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Original Article

THE IMPACT OF FOREIGN FINANCIAL INSTITUTIONS ON THE LOCAL FINANCIAL INSTITUTIONS IN ECONOMIC DEVELOPMENT IN SOUTH SUDAN.

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ABSTRACT.

Background:
This study aims to assess the impact of foreign financial institutions on the local financial institutions in economic development in South Sudan.

Methodology:
The study used a case study as a design, and both quantitative and qualitative data were collected.

Results:
The majority of the respondents were between 30 and 55 years some are graduates hence vast knowledge and skills. The study showed that some respondents have worked in the Ecobank foreign commercial bank in South Sudan for a period between 3 years to 5 years.
Foreign financial institutions tend to equip themselves with much better customer information through professional database management than local banks. That helped the foreigners to gain better access to very important persons (VIPs) customers, whether foreign or local enterprises, whether wholesale or retail clients, whether individuals or firms. The presence of foreign financial institutions stimulated a more competitive environment in South Sudan's banking sector, in turn encouraging local banks to respond through financial innovation to provide the best customer services.

Conclusion:
Foreign financial institutions typically carve out a market niche by bringing in new management and advertising techniques, more advanced financial technology (e.g. credit cards, off-balance sheet accounting), and the latest in computing methods. It is also hoped that the introduction of new technology will cause local banks to imitate foreign banks. A positive externality arising from this is training foreign banks impart to local staff and management on the use of these new technologies. This helps to increase the information of most local bankers and Potential stockholders.

Recommendation:
There is a need for the government to have a clear financial policy to control foreign investment as currently most of the foreign investors do not plough back their profits into building the economy of South Sudan.

Keywords:
Foreign Financial Institution, Local Financial Institutions, Economic Development, South Sudan.
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BACKGROUND OF THE STUDY.

The term foreign financial institution means any foreign entity that is engaged in the business of accepting deposits, making, granting, transferring, holding, or brokering loans or credits, or purchasing(Electric Code of federal regulations, 2012) or selling foreign exchange, securities, commodity futures or options, or procuring purchasers and sellers in the host country where it operates.
Over the last decade, there has been an increase in the entry of foreign financial institutions into the Republic of South Sudan since its independence from Sudan in 2005 through the signing of a Comprehensive Peace Agreement (CPA) in Naivasha Tanzania.
Foreign Financial Institutions and Foreign Direct Investment (FDI) an important source of capital and economic growth in developing countries such as South Sudan. It provides a package of new technologies, management techniques, finance, and market access to produce goods and services, many foreign financial Institutions such as, Afriland First Bank South Sudan Limited, Bank of Khartoum Juba, Buffalo Commercial Bank, CFC Stanbic Bank, Charter One Bank South Sudan, Commercial Bank of Ethiopia (South Sudan) (CBESS Cooperative Bank of South Sudan, Equity Bank South Sudan Limited, International Commercial Bank (South Sudan) (ICBSS) Qatar National Bank and later followed by the local bank like Ivory Bank, Eden Commercial Bank, Liberty Commercial Bank, Mountain Trade and Development Bank, National Credit Bank, Nile Commercial Bank, Opportunity Bank PLC, Phoenix Commercial Bank, South Sudan Commercial Bank Sudan Microfinance Institution (SUMI)

Foreign banks play a crucial role in strengthening the financial structure of an economy. Foreign banks increase competition at the domestic level but at the same time, it helps domestic banks to become more efficient. In South Sudan although there are a smaller number of foreign financial institutions and many others are on their way to becoming part of the actors in the financial and economic developers of the youngest world's economy South Sudan, both foreign and domestic banks together present a sound financial institution in South Sudan economy.

Currently, there are 12 registered commercial banks in South Sudan including and11 locally owned financial institutions. This study aims to assess the impact of foreign financial institutions on the local financial institutions in economic development in South Sudan.

METHODOLOGY.

Research design.

The study used a case study design and a qualitative approach was employed to gain an in-depth understanding of the impact of foreign financial institutions on economic growth and development in South Sudan:

Data collection.

The means of data collection used were both quantitative and qualitative, the primary data is collected through a structured interview guide comprising open-ended questions to avoid subjectivity to be answered by the respondents. These interview guides were self-administered. The guide tested for validity in a pilot test study before the actual fieldwork. These were administered to the employees of the bank. They can be reached by way of setting up appointments with them through their offices. Secondary methods of data collection would be used to supplement the primary data from alumni.
This will involve in-depth discussion through individual meetings with the management of the foreign financial institutions. Cooper and Schindler (1998), emphasize the value of personal interviews when they state that it enables in-depth and detailed information to be obtained. Documents and records belonging to the institutions as well as books, journals, and the worldwide web, university websites, indexes, and bibliographies

The interviews were semi-structured with enough space thereby allowing for a rich picture to be developed through the exploration of the critical variables under review. This allowed for the sometimes contradictory and often vague ideas and concepts to be brought out for discussion and analysis. Other sources of evidence were also utilized, including internal bank reports, external independent reports, and general publications such as financial journals. By their very nature, the research questions demand various sources of data from the respondents.

Data analysis.

The data collected by the researcher will be analyzed using content analysis methods. The data collected would be edited to check for completeness and consistency then checked for omissions and errors and arranged systematically to meet the purpose of the research objectives.

RESULTS.

Demographic Information.

It was noted from the study that, the majority of the respondents were between 30 and 55 years some are graduates hence vast knowledge and skills. The study showed that some respondents have worked in the Ecobank foreign commercial bank in South Sudan for a period between 3 years to 5 years. This gave an edge on the know-how of how the banks operate and the effects they have on the banking sector.

Table 1: Gender of respondents.

GENDER CATEGORY OF RESPONDENTS			
NUMBER OF RESPONDENTS	**GENDER**	**TOTAL**	**PERCENTAGE (%)**
15	MALE	9	60
	FEMALE	6	40
TOTAL		**15**	**100%**

Primary data 2021

The total number of respondents was 15 where 9 of the respondents were male and 6 were female, the percentage were 60 and 40 respectively.

Table 2. Demographic design.

DEMOGRAPHIC DESIGN			
NUMBER OF RESPONDENT	**AGE**	**NUMBER**	**PERCENTAGE (%)**
15	20>29	3	20
	30>39	4	27
	40>49	6	40
	50 above	2	13
Total		**15**	**100**

Primary data

From Table 2, out of the total number of respondents, 12 out of 15 do agree that foreign financial institutions have contributed so greatly to the Banking sector and the economic development of South Sudan to them an economy will not grow alone without foreign investments because we are not and the island we need each other's for technological advancement, knowledge transfers and foreign currency for our international demand transactions.
Table 3 shows the interviewee's response for and against the contribution of foreign financial institutions to the banking sector in the Republic of South Sudan.

Table 3: Respondents' opinions and argument.

NUMBER OF RESPONDENT	ARGUMENT	NUMBER PER RESPONSE	PERCENTAGE (100%)
	TOTALLY AGREED	12	80
15	NOT AGREED	3	20
TOTAL		**15**	**100%**

Primary data

From Table 3, you can see that out of the responsible and experienced, respondents shows that the entry of foreign financial institutions in South Sudan is of paramount importance to the banking sector, 80% of the respondents agreed with the fact that foreign financial institutions have contributed so greatly to the banking sector of Republic of South Sudan, however, 20% of the respondents not agreed on the statement whether they have no idea or they are unaware.
In 2020, the GDP of South Sudan was 4.07 billion US dollars. although South Sudan's GDP fluctuated substantially in recent years, it tended to decrease through the 2011 - 2020 period ending at 4.07 billion US dollars in 2020, this is due to the fall in the oil prices in the world market and constant civil wars for 2013 and 2016, however, the economy is relatively improving her GDP because of foreign investments in the country due to the signing of the revitalized peace agreement signed in 2018.

Foreign Banks' Effect on Recession.

When asked about recession some of the responses were that; foreign financial institutions provide capital to the country and these finances help to stabilize the economy to a great extent. The country can easily fight against the deficiency of finances with the help of these foreign investment banks. Foreign banks ease the financial condition of the country by funding the nation and bringing comfort to the economy. The growth in the number of foreign banks in South Sudan has a positive effect on its economy and also helps to stabilize the economy to a greater extent. Nevertheless, the respondents were pessimistic about the further foreign banks' investment in South Sudan as the world's economy is showing a weak picture, and recession and inflation hampering every aspect of the economy.

Table 4. Share of foreign banks in banking system assets in 2014.

Ecobank *	94%	Eden Bank	53%
Ivory Bank *	30%	Stanbic Bank	92%
Equity Bank *	86%		
Kenya Commercial Bank	87%		

*Note: * data for 2019; ** data for 2020. Source: Library, South Sudan Central Bank data.*

Given the importance of foreign ownership within the local banking system of South Sudan, there is a need to investigate whether other banks have benefited, in terms of higher economic growth, from the presence and relevance of foreign-owned banks.
Our major contribution to the debate on finance and growth is grounded in identifying the role that foreign-owned banks play in fostering economic growth. Their role can be examined according to two main strands of literature, which interpret their presence either as (i) an important source of innovation, competition, and efficiency, with positive spill-over effects for the functioning of the banking system of the host country; or (ii) a source of credit contraction in the credit markets of host countries, for a variety of reasons, among which exposure to the financial troubles, either firm-specific or systematic, of their parent company is at present the most significant for an extensive survey and updated analysis of the trends and worldwide impact of foreign banking. Accordingly, the impact of foreign-owned banks on the economic development of the host country is expected to be different. We trace the potential role of foreign-owned banks using two main measures: the decomposition of domestic credit to the private sector (as a ratio to GDP) according to the ownership structure of banks and the ratio of foreign-owned bank lending to total domestic credit.

Effect of Investment.

The effect of investment by foreign banks in the next five years will ease the availability of finances, but they will toughen the competition in the banking sector in which the domestic banks are likely to suffer a setback.
One respondent felt that the foreign investments have strengthened the money market and corporate sector of the country. 8 out of 15 stated that foreign investments can provide stability to the South Sudan economy. 5 of them thought that foreign capital provides a solid platform for the development of the corporate sector of the country and it also provides a solid platform for the development of the corporate sector, the others felt that foreign banks bring a large benefit to the country's financial system and bring efficiency with its new technologies and administrative skills.
A boost to the domestic banking sector- is expected by host countries from the foreign financial banks to enter

and galvanize the domestic banking sector by bringing in healthy competition. Domestic banks are expected to react to the foreign presence and compete fiercely to retain their previous market shares, thereby lifting the domestic banking sector to international levels of efficiency. This brings greater access to international countries opening their doors to foreign financial institutions and expecting them to aid in the development of trade and foreign direct investments. In so doing, domestic operations will benefit local producers and export and import companies. Secondly, foreign banks are expected to increase foreign currency inflows in the country.

Foreign direct investment Effect on Local Banks.

Respondents felt the establishment of foreign financial institutions improves the efficiency and competition spirit of the domestic banks. Also, the investment of foreign banks is considered to be a cause for the increase in the growth rate in South Sudan, 10 respondents think that South Sudan is a promising economy in the world today and that the future of the banks is quite secure. Some respondents think that the future of foreign investors in South Sudan is quite bright especially due to the way the IT sector is progressing.
Foreign banks bring foreign exchange and help to build a strong forex base that can help the development of the money market and the corporate sector of society.

Banks Efficiencies.

Foreign banks make domestic banks improve their performance levels. This is greatly seen by having products that customized banking products, and improved customer relations that put the banks in a better marketing position with their clients as they feel appreciated and recognized.
All respondents expressed the opinion that foreign financial institutions' entry can help resolve the problems experienced by the South Sudan banking sector

Effect on Competition.

Foreign banks promote competition when they add considerable market share/ they feel that capital is the spirit of trade and without globalization of the capital market globalization of trade will not yield the desired results. This was largely seen more when they added a considerable money market as this proves South Sudanese people are identifying with their products and services. However, at the point of entry, not much difference can be realized as they must do some serious marketing to be able to attract customers and retain them.

Benefits of Foreign Bank Investments.

Three reasons for recommending that foreign banks invest in the Republic of South Sudan came out are;
A promising economy compared too many developing economies during the present time, however young the country is but has promising growth in the financial sector because of the limited numbers of both international and domestic banks compared to the population of over 12 million.
Secondly**,** the Money market exchange of South Sudan is showing an upward trend, also the IT sector is rapidly developing, and this can be witnessed as the numbers of IT companies are coming up from Kenya, Uganda United Arab Emirates (UAE), and some part of the world to improve the services of the financial institutions in South Sudan.
In the past decades bank savings were not considered important in South Sudan because of the religious and cultural aspects, people were ignorant religiously, and culturally discouraged by Bank savings claiming it was a way of cheating and never wanted in their religion. These socio-cultural and religious practices constituted hindrances in saving culture which is moving off with awareness and sensitization creation by the banks

Decision and Practice of Investment.

In the coming five years if the policies of the government do not change the investments in the country will increase because people save their earnings although in small portions. Pooling of this small capital of the people can prove beneficial. Yet, the foreign banks are looking forward to the South Sudan government to give relaxation to the foreign banks, to provide maximum security.
It is further argued that, if the policy of the government becomes more favourable for the foreign financial institutions, the investment in the banking sector will increase tremendously.

DISCUSSION.

Foreign financial institutions tend to equip themselves with much better customer information through professional database management than local banks. That helped the foreigners to gain better access to very important persons (VIPs) customers, whether foreign or local enterprises, whether wholesale or retail clients, whether individuals or firms. The presence of foreign financial institutions stimulated a more competitive environment in South Sudan's banking sector, in turn encouraging local banks to respond through financial innovation to provide the best customer services.
Some sectors are technologically more dependent on external finance, meaning that firms' desired investment levels typically exceed their internal cash flows. This may be due to a large initial project scale, a long gestation period, a short harvest period, or the requirement for continuing investment (Rajan and Zingales, 1998). Firms in these financially vulnerable sectors will have to rely heavily on external finance to engage in FDI since they will only be able to internally finance a small fraction of the fixed costs of FDI (Buch et al., 2009). Firms' access to external finance depends on financial development. Hence, higher SFD should have a ***positive*** *direct external finance effect* on the volume of outward FDI, which ought to be larger in more financially vulnerable sectors. Klein et al. (2002) provide some evidence that credit constraints influence outward FDI. They show that the number of FDI projects undertaken by Japanese firms in the United States during the Japanese banking crisis was inversely correlated with the deterioration of the financial health of their main bank. Their results suggest that a rise in firm-specific credit constraints resulted in lower FDI.
On the one hand, lower profits for each firm operating in the sector may reduce the ability of some of them to engage in FDI, for instance, because a share of the fixed costs of each F DI project must be covered by firms' internal funds. Empirically, in the context of the effects of

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credit constraints on international trade, Manova (2013) finds that financial development indirectly increases exports through its positive impact on overall production.

CONCLUSION.

Foreign financial institutions typically carve out a market niche by bringing in new management and advertising techniques, more advanced financial technology (e.g. credit cards, off-balance sheet accounting), and the latest in computing methods. It is also hoped that the introduction of new technology will cause local banks to imitate foreign banks. A positive externality arising from this is training foreign banks impart to local staff and management on the use of these new technologies. This helps to increase the information of most local bankers and Potential stockholders. The entrance of strategic foreign partners could be expected to improve financial institutions' performance in a host of areas: overall governance, management mechanisms, internal auditing, adoption of credit culture, and improved risk-assessment techniques. As well, FDI in the banks had the potential to transform South Sudan's banking industry, and more generally to foster the development of an efficient, competitive financial system. These “external effects” augment the benefits obtained from the “internal effects,” including raising operating incomes and lowering operating expenses which is a bigger challenge for South Sudanese citizens.

RECOMMENDATION.

There is a need for the government to have a clear financial policy to control foreign investment as currently most of the foreign investors do not plough back their profits into building the economy of South Sudan.
There is a need for a study to assess the impact of foreign investment on local business relations

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CONFLICT OF INTEREST.

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