings, claiming that foreign banks would prefer to lend in their own or other foreign currencies and would not be interested in doing so. There is concern that foreign banks could act as conduits for the inflow and outflow of capital (through, for example, credit operations, personal capital movements, and capital and money-market transactions). This could lead to foreign exchange and/or liquidity shortages, which could have a negative impact on the capital account of the nation. Given the central bank's limited regulatory capabilities, the worry is amplified. Finally, it is firmly believed that the government cannot effectively supervise and regulate foreign banks at this time.

2.8. Empirical Evidence

2.8.1. International Evidence

Research on foreign bank entry in South East Asia was done by Philip in 2013. The OLS method was used to analyze data from five countries in South East Asia from 1998 to 2004. The researcher comes to the conclusion that countries with prosperous economies and ineffective financial systems tend to see a growth in foreign banks. On the other hand, FDI and trade that are motivated by customer-following goals have little to no effect on the existence of foreign banks in all models.

Denizer (2000) examined the impact of foreign bank presence on Turkish domestic banks. According to his empirical findings, domestic banks' net interest rate margins, returns on assets, and overhead costs all decrease when foreign banks enter the market. Even though these foreign banks had a market share of only between 3.5 and 5% during the period of 1970–1997, these findings support the idea that they exerted strong pressure on the domestic Turkish banks.

The same study was discovered by Hellmann, Murdock and Stiglitz, (2000) using data from individual bank accounting for the years 1985 to 1998 and focusing on the Colombian banking system. According to their studies, the presence of foreign banks significantly increases competition within the domestic banking system, which is demonstrated by lower intermediation spreads. However, the presence of foreign banks is also linked to a decline in the reported loan quality among domestic banks. However, Mucheru (2011) notes that domestic banks' administrative costs are rising, likely as a result of the need for these banks to improve their operations due to heightened competition. Overall, it appears that the presence of foreign banks raises the costs for Colombia's domestic banking system.

2.8.2. Local Evidence

'Is Ethiopia prepared to welcome foreign banks?' Was the topic of a study conducted by Abraham in 2009? To evaluate the data, he employed the statistical analysis technique. In his investigation, he combined primary and secondary sources. He emphasized that foreign banks won't function in the uncertain macroeconomic environment, so investment reforms must be made to entice them. Their participation would assist clients by ensuring high-quality service because there will be fierce rivalry with domestic banks. He came to the conclusion that the introduction of foreign banks brings both benefits and risks, but that the benefit outweighs the risk.

Lagasse (2012) looks at the environmental underpinning for developing financial markets in Ethiopia and identifies potential difficulties and opportunities. His main focus was on identifying the roles that financial markets may play in accelerating the Ethiopian economy as well as the environmental elements that needed to be examined and how Ethiopia's current position related to each component. Generally speaking, he exploited secondary data sources and combined qualitative and quantitative elements. The study's conclusions are thought to be of utmost significance in that they will serve as a source of knowledge for decision-makers as they work to develop financial markets in Ethiopia. As a further step, the Ethiopian government must act quickly to better research the environmental condition in order to build financial markets, comprehend the possible opportunities, and make plans for dealing with the immediate issues.

Makonnen (2017) investigated the possible outcomes of allowing international banks access to Ethiopia's banking industry. Analyzing how prepared the domestic banking sectors are to compete with new technologies and a contemporary management system was the paper's main goal. He conducted an examination of the data using statistical methods. The design was cross-sectional. He collected primary data by distributing questionnaires at random to bank personnel at various levels of the organizational structure. His respondents assert that foreign bank entry will lower costs and preserve credit for small businesses like microfinance and that local banks are ill-equipped to compete with foreign banks. They advise the creation of a strong supervisory body to safeguard the financial sector from impending crises.

Habtamu (2017) investigated the advantages and disadvantages of liberalizing Ethiopia's banking industry. The researcher made an effort to pinpoint the many opportunities that international banks would present as well as their entry barriers for domestic banks. He tried to gain understanding and come up with explanations regarding the advantages and disadvantages of foreign bank entry through the study, which used a qualitative methodology. A cross-sectional research design was used in the study. One of the conclusions from the data is that international banks could assist Ethiopia in shifting from an economy dominated by agriculture to one dominated by industry by giving small and large size businesses enough access to credit. Also, he came to the conclusion that it effectively addresses the shortage of foreign currency.

Using a descriptive statistic, Raba (2017) examines the opportunities and challenge of foreign banks entering Ethiopia. The study's conclusions demonstrate how the admission of foreign banks in Ethiopia could bring about new banking technologies, financial innovation, and financial development. Also, it improves access to global money, which might lead to domestic banks expanding abroad and increased integration of Ethiopian banks into global financial systems, allowing them to offer a wider range of services, particularly to bigger local businesses with global operations. The fierce competition with international banks, on the other hand, may endanger the existence of domestic banks, causing them to incur significant costs in the short term and experience a loss in profit. Moreover, it could cause shocks.

2.9. Research Gap

Both theoretical and empirical researches have disagreed on the impact of foreign bank entry. In theory, foreign bank entry could significantly lower the cost of credit by bringing capital, technical know-how, and product innovation to host countries, which increases competition and improves the efficiency of the banking sector. However, empirical research on the impact of foreign bank entry on the cost of funds has largely confirmed this theory.

Overall, the empirical data that is currently available seems to support the idea that increased rivalry caused by the presence of foreign banks affects how well the domestic banking system performs. How much this competition increases efficiency is less certain. Yet, at least one study (Cárdenas, 2002) indicates that after international banks entered the market, banks' costs increased. According to another study (Lensink & Hermes, 2004) depending on the recipient country's level of economic development, costs could increase in the short term. This seems to imply that there can be a trade-off between the costs and benefits of international presence for domestic banks.

The local studies done in this area can be viewed from two different angles: the first was looking at the sector from the perspective of looking at its impact on the country's pure financial sector; the second was looking at the issue of foreign banking as a determining factor for the development of the banking sector and Ethiopian economy as a whole. The developmental issue has been the main focus of previous study on the entrepreneurial teams of academic spin-offs from research institutes. The impact of foreign banking on the growth and performance of the local banking sector and the national economy has been examined primarily using a mixed-methods research technique

CHAPTER THREE

RESEARCH DESIGN AND METHOD

This part of the study discussed the research design and approach, the data types and sources, the data collection methods, the target population and sample design, the technique of records examination is and presentation, validity and reliability of the research instruments and finally the ethical consideration of the study.

3.1. Research Design

Creswell (2014) Defined research design as a plan and procedure for research that span the decisions from broad assumptions to detailed methods of data collection and analysis. This study adopted descriptive research design because according to Saunders(2012) it has been found to be beneficial to pose open-ended questions in order to learn more about what is taking place, to gain knowledge about an interesting subject, Moreover, the researcher applied survey design which provides a summarized attitude or opinion of a population by studying a sample from large population via questionnaires. Regarding the time period, the study adopted across-sectional research design in which data from the subjects was collected in a snap shot.

3.2. Research Approach

Concurrent mixed-methods research was the method of choice for this study's research approach. Concurrent mixed methods research, according to Saunders(2012) uses Quantitative and qualitative data methods during a single phase of data collection and analysis (a single-phase research design). By combining the two sets of results, the research issue can be answered in a fuller and more thorough manner. Additionally, the rationale for using both quantitative and qualitative data is to neutralize the drawbacks of using just one method of analysis and to have a better understanding of the research problem by combining both numerical values from quantitative research and the detail from qualitative research as indicated through (Creswell, 2014).

3.3. Population, Sample size and Sampling Techniques

3.3.1. Study Population

All commercial banks operating during the study period, including the National Bank of Ethiopia, are included in the research population. Of the 28 commercial banks, two are government-owned: The Commercial Bank of Ethiopia and the Development Bank of Ethiopia. The remaining 26 banks are private banks.

3.3.2. Sample Size and Sampling Technique

National bank of Ethiopia is a regulatory body for the financial sector more specifically for banks. There are 28 commercial banks in total, including two government-owned banks, the Commercial Bank of Ethiopia and the Development Bank of Ethiopia. By considering the degree of consciousness on the study topic and associated issues and to obtain relevant responses to answer the research questions, the study considered all Managers and senior expert positions of the Organizations as a target population.

Accordingly, the researcher predicted that each firm may have ten (10) senior level employees bringing the total target population for the study's consideration to two hundred eighty (280). The researcher used purposive sampling technique to select actual sample from each bank. By using a sufficient sample size and considering the degree of variability in the distribution of the phenomena under study within the reference population, the researcher attempted to maintain the accuracy of sampling estimations. Therefore, the researcher utilized random sampling to boost simple efficiency to represent the supplied target population of Two Hundred (280)

The study used Taro Yamane's formula to calculate the sample size as a result. The following is a presentation of Taro Yamane's calculating formula:

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

To find the sample size, use the formulas n=Sample Size, N=Population, e=Margin of Error, 95% confidence level, and 5% margin of error (Mark et al., 2009). Given that the researcher believes the 280 senior and management level individuals who work at the head office level of the twenty (28) organizations—ten (10) target populations each—have a good understanding of financial liberalization issues, the sample size is:

$$\mathbf{n} = \frac{\mathbf{280}}{\mathbf{1+280\ (0.05)\ 2}}$$

$$\mathbf{n} = \underline{\underline{\mathbf{164.7}}} \sim 165$$

As a result, the sample size of the study that represents the total target population of Two hundred eighteen (280) is One hundred sixty-five (165). Therefore, the total sample for this study is 183 which includes 10% contingency, since the researcher believe some questioners may be rejected due to various reasons which includes non-response and incompleteness, so the researcher increased the sample size by 10% to have a good precision for the result which obtained from the study**.**

3.4. Types and Sources of Data

Both primary and secondary sources of data were used in the study to examine the possible benefits and drawbacks of foreign banks entering Ethiopia's banking system. A questionnaire was used to collect the main data. Secondary data was collected from all relevant sources, including yearly reports, NBE directives or circulars, and other related documents from concerned body, in order to provide a more complete picture.

3.5. Data Collection Instrument

To facilitate the collection of relevant information; this study used semi-structured questionnaire with two major parts. The reason the researcher choose questionnaire is because they offer a fast, efficient and inexpensive means of gathering large amounts of information from sizeable sample volumes. These instruments work particularly well for gauging the attitudes, preferences, intentions, and behavior of the subjects. Researchers are able to collect both qualitative and quantitative data because to their usage of open and closed research questions, producing more thorough results.

The first part of the questionnaire has demographic information of the respondents' work institution, position, age, educational level and year of experience. The second part was closed ended questions that prepared to get respondents opinion on financial sector liberalization with special emphasis on entering a foreign bank and domestic bank performance. It will use a 5-point Likert scale: 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, 5= strongly agree. Finally, an open-ended question was also included to capture the respondents' additional views on the issue.

3.6. Data Processing Procedures

The data was edited, coded, sorted, analyzed, interpreted, and summarized in accordance with the respective theme of the research questions and objectives using Statistical package for social science (SPSS) version 20, then presented in a meaningful way in order to make sense of the information obtained by formal questionnaires and the review of pertinent documents. The sort of tool that was utilized in the data analysis will rely on the data type, which can be either qualitative or quantitative or both, according to Zikmund, Babin, Carr and Griffin (2010).

Quantitative data analysis involves the use of computational and statistical methods that focuses on the statistical, mathematical, or numerical analysis of datasets. It starts with a descriptive statistical phase and is followed up with a closer analysis if needed to derive more insight such as correlation, and the production of classifications based on the descriptive statistical analysis. It helps understand the details of your data by summarizing it and finding patterns from the specific data sample (Marketal, 2009). So, the researcher used descriptive statistical analysis (such as percentage mean and standard deviation)for quantitative data and content analysis is a research method that examines and quantifies the presence of certain words, subjects, and concepts in text, image, video, or audio messages. The method transforms qualitative input into quantitative data to help you make reliable conclusions (Marketal, 2009), thus the researcher used content analysis for the qualitative data.

3.7. Validity and Reliability

3.7.1. Validity

According to Mugenda and Mugenda (2003) content validity is a measure of instrument and it provides adequate coverage of the investigative questions guiding the study. For this survey, each question was given to subject matter expert analysts, and they rated it. They remarked on whether they believe the question is crucial, useful, or irrelevant for measuring the construct being studied; as a result, their feedback was used to modify and make the questions relevant for the purpose.

3.7.2. Reliability

Reliability is a measure of the extent that a research instrument yields consistent results or data after repeated trials. It is useful to assess the consistence of the results across items within a test. For this study, internal consistence of the items is checked by Cornbrash's alpha Zikmund, Babin, Carr& Griffin, (2010) explained that scales with coefficient of Cornbrash's alpha greater than 0.7 is considered as an adequate to determine reliability of the items.

Table: 3.1 Reliability statistics

S/N	Variables	Cornbrash's alpha	Number of items
1	Opportunities of foreign bank entry	0.978	7
2	Challenges of foreign bank entry	0.981	7
3	Modality of foreign bank entry	0.961	4
4	potential efficiency reform	0.986	14

Source: Survey result 2023

3.8. Ethical Considerations

All ethical concerns were considered in this research. It includes endorsements for all references in the body and references section. Therefore, no reviews or materials viewed were used without proper acknowledgment. The consent of the respondents to the questionnaire is required, whose participation is completely voluntary. A brief cover letter stating purpose/intent, security and privacy is provided along with a detailed description of the research. In addition, only the researcher and advisor will have access to their names, which will be kept confidential.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter displays the data analysis, research findings and based on the results researcher gives discussion on the findings, in addition gives some interpretation of the result. In order to presents findings and the discussion about the potential opportunity and challenge of foreign bank entry in Ethiopia's banking sector the researcher uses different form of tables and qualitative analysis done in the process.

4.2. Response Rate

183 surveys in total were given out to the National and commercial banks officials. The researcher collected 170 completed questionnaires from these respondents and the remaining 13 questionnaires were not collected because the respondents did not submit their response. This led to a response rate of 92.9%. The distributions of these respondents were summarized as follows:

Table 4.1: Response Rate

	No of Questioner	Percent
Completed	170	92.9%
Not Completed	13	7.10%
Total	183	100%

Source: Survey result 2023

4.3. Respondents Personal Profile

In the questionnaire section the researcher listed the respondent's position, ages, educational levels, and years of work experience in order to determine the respondents' demographic position. The feedback from the respondents is summarized and described in the tables below.

Table 4.2: Respondents Personal

Characteristics		Frequency	Percentage
Job Position	President/VP	5	2.94%
	Director	39	22.94%
	Experts	20	11.76%
	Manager/Team Leader/Head	76	44.70%
	Senior/Principal Officer	30	17.40%
Total		**170**	**100%**
Age	Below25	-	-
	26 – 30	56	32.94%
	31 – 35	81	47.65%
	36 -40	18	10.59%
	Above 40	15	8.82%
Total		**170**	**100.00%**
Educational levels	BA/BSC Degree	55	33.5%
	MSC/MA	110	64.7%
	Other	5	2.94%
Total		**170**	**100.00%**
Work Experience in the Bank	Below 5Years	-	-
	5-10 years	32	18.84%
	11 -15 years	68	40%
	16 -20 years	54	31.76%
	Above 20 years	16	9.4 %
Total		**170**	**100.00%**

Source: - Survey result, 2023

The study revealed that 44.70 % of all respondents work in management roles like manager, team leader, or division manager. The remaining responses are made up of 2.94% bank presidents and vice presidents across various bank, 22.94 % of directors, 17.4 % of senior officers, 11.76 % of NBE experts, and 2.94 % of bank experts. In terms of age distribution, respondents between the ages of 26 and 30 made up 32.94% of the total, while those between the ages of 31 and 35 made up 47.65%. The remaining respondents made up 10.59% and 8.82% of respondents in the age ranges of 36 to 40 and over 40, respectively. (Table 4.2)

As shown in table 4.2 above 64.7% have second degrees or more, 33.5% have first degree and 2.94% have others. With regards to familiarity with the topic 9.4% of respondents have more than 20 years of experience working in the banking industry, 31.76% have 16–20 years, 40% have 11–15 years, and the remaining 18.84% have 5–10 years of experience. This shows that most survey participants have a thorough understanding of how the banking sector functions. The respondents' backgrounds as a whole suggested that they had knowledge of banking, expertise, and experience that they could answer to inquiries and express their opinions. (Table 4.2)

4.4. Perception about Foreign Bank Entry in Ethiopian

Table 4.3: Feeling of senior managers

Feeling of senior managers	Frequency	Percent
not good	79	46.47%
Stressed	41	24.12%
Indifferent	35	20.59%
Good	15	8.82%
Total	170	100

Source: Survey result 2023

The fact that out of a total of 170 respondents, 46.47% and 24.12% respondents feel ‘not good’ and ‘stressed’ respectively Suggests that the preponderance of senior management at those institutions is dissatisfied, as shown by table 4.3 above on the other side the remaining (20.59%) respondents, are Indifferent, while 8.82% of the respondents feel good. The outcome suggests that, senior bank executives typically experience discomfort (Table 4.3).

4.5. Descriptive Analysis

4.5.1. Possible Opportunity of Foreign Bank Entry

The determination of this study was to examine the potential opportunity and challenge associated with the admission of international banks into Ethiopia's banking system in the current economic climate. Level of agreement or disagreement of respondents with potential opportunity of foreign banks entering your bank in the current state of the Ethiopian banking industry in general is summarized in table 4.4.

Table 4.4 Possible opportunities of foreign bank entry

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree.		Total	Mean	Std. Deviation
	F	%	F	%	F	%			F	%			
Introduce new financial innovation	4	2.33	7	4.17	6	3.5	34	20	119	70	170	4.5118	.92460
Accelerate the economies of scale	10	5.88	15	8.82	22	12.94	50	29.41	73	42.94	170	3.9471	1.20287
Develop the financial market	5	2.94	6	3.52	20	11.76	61	35.88	78	45.88	170	4.3059	.79976
Improve the financial system infrastructure	1	0.58	5	2.94	15	8.82	69	40.58	80	47.06	170	4.1824	.97710
Attracts foreign direct investment	3	1.76	4	2.35	8	4.7	75	44.12	80	47.06	170	4.3235	.81845
Enhanced competition	4	2.35	5	2.94	17	10	68	40	76	44.7	170	4.3706	.94729
Better risk management technology	1	0.59	7	4.11	13	7.64	119	70	30	17.65	170	4.1176	.76013
Overall mean of opportunities of foreign bank entry												4.25127	0.9186

Source: Survey result 2023

The study revealed that regarding 'Introduction of new financial innovation', the majority of responders with 70 % of them strongly agreeing and 20 % agreeing. Neutral opinions regarding Introduce new financial innovation were expressed by 3.5% of the whole population. The remaining 4.17% and 2.33% disagree and strongly disagree, respectively. Mean and standard deviation (M=4.5118, SD=.92460) also show very high level. The outcome suggests that, if Ethiopia allows foreign banks to conduct business here, they potentially bring new financial innovation to the financial market since those banks have various exposures in various economies they operate (Table 4.4)

Regarding the respondents' perception on 'how foreign banks' involvement in Ethiopia's banking sector will speed up the use of economies of scale' 42.94% strongly agreed, 29.41% agreed, while 12.94% of them voiced neutral thoughts. The remaining 25.88% and 8.82%, respectively, strongly disagree and disagree. Mean and SD (M=3.9471,SD=1.20287) also shows high level The overall survey result indicated that foreign banks entry into Ethiopia will hasten economies of scale (Table 4.4).

According to the survey's findings, 35.88% strongly agreed and 45.88% agreed that 'the financial market should be developed'. If Ethiopia permits international banks to conduct business there, 11.76% of respondents said they have a Neutral opinion on the matter. The remaining respondents, who made up 2.94% and 3.52% of the total, disagree and strongly disagree, respectively Mean and SD (M=4.3059, SD=.79976) very high level. The results indicate that foreign banks' introduction into the financial market grows the interbank market and draws in business from clients who would have otherwise chosen to do business with foreign banks in other nations (Table 4.4).

According to the participants' responses in this study, 47.06% of them strongly agreed, and 40.58% agreed, while 8.82% of the respondents expressed neutral attitudes about 'improving the financial system infrastructure'. The remaining 0.58 percent and 2.94 percent, respectively, strongly disagree and disagree. Mean and SD (M=4.1824, SD=.97710) show high level The findings of this study points to the admission of foreign banks assistances to close the development gap, strengthen the financial system's infrastructure by better transferring knowledge and skills to the local financial sector (Table 4.4).

The strong belief that the admission of foreign banks will attract foreign direct investment is shared by roughly 47.06% of survey respondents, and 44.12% of respondents strongly agree and agree respectively. The aforementioned assertion was, however, strongly and partially rejected by 1.76% and 2.35% of respondents, respectively. The mean and standard deviation (M=4.3235, SD=.81845) also shows very high level the results of this poll show that respondents believe that the presence of foreign banks will draw foreign direct investment. The remaining 4.7% of respondents, however, did not concur with either party's stance (Table 4.4).

On a scale of strongly disagree to strongly agree, the respondents' responses to the question of whether the presence of foreign banks would increase competition were 44.7% and 40%, strongly agreed and agreed respectively. However, 2.35% and 2.94% of respondents disagreed strongly and disagreed, respectively, while the remaining 10% of respondents did not agree or disagree. Mean and standard deviation (M=4.3706, SD=.94729) results also depicted very high level the findings imply that rivalry among domestic and international banks has risen. (Table 4.4)

With the claim that the entry of foreign banks will result in better risk management technology for domestic banks, 17.65% and 70% of respondents highly agree and agree respectively with the statement, while 0.59 and 4.11% of respondents strongly disagree and disagree with it, and 7.64% of respondents don't know how they feel about it. Mean and standard deviation (M=4.1176, SD= .76013) shows high level this indicates that the majority of respondents were in agreement that the entry of international banks will improve the country's risk management skills (Table 4.4). In general table 4.4 above depicts, very high opportunity from foreign banks entry into Ethiopia’s banking industry, as indicated by the overall mean value of 4.25127.

4.4.2 Possible Challenges of Foreign Banks Entry

The Level of agreement/disagreement of the respondents with regard to the potential negative impacts of foreign banks entry to their bank and to the current situation of Ethiopian banking sector in general the summery are provided in table 4.5

Table 4.5: possible challenges of foreign banks entry

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree.		Total	Mean	Std. Deviation
	F	%	F	%	F	%			F	%			
Lack of interest by foreign banks to mobilize Domestic capital	5	2.94	30	17.64	58	34.12	40	23.53	37	21.76	170	3.4353	1.10349
the infant industry argument	4	2.35	12	7.06	19	11.17	73	42.94	62	36.47	170	4.0353	1.00233
Skewed credit from small and medium Enterprise	4	2.35	18	10.59	45	26.47	78	45.88	25	14.71	170	3.6000	.94462
limited supervisory capacity	11	6.47	13	7.65	23	13.53	83	48.82	40	23.53	170	3.7529	1.09767
Capital outflow	0	0	8	4.7	16	9.41	44	25.88	102	60	170	4.4118	.84677
Foreign banks get higher interest margins	6	3.53	28	16.47	60	35.29	30	17.64	46	27.01	170	3.4824	1.15755
FB capture significant part of the international trade	3	1.76	10	5.88	22	12.94	57	33.5	78	45.88	170	4.1588	.98122
Overall mean of the challenges of foreign bank entry												3.8395	1.01909

Source: Survey result 2023

As depicted in table 4.5 above, 21.76% of respondents strongly agreed, 23.53% agreed, while 34.12% of them expressed neutral opinion to the statement ‘Lack of interest by foreign banks to mobilize Domestic capital’. The remaining 2.94% and 17.64% disagree and strongly disagree to the same statement. The mean and SD (M=3.4353, SD=1.10349) result also indicates high level the result shows that there is a chance that domestic capital will be mobilized if international banks are allowed to operate. Ethiopian officials have raised concern over the mobilization of local funds in light of the aforementioned circumstances, arguing that foreign banks would prefer to lend in their own or other foreign currencies and would not be inclined to do so. (Table 4.5)

The respondents were asked to rank the infant industry argument; accordingly 79.4% of the respondent agree and strongly agree together, (42.94% agree and 36.5% strongly agree) while 11.1% gave neutral responses. The remaining 2.50% and 7.06% strongly disagrees, and disagrees respectively to the same statement. Mean and SD (M=4.0353, SD=1.00233) value also indicated high level the findings indicate that if foreign banks are allowed to operate, it might be necessary to protect the inexperienced domestic financial industry (Table 4.5).

According to the survey results, 45.88% of participants agreed, 14.71 % strongly agreed, and 26.47% had no opinion regarding statement which says '.Skewed credit from small and medium Enterprise'. On the other hand, the remaining 2.35% and 10.59% of all respondents disagreed and strongly disagreed about the risk that international banks pose to tilt credit away from SME, respectively. The mean and SD (M=3.6000, SD=.94462) values still shows high level. According to the study's findings, respondents think that the entry of foreign banks will further skew credit allocation in favor of large-scale industrial, real estate, and service enterprises (including trade) and away from agriculture, small- and cottage-sized businesses, and microbusinesses—sector priorities for the government's development strategy. They claim that international banks will primarily use foreign cash to lend in large urban centers, doing nothing to advance the development of rural banking. They also claim that foreign banks will "cherry pick" the greatest businesses and industries. (Table 4.5)

According to the survey, 48.82% of respondents agreed and 23.53% strongly agreed that the 'supervisory capability was too limited', even though 13.53% of the respondents express neutral thoughts. The remaining 6.47% and 7.65% strongly disagree and disagree respectively. The mean and SD (M=3.7529, SD=1.09767) response of respondents indicated high level the result indicates that, if foreign banks are permitted, this problem necessitates a step to strengthen the supervisory capacity. The respondents, who emphasized the effectiveness of NBE bank monitoring, were adamant that "the authorities will be unable at present to regulate and supervise foreign banks effectively." Therefore, this is where the need for a lot of work rests. (Table 4.5)

The most significant danger is determined to be ‘the fear of capital flight’ as a result of foreign bank entry, with 25.88% and 60% of respondents strongly agreeing and agreeing, respectively. The remaining 9.41% of respondents provided a "Neutral" rating, while the remaining 4.7% disagreed. The mean and SD (M=4.4118, SD=.84677) results also depicted very high level. The outcome suggests that the greatest impact that foreign banks would have if they were now permitted to operate would be the fear of capital flight. The officials further clarify how foreign banks might act as conduits for both inbound and outward capital flows (via, for example, capital and money-market transactions, credit operations, personal capital movements, etc.) in addition to the aforementioned conclusion. Lacks of foreign currency and/or liquidity could result from this, which could have a negative impact on the capital account of the nation. Given the central bank's weak regulatory capabilities, the worry is amplified. (Table 4.5)

The survey found that respondents were divided on the topic of foreign banks receiving greater interest margins, with 35.29% of the public overall expressing neutral sentiments and 27.01% strongly agreeing and 17.64% agreeing. The remaining 3.52% and 16.47%, respectively, strongly disagree and disagree. The mean and SD (M=3.4824, SD=1.15755) results also depicted average level as the findings demonstrate, greater interest margins may be obtained if foreign banks are allowed to conduct business there (Table 4.5).

According to Table 4.5 above, out of the total respondents, the majority respondents (45.88% strongly agreeing and 33.5% agreeing) have attempted to explain their fear that domestic banks may exit the market because they lack the ability to generate foreign currency on their own except through exporters and foreign remittance transfer companies, even though 12.94% of the population has neutral opinions. Contrary to the aforementioned respondents, however, 1.76% and 5.88% of respondents stated that they strongly disagree and disagree with the statement, respectively. The mean and SD (M=4.1588, SD=.98122) results also depicted high level The results indicate that foreign banks will likely control a sizable portion of the banking sector's international trade finance business if they are allowed to operate (Table 4.5). In general table 4.5 above demonstrates average, high and very high challenges from foreign banks entry into Ethiopia’s banking industry, as indicated by the overall mean value of 3.8395.

4.4.3. Modality of Entry by Foreign Banks to Our Banking Industry

The Level of agreement/disagreement of the respondents with regard to Modality of entry by foreign banks to our banking industry would be summarized and are provided in table 4.7 below.

Table 4.6: Modality of entry by foreign banks to our banking industry

	Frequency	Percent
Joint Venture arrangement	79	46.47%
subsidiaries of a parent foreign bank	18	10.58%
branches of a foreign bank	26	15.29%
Fully foreign owned banks	38	22.35%
No recommendation	9	5.29%
Total	170	100%

Source: Survey result 2023

The plurality of respondents, or 46.47%, advocated for foreign banks to enter Ethiopia's banking system through joint ventures, however just 22.35% advocated for foreign banks that are entirely owned by their home countries.15.29% favor building a branch in Ethiopia, 10.58% favor having them function as subsidiaries of a foreign bank's parent company, and 5.29% are undecided. The findings of this study suggest that joint venture arrangements be put into place since they will enable local banks to acquire capital, technology, and expertise in international banking while maintaining ownership of the firm. (Table 4.6)

4.4.4. Potential Efficiency Reforms for the Economy as a whole

The Level of agreement/disagreement of the respondents with regard to If foreign banks will be allowed to operate in the current situation of the country, the next potential efficiency reforms for the economy as a whole has been summarized and are provided in table 4.7 below

Table 4.7: Potential efficiency reforms for the economy as a whole

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree.		Total	Mean	Std. Deviation
	F	%	F	%	F	%			F	%			
Improve financial regulation	5	2.94	10	5.88	28	16.47	70	41.18	57	33.53	170	3.9647	1.00233
Introduce other financial activities	3	1.76	3	1.76	5	2.94	60	35.29	99	58.24	170	4.4647	.79305
Enhance the overall stability of the economy	6	3.53	28	16.47	50	29.41	51	30%	35	20.58	170	3.4765	1.09977
International banking practice	3	1.76	10	5.88	22	12.94	57	33.5	78	45.8	170	4.1588	.98122
Overall mean response of efficiency reforms												4.01617	0.96909

Source: Survey result 2023

According to table 4.7, the majority (74.71%) of respondents believe that foreign banks' presence will enhance financial regulation in the nation. 33.53% of those who strongly agree with the statement and 41.18% of those who agree support it. While 5.88% and 2.94% of respondents disagree and strongly disagree with the statement, respectively; 16.47% of respondents remain neutral on the statement, meaning they are unsure of whether it actually enhances the financial regulation of the nation. The mean and SD (M=3.9647,SD=1.00233) results also depicted high level The results indicate that foreign banks' entry will enhance Ethiopia's financial regulation; however, 8.82% of respondents disagree, believing that foreign banks' entry will not enhance Ethiopia's financial regulation. (Table 4.7)

Large number (58.24%) of respondents said they strongly agreed that foreign banks can introduce other financial activities. The next highest percentage of respondents, 35.29%, also agreed with those views on the potential benefits, while 2.94% of the respondents were undecided about whether foreign banks can introduce other financial activities or not. In the opposite direction, 1.76 % of the study's participants strongly and partially disagreed with the notion that the entry of foreign banks precedes the emergence of other financial activities. The mean and SD. (M=4.4647, SD=.79305) results also depicted very high level The finding shows that more financial activities will be introduced as a result of foreign banks' arrival (Table 4.7).

The respondents' responses to the question of whether allowing foreign banks in would enhance the overall stability of the domestic banking sector were conflicting. A sizable portion of respondents, 29.41%, are indifferent regarding the influence it will have on stability, while 20.58% and 30% strongly agree and agree, respectively, and 16.4% and 3.53% disagree and strongly disagree. The aggregate result with 50.8% of respondents and the mean and SD (M=3.4765, SD=1.09977) results also depicted high level the respondents believe reveals that it will lead to stability, while the rest respondents either are unsure or believe it has no bearing on stability. (Table 4.7)

According to the survey, the majority of respondents agreed, with 45.88% strongly agreeing and 33.5% agreeing, while 12.94% of the population overall expressed neutral thoughts. 1.76% and 5.88% of respondents, in contrast to the aforementioned respondents, revealed that they strongly disagreed and disagreed respectively with the statement which says 'The mean and SD' This suggests that the mean and SD (M=4.1588, SD=.98122) results also depicted high level foreign banks have a variety of experience, competence, and technology; therefore, if Ethiopia allows foreign banks, they will convey their extensive knowledge of international banking, which is derived from their experience operating in a variety of nations (Table 4.7). In nutshell table 4.7 above demonstrates, average/high/very high realization of efficiency reforms for the economy as a whole from foreign banks entry into Ethiopia's banking industry, as indicated by the overall mean value of 4.01617

4.4.5.Potential banking sector efficiency reforms

The Level of agreement/disagreement of the respondents with regard to If foreign banks are allowed to operate in the current situation, the next potential banking sector efficiency reforms summery are provided in table 4.8

Table 4.8: potential banking sector efficiency reforms

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree.		Total	Mean	Std. Deviation
	F	%	F	%	F	%			F	%			
Lower possible banking crises	3	1.76	5	2.94	14	8.24	67	39.4	81	47.67	170	4.2824	.87180
Provide a more stable source of credit	7	4.1	24	14.11	47	27.65	70	41.18	22	12.94	170	3.4471	1.02057
Introduce new products and services	0	0	0	0	0	0	84	49.41	86	50.58	170	4.5059	.50144
Introduce a better supervision	6	3.53	28	16.47	30	17.64	60	35.29	46	27.01	170	3.6588	1.14667
Introduce better disclosure	3	1.76	11	6.47	25	14.71	97	57.06	34	20	170	3.8706	.86740
Transfer of know how	3	1.76	10	5.88	22	12.94	57	33.5	78	45.8	170	4.159	.9812
Transfer of good banking practice	5	2.94	6	3.52	20	11.76	61	35.88	78	45.88	170	4.1824	.97710
Encourage consolidation of bank	3	1.76	10	5.88	21	12.35	70	41.18	66	38.8	170	4.0941	.94991
Overall mean of banking sector efficiency reform												4.02503	0.91451

Source: Survey result 2023

According to the survey, the majority of respondents 47.67% strongly agreed and 39.4% agreed were concerned about lower-possible financial crises, while 8.24% of the population overall voiced neutral attitudes. The remaining fractions are 1.76% strongly disagrees and 2.94% disagree. The mean and SD (M=4.2824, SD=.87180) results also depicted very high level The findings suggest that if foreign banks enter the market, the likelihood of a banking crisis will be reduced because those foreign banks have experience and know how to handle risks. (Table 4.8)

The survey found that of those who responded, 12.94% strongly agreed and 41.18% agreed that foreign banks would provide a more stable supply of credit, while 27.65% of the population overall expressed neutral attitudes. The remaining 4.1% strongly disagree and disagree, while the remaining 14.11% agree. The mean and SD (M=3.4471, SD=1.02057) results also depicted high level According to the results above, the majority of respondents think that if foreign banks are permitted, a more reliable source of credit may become available. (Table 4.8)

The efficiency reform that must be implemented in order to introduce new goods and services there was not a single opposing or neutral viewpoint on this measure. Therefore, a scale of "agree and strongly agree with 100% vote" was discovered to be used by all respondents. A total of 50.58% of respondents strongly agreed and 49.8% of the total respondents agreed. The mean and SD (M=4.5059, SD=.50144) results also depicted very high level the results above show that foreign banks will be launching new goods and services if Ethiopia lets them. (Table 4.8)

Concerning foreign banks Introduce better supervision. According to the poll, 27.01% of respondents strongly agreed, 35.29% agreed, and 17.64% of respondents overall had neutral attitudes. The remaining 3.52% and 16.47%, respectively, strongly disagree and disagree. the mean and SD (M=3.6588, SD=1.14667) results also depicted high level The above conclusion shows that, given that those international banks operate in different countries around the world and that each of those countries has a different amount of control over how to track capital inflows and outflows, it is necessary to introduce greater supervision in order to carry out such monitoring. (Table 4.8)

According to the survey, most respondents agreed that better disclosure should be introduced, with 34% strongly agreeing and 57.06% agreeing, while 14.71% of the population overall expressed neutral sentiments on the subject. The remaining 6.47% strongly disagree, while 1.76% disagrees. The mean and SD (M=3.8706, SD=.86740) results also depicted high level the findings indicate that foreign banks should implement stronger disclosure. (Table 4.8)

According to Table 4.8 above, the majority of respondents had opinions that were either neutral or strongly agreed, with 45.88% of the entire population strongly agreeing and 33.5% agreeing. 1.76% and 5.88% of respondents, in contrast to the aforementioned respondents, said they strongly disagreed and agreed with the statement, respectively While 12.94 % of respondents expressed neutral views on the issue. the mean and SD (M=4.159, SD=.9812) results also depicted high level This suggests that foreign banks have a range of skills, experience, and technology; therefore, if Ethiopia permits foreign banks, they will share their extensive know-how, which comes from their experience operating in a range of nations. (Table 4.8)

If Ethiopia allows international banks to operate there, they will transfer sound banking practices, according to the survey results, which show that 45.88% agreed and 35.88% strongly agreed, while 11.76% of respondents expressed neutral views on the issue. The remaining respondents, who made up 2.94% and 3.52% of the total, disagree and strongly disagree, respectively. the mean and SD (M=4.1824, SD=.97710) results also depicted high level The overall finding indicates that, given that foreign banks operate in diverse countries, there will be a decent banking practice transfer if they enter the Ethiopian banking sector. (Table 4.8)

Respondents to the survey give their opinions on whether international banks are allowed to operate in Ethiopia's banking system Promote the fusion of banking services with despite the fact that 5.88% of respondents disagreed and 1.76% strongly disagreed, a scale of 38.8% strongly agreed and 41.18% agreed. 12.35% of respondents indicated they did not agree or disagree. Consolidation of banking services is recommended as the final accepted response. the mean and SD (M=4.0941, SD=.94991) results also depicted high level This shows that foreign banks with diverse resources get the benefits of economies of scale, which force cost reductions on the home economy (Table 4.8).

In summary table 4.8 above demonstrates high/very high banking sector efficiency reforms …. From foreign banks entry into Ethiopia’s banking industry, as indicated by the overall mean value of…4.02503

4.4.3. Impact will it have on the performance of Ethiopia’s domestic banks

The Level of agreement/disagreement of the respondents with regard to If foreign banks are allowed to operate in the next five years, the impact it has on the performance of Ethiopia's domestic banks. The summery are provided in table 4.9

Table 4.9: Impact will it have on the performance of Ethiopia's domestic banks

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree.		Total	Mean	Std. Deviation
	F	%	F	%	F	%	F	%	F	%			
Foreign banks reduce local banks market share	3	1.77	11	6.47	15	8.82	50	29.41	91	53.53	170	4.2647	.98836
Foreign banks attract qualified staffs	0	0	0	0	5	2.94	85	50	80	47.06	170	4.4529	.55536
Foreign banks reduce local bank credibility	0	0	4	2.35	9	5.29	80	47.06	77	45.29	170	4.3529	.69155
Foreign banks reduce local bank total growth	0	0	6	3.52	34	20	71	41.76	59	34.7	170	4.0765	.82851
Foreign banks reduce local bank total growth asset	3	1.76	10	5.88	21	12.35	70	41.18	66	38.8	170	4.0941	.94991
Foreign banks reduce local banks lending growth	8	4.71	34	20	21	12.35	82	48.24	25	14.7	170	3.4824	1.11059
Overall mean of impacts of FBE on domestic banks performance												4.12058	0.854046

Source: Survey result 2023

With regard to foreign banks' entry and local banks' market share, the majority of respondents 82.74% were above average, which is corroborated by the statements' overall agreement rates of 29.41% and 53.33%.8.82% of respondents have an unfavorable opinion of the remark, while 6.47% and 1.77% of respondents strongly disagree with it. The mean and SD (M=4.2647, SD=.98836) results also depicted very high level the finding suggests that international banks may decrease the market share of domestic local banks. (Table 4.9)

The majority of respondents, with a scale of 47.06% Strongly Agree and 50% Agree, believe that international banks will recruit qualified people if entry into the Ethiopian banking sector is approved, while the remaining 3% of respondents were neither disagree nor agree. The mean and SD (M=4.4529, SD=.55536) results also depicted very high level This finding suggests that as a result of those international banks entering the market; wages in the banking sector will increase, attracting talented personnel. (Table4.9)

According to the respondent response, the introduction of foreign banks into Ethiopia reduces the credibility of local banks. Of the survey participants, 45.29% strongly agree and 47.06% agree, while 5.29% indicate they are unsure of their opinions. Contrarily, 2.35% of the study's participants reject the opposition's justification. The mean and SD (M=4.3529, SD=.69155) results also depicted very high level This study's findings indicate that international banks may lessen the credibility of local banks because their services are so much better than those of local banks. This is because they frequently operate in several nations, have substantial cash, diversify their risks, use cutting-edge technology, utilize a variety of infrastructures, and have a large loan portfolio. (Table4.9)

If foreign banks were allowed to operate, respondents were asked to rate how much the growth of local banks would be reduced by foreign banks, and their responses were scaled as follows: Strongly agree 34.7 percent, agree 41.7 percent, and neither agree nor disagree 20% of respondents. 3.52 % of those who took part in the study disagree, nevertheless. The mean and SD (M=4.0765, SD=.82851) results also depicted high level the finding suggests that international banks may limit the total growth of domestic banks. (Table4.9)

Foreign banks would diminish local banks' overall growth assets if they were allowed to operate in Ethiopia's banking sector, according to survey respondents. However, 5.88% of respondents and 1.76% of respondents strongly disagreed with this statement. 12.35% were neither Agree nor Disagree, leaving the rest. the mean and SD (M=4.0941, SD=.94991) results also depicted high level This finding suggests that the arrival of foreign banks in Ethiopia will reduce the overall growth asset of local banks since they compete for the same clients as local banks and concentrate on lending to big businesses and international trading companies. (Table, 4.9)

The survey's findings suggest that international banks may hold back on increasing lending. With a scale of 48.24% agree, 14.7% strongly agree, and 12.35% had an unresolved opinion, the majority of respondents (62.94% of the population) scored above average. The remaining 20% and 4.71% of respondents indicated they strongly disagreed and disagreed. the mean and SD (M=3.4824, SD=1.11059) results also depicted high level These show that foreign banks have the power to reduce domestic banking industry loan growth and market share (Table 4.9).

In general table 4.9 above demonstrates, high or very high Impact on performance of Ethiopia's domestic banks from foreign banks entry into Ethiopia’s banking industry, as indicated by the overall mean value of4.12058333

4.4.7 Analysis of Opinions on Open Ended Part of the Questionnaire

From the total number of respondents 30% of them disclosed their opinions on open ended part of the questionnaire on various study topic related issues. This part qualitatively analyzes those opinions in general.

Before allowing entry of foreign banks respondents suggested that NBE should give sufficient time and support to domestic banks to develop the necessary technology, capital and skilled manpower. NBE shall first reform private banks ownership and brings banks together for a common purpose or forcing them to merge. In addition, regulatory capacity of NBE should be one of the priority areas that need to be strengthen and enhance its capacity through redesigning its rules and regulation with global standards. Respondents also address the country infrastructure development should be taken as a main focused area of the government. (Survey, 2023)

In case of foreign banks entry modality, it was put out that NBE has to improve its capacity and ensure that the existing domestic banks are well equipped to compete with foreign banks before letting the door open. The best modality is joint venture in which the lion share has to be in the hand of local banks to prevent cream-skimming behavior by foreign bank and open the banking industry on phase by phase bases with proper supervision to secure the status of domestic banks. Just in some instances one of the allowed banks seems to violate the regulations immediate actions should be taken

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This thesis has reviewed various theoretical and empirical literatures on opportunity and challenge of foreign bank entry to Ethiopian banking sector. Accordingly, on the previous chapters it tried to identify the possible opportunity, challenges of foreign banks entry and potential banking sector efficiency reforms. Moreover, it has shown the best modality of foreign banks entry. As a result of the analysis and interpretation on the mentioned issues, this final chapter presents the summary, conclusions and recommendations based on the study findings and analysis.

5.2. Summary of Findings

Through analyzing the respondents' response the researcher has identified significant number of respondents have positive attitude towards foreign banks entry in Ethiopia. With more than (90 %) respondents who agreed foreign bank entry will bring new innovative banking services or products and attracts foreign direct investment (91.18%).Most respondents believe foreign bank entry will develop the financial market (80%), improve the financial system infrastructure (87.64%), enhance better risk management technology (87.65%), enhance competition among banks (84.7%), and will accelerate the economies of scale (72.35%). Overall foreign banks entry into Ethiopia's banking industry has brought potential opportunities, as indicated by an overall mean response (m=4.251271) of respondents.

There is a concern/consensus that domestic banks will face a challenging situation at time of foreign banks entry. Large number of (more than 70%) respondents believes that foreign bank entry will capture significant part of the international trade, the infant industry argument (79.41%); there will be Capital outflow (85.88%) and Limited supervisory capacity (72.35 %.) be a challenge. Furthermore, more than 50% of respondents believe lack of interest by foreign banks to mobilize domestic capital, skewed credit from small and medium Enterprise (60.59%)

and foreign banks get higher interest margins (44.65%) will be the expected challenge. The overall mean (mean=3.8395) response also shows there will be challenges, especially for infant domestic banks of Ethiopia from entry of the giant foreign banks in the banking sector of the country.

One of the strategies many countries applied to strengthen their domestic banks are deciding on the best entry modality of foreign banks. Accordingly, it is noted that majority of respondents confirmed that (46.47%) advocated for foreign banks to enter Ethiopia's banking system through joint ventures, compared to 22.35% of respondents who advocated for foreign banks that are entirely owned by their home countries. So, the best modality for the entry of foreign banks in to Ethiopian banking sector is through joint venture

Also, the study finds that what areas banks and NBE should improve before allowing entry of foreign banks. Results of the questionnaire shows that large number (80%) of the respondents supported for foreign banks entrance will reduce local banks market share, credibility and total growth moreover will attract qualified staffs. More (75%) respondents backed for foreign banks entrance will Lower possible banking crises, Provide a more stable source of credit, Introduce a better supervision, Introduce better disclosure, Transfer of knowhow and Encourage consolidation of bank.

5.3. Conclusion

For a country like Ethiopia whose majority of the commodities is imported having enough sock of hard currency is very essential; moreover, most of the raw materials that we use for the manufacturing companies are imported from abroad. Since, these all are true, allowing those foreign banks to join the market may probably solve the countries common problem of foreign currency. Furthermore since foreign banks have advanced technology and financial systems, their entrance may improve the existing financial infrastructure of the country; in addition to this since the country is in striving to transform its economy from agriculture to industry many of the established whether small scale or large scale firms need working capital, hence such foreign banks could provide enough credit access. Additionally as the result of foreign banks entry the quality service in the financial sector will be improved; more credit supply will be offered than before and banking sector service will be more efficient that will result in enhancing customer satisfaction, competition among banking will be more and foreign banks will advance risk management capabilities in the nation

However, in the current situation of the regulatory body i.e. NBE have a limited supervisory capacity to control foreign banks since some of the activities of those foreign banks need extra expertise and technology which leads to high capital investment to have the required HR and technologies. In addition to the above potential risks most of the time foreign banks are interested to work with large scale firms which operates in foreign trade and those firms which operates in activities which requires high investments and return like real estate business. Furthermore, foreign banks will capture a significant part of the international trade finance operation of the banking sector and get higher interest margins unless care is taken these international banks may swallow the local banks within short period of time and make them out of market, Furthermore, since they are internationally working organizations they are not always successful, hence their crises in another edge of the world may affect the host country's economy. Apart from these, due to their advanced technology and unknown base, once they control the country's financial system they may be out of control of the government; the inability to regulate and manage the foreign banks might lead to malpractices by foreign banks that will harm the finical industry of the host country.

From this research finding, it can be concluded that the potential efficiency reform to the bank sector due to foreign bank entry in Ethiopia includes transfer of their vast knowledge which and "Introduce a better supervision, since those foreign banks operates in various country in the world and the level of control in each of those country is different should be a mechanism to track inflow and outflow of capitals, therefore to do such monitoring there must be an introduction of better supervision by the NBE and this will support the national bank to strengthen the current supervision, the other potential reform to the bank sector will be, lower possible banking crises, here those foreign banks are well experienced and they also know how to manage risks. There is also a good transfer of banking practice by those foreign banks since they have various expertises during their operation in various countries. They also introduce better disclosure and they encourage consolidation of banking service

5.4. Recommendation

Taking findings of the study and conclusion drawn above, and the county's current economic situation into account the researcher recommends the following points

- To obtain the benefits of foreign bank entry and minimize its potential costs, policymakers need to pay attention to the timing of the liberalization process and ensure adequate regulation and supervision is in place before they allow the foreign banks in the market.

- The government is advised to give due consideration in allowing specialized foreign banks which have more knowledge in stock market, investment banking and which has a willing to finance the agricultural sectors, small, medium and large-scale industries and Up on entry of foreign banks Joint Venture arrangement be implemented.

- National bank of Ethiopia (NBE) and other governmental bodies needs to build the capacity of their staffs and their procedures to accommodate the need of additional expertise and techniques during supervision of the bank sector after the foreign banks enter in to the market.

- The local/domestic banks need to upgrade themselves with technologically and expert wise to cop up with those giant foreign banks with huge capital, latest technology, network and experts before the foreign banks enter in to the market.

- Ethiopian domestic financial institutions better get prepared to design a strategy to enable them competes with the inevitable arrival of foreign banks to the Ethiopian financial market by initiating the negotiation process for possible merger to form three or four new big commercial and investment banks.

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St Mary University

Masters of Science in Accounting and Finance

Questionnaire on “Opportunity and challenges of foreign bank entry to Ethiopian banking sector”

Dear Respondents,

This questionnaire is designed to analyze the Opportunity and challenges of foreign banks entry in Ethiopia. This study is conducted in partial fulfillment of the requirements for the Masters of Arts degree in Accounting and Finance at St. Mary University.

Your response is vital to the outcome of the study and you are requested to completely and objectively answer all questions. The research is going to be carried out based on your responses and other relevant data that could support it. It forms a major part of the research so you will enable the researcher to critically analyze and answer basic research questions which the researcher raised in this study.

Your cooperation to respond genuinely is very important to this study because it represents in the sample. Please answer all questions. Space is provided at the end of the questionnaire for you to add further explanations or comments. I would promise that all information you provide would be strictly confidential and used for the academic purpose only.

Please tick **(X)** or provide your own answers where applicable.

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

PART1.General Information and Demographic Background of Respondents

1.1. Name of your bank/institution____

1.2. Your current Job/Position ________________________________

1.3. Age

□Less than 25 Years

□26-30Years

□31-35Year

□36-40 Years

□Over 40 Years

1.4. Educational Background

□ BA/BSC Degree

□ MSc/MA

□ Other Specify

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

□ <5Years

□ 5 to 10Years

□ 11 to 15 Years

□ 16-20 Years

□ > 20 years

1.6. What does your feeling with the view that foreign banks will enter Ethiopian bank industry?

□ not good

□ Stressed

□ Indifferent

□ Good

PART2: Questions **Related to the major variables of the study**

Please make(x) mark in the appropriate option that show your view, by using the rating scale of 5-points ranging from" strongly disagree "to" strongly agree ".1 =Strongly Disagree ,2=Disagree ,3=Neutral ,4=Agree,5=Strongly Agree.

A) Questions related to possible positive impacts of foreign bank entry

What would be your level of agreement/disagreement with regard to the potential positive impacts of foreign banks entry to your bank and to the current situation of Ethiopian banking sector in general? Please, provide your view point for each statement in the table below.

Entry of foreign bank in our bank industry help to	**1**	**2**	**3**	**4**	**5**
Introduce new financial innovation					
Accelerate the economies of scale					
Develop the financial market					
Improve the financial system infrastructure					
Attracts foreign direct investment					
Enhanced competition					
Better risk management technology					

Any other comment / suggestion; please State

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B) Questions related to possible negative impacts of foreign bank entry

What would be your level of agreement/disagreement with regard to the potential negative impacts of foreign banks entry to your bank and to the current situation of Ethiopian banking sector in general? Please, provide your view point for each statement in the table below.

Foreign bank entry in our banking sector will result in:	**1**	**2**	**3**	**4**	**5**
Lack of interest by foreign banks to mobilize Domestic capital.					
The infant industry argument					
Skewed credit from small and medium Enterprise					
Limited supervisory capacity					
Capital outflow					
Foreign banks get higher interest margins;					
Foreign banks will capture a significant part of the international trade finance operation of the banking sector					

Any other comment / suggestion; please State
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C) **Questions related to modality of entry by foreign banks**

What would be your level of agreement/disagreement with regard to of modality of entry by foreign banks to our banking industry? Please, provide your view point for each statement in the table below.

	1	2	3	4	5
Entry of foreign banks through a Joint Venture arrangement					
Entry of foreign banks as subsidiaries of a parent foreign bank					
Entry of foreign banks as branches of a foreign bank					
Fully foreign owned banks					

Any other comment/suggestion; please State

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D) **Questions related to potential efficiency reforms for the economy**

If foreign banks will be allowed to operate in the current situation of the country, what would the next potential efficiency reforms for the economy as a whole? Please, provide your view point for each statement in the table below.

	1	2	3	4	5
Improving financial regulation					
Introducing other financial activities					
Attracting a foreign direct investment					
Enhancing the overall stability of the economy					
International banking practice know-how					
Creation of capital/money markets					

Any other comment /suggestion; please State
…………………………………………………………………………………………………
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E) Questions related to potential banking sector efficiency reforms

If foreign banks are allowed to operate in the current situation, how would you rate the next potential banking sector efficiency reforms? Please, provide your view point for each statement in the table below.

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

Any other comment/suggestion; please State

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F) Questions related to impact of foreign banks entry on performance of domestic banks

If foreign banks are allowed to operate in the next five years, what impact will it have on the performance of Ethiopia's domestic banks? Please, provide your view point for each statement in the table below.

	1	2	3	4	5
Foreign banks reduce local banks market share					
Foreign banks attract 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					

Any other comment/suggestion; please State

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