Challenges of Private Commercial Banks in Financing Foreign Projects in Ethiopia: a Case Study on Selected Private Banks

A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Project management & finance (MPMF)

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Abstract

The main purpose of this study is to examine the challenges of commercial banks in financing a foreign project in Ethiopia. In recent time, a number of foreigners are visiting Ethiopia for investment, Ethiopia is one of the biggest countries in Africa by taking foreign investors and fulfilling infrastructure as per there sector of investment, but every investment needs a financial sector for any transaction that needs to run their business. One of the primary financial institutions for this service is a bank, so in this study, the process of financing foreign project and factors that affect the banks to finance a foreign project were studied in detail and common projects that are financed by private commercial banks were identified and analyzed on selected six private commercial banks in Ethiopia that have a financial power on the banking industries. Descriptive and Explanatory research design was used for the study. The target population was 300 staffs that are directly participating in the project financing and foreign investment (Foreign Direct Investment) out of which Judgmental sampling technique was used to select a sample size of 105, from this 101 respondent has filled and returned back to the researcher. Data was collected by using questionnaire and the data collected was analyzed using Statistical Package for Social Sciences. The study found that national bank of Ethiopia regulation and directive have a negative impact on foreign project financing, and foreign currency shortage is also a challenge to make a foreign project transaction by commercial private banks. To minimize the gap of processing foreign project, private commercial bank needs to push the financial sector reforms by bringing huge capital and foreign project know how to the business and National bank of Ethiopia needs to decrease the number of intervention on the private commercial banks operation on foreign project financing

Keywords*: - Foreign project, Foreign direct investment, economy, financing*

DECLARATION

I declare that the research Report entitled **“Challenges of Private commercial Banks in financing foreign Projects in Ethiopia” a case study on selected Private Banks**” submitted to Research and Postgraduate Studies’ Office of Business and Economics College is original and it has not been submitted previously in part or full to any university.

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Date: ___________________

CERTIFICATE

We certify that the Research Report entitled **“Challenges of Private commercial Banks in financing foreign Projects in Ethiopia” a case study on selected Private Banks**” was done by Mr Mulugeta Abate for the partial fulfillment of Master’s Degree under our Supervision.

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(Main Advisor) (Co-Advisor)

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Acronyms

AB	Awash Bank
BOA	Bank of Abyssinia
CBFP	Commercial banks on financing foreign projects
DB	Dashen bank
DBE	Development bank of Ethiopia
EIA	Ethiopian Investment Authority
EIC	Ethiopian Investment commission
EXIM	Export –Import Bank
FC	Financial Capacity
FDI	Foreign Direct Investment
FIs	Financial Institutions
FSAP	Financial center Assessment program
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
IBD	International business department
IBS	International banking system
IMF	International Monetary Fund
ITC	International Trade Center
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
NBEI	National Bank of Ethiopia Involvement
NII	Net Interest Income
OIB	Oromia International Bank
OPIC	Overseas Private investment corporation
SPSS	Statistical Package for Social Sciences
UB	United Bank
UNCTAD	United Nations Commission for Trade and Development
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USD	United State Dollar
WB	Wegagen Bank
WBG	World bank Group
WIR	World Investment Report

Chapter One: Introduction

This chapter introduces the reader to the challenges of commercial Banks in financing foreign Projects in Ethiopia. It goes on to look at the statement of the problem and objectives of the research. Issues related to the significances of the study and scopes and limitation of the study are also presented.

1.1 Background of the Study

There are so many small and big projects that were constructed in Ethiopia in recent period, for instance, light railways, hydroelectric power project, sugar factories project, roads and highways, etc. and grand Ethiopian renaissance dam are on progress. For all these projects to be successful, primarily you would need money to finance these projects. The financing of this long term projects is based upon a non-recourse or limited recourse financial structure, where the debt and equity are paid back from the cash flow generated from the project is known as project finance. (Tadesse, 2017)

The Private Bank is a development agency, arranging external finance for developing and emerging markets with little or no access to private lending. The external finance consists of project finance or loans, granted on condition that certain structural adjustments, etc. be made. It also encourages private foreign direct investment. (Shelagh Heffernan, 2005)

The Financial Sector Assessment Program is a joint program run by the IMF and the World Bank. Introduced in 1999, it signaled that these institutions were intending to play a greater role in monitoring and trying to preserve global financial stability. The growing need for power and other infrastructure facilities increased the demand for project financing, while the sources of project finance broadened to include the capital markets. Financial tools such as pooling, securitizing and derivations provide new ways to mitigate project risks. As investors and lenders became more familiar with project finance, they showed increase risk tolerance. As a result, the boundaries of the project finance have widened. (FSAP, 2018).

In Ethiopia commercial banks have a limitation on making credit facility for foreign investors due to national banks of Ethiopia bureaucracy and capacity to lending. The role of credit bureaus is also likely to play a major role in facilitating increased financial inclusion.

The organization of banking varies widely from country to country. Often, a country's banking structure is a consequence of the regulatory regime to which it is subject, a topic that is covered in this thesis.

1.2. Statement of the Problem

Foreign direct investment is an important economic process for the growth of a country. During which foreign countries and organization invest their capital, technological innovations and human power. Usually, the resource transaction flows from developed states to developing countries. And the globalization or modern economy strategy can develop through foreign investment. Foreign direct investment thus allows countries to supplement capital that is provided via local savings with capital coming from abroad through local banks (Gaurav, 2011).

Banks play a critical role in the economic growth of any country. That is because financial institution drives financial resources for the economic growth from depositors to where they are required. So banks are one of the core financial institutions and important providers of financial information to the respective users. Local financing may be preferable than cross-border financing because it allows investors to hedge the exchange rate risk associated with sales or cost denominated in the local market currency. The main problems for the weak performance of local banks to finance foreign project include inadequate foreign currency supply of the required import request for project, Lack of clear policies from the government and insubordination of policymakers and sophisticated procedure and directive of banks governor (National bank of Ethiopia). The disintermediation of the largest and most creditworthy commercial bank customers(Foreigner), who can access the capital markets directly and are therefore less dependent on commercial bank financing and monopolization of huge loans by governor banks in arranging and syndicating project loans. There is a gap of common understanding on financing the foreign project and the impact of a foreign project is not significant for the growth of local private banks.

Foreign investment or any project run by a foreigner are led and licensed by Ethiopia Investment commission (EIC) and National Bank of Ethiopia (NBE). Only a fraction of surveyed companies got loans from Ethiopian Banks over the course of the past year sources. In recent time, Ethiopia has attracted foreign direct investors from different countries, to make their investment respective to the country's investment regulation. But the financial management regulation is very weak to manage the investor's interest by local banks, which include facilitating credits and foreign currencies depending on their investment capacity and also in Ethiopia the banking sector are obliged to serve only by local currencies as per the regulation of Ethiopian government. (Biniam, 2017).

As reviewed in the above paragraphs, a bank is a major channel to facilitating finance for projects, whichever it is a local or international project. Every project needs a loan, import raw material, the export manufactured product through local banks. In this regards the challenges of private banks to finance foreign projects in Ethiopia and particularly on selected six private commercial banks is not investigated. To my knowledge, there is no detailed study on a foreign project financed by local banks in Ethiopia context directly matched with this title. However, in recent time, our country is accepting a number of projects, but the involvement of private banks is not visible. Therefore, it is justifiable to investigate the challenges of private commercial banks in financing foreign direct investment and this study is aimed at doing that.

1.3. Research Questions

1. What are the most common FDI financed by private banks in Ethiopia?
2. What are the factors affecting foreign project finance?
3. What are the challenges in financing a foreign project?
4. What are the advantage and risks of foreign projects financing?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of this study is to investigate the challenges of commercial banks on financing a foreign project in Ethiopia, from selected private banks,

1.4.2. Specific Objective

1. Examine the trend of financing foreign projects by commercial Banks in Ethiopia
2. Examine the common types foreign projects financed by Commercial Banks in Ethiopia
3. Pinpoint factors that Positively affect foreign project financing by Commercial Banks in Ethiopia
4. Identify factors that hinder foreign project financing by Commercial Banks in Ethiopia

1.5. Significance of the study

This study may contribute to the enhancement of foreign project finance in commercial banks in Ethiopia. It is believed that this research would support all private banks that have a capacity to make finance or lending for a foreign project and also encourage the researcher for another research. In a country like ours, where there is no foreign bank to finance a foreign project; deal with this literature to investigate the possible impact of local banks on their contribution to the sectorial participation. In view of the above, the study helps to see a clear role of commercial banks on financing a foreign project, the case in Ethiopia.

1.6. Scope and Potential limitation of the Study

In this study, the researcher have to cover selected commercial banks, which are highly participated in financing foreign projects due to their capacity and the common foreign project is selected to the study to get a severe data. The analyses focus on the survey of firms in two categories of international business section (Department) (IBD) and credit bureaus, which has a direct attachment with financing a project. The study scope is limited to the financial sector, from the financial institution with a direct focus on the banking sector in terms of its impact on project financing. In addition, the study is limited only to the private banking sector and may not generalize the impact on the financial sector in general. Due to geographic location, the study specifically focuses on Addis Ababa head office and branches of the sample banks.

1.7. Organization of the Paper

The paper was organized as follow. Chapter one is the introductory part of the study which shows us the background of the study and organization including our main problems related to my title. Chapter two give a review of the literature on the project financing process and accessibility of finance for the foreign project in Ethiopia both on theoretical view and empirical view.

Chapter three focuses on research design, methodology, and the study area descriptions are presented. Chapter four focuses on the pragmatic analysis of the research. The observed results, implications, and discussions on the collected data would be explained in this chapter. Finally, chapter five concludes the research project with a summary of the findings as well as the recommendations.

Chapter Two: A Literature review

This chapter provides a brief summary of existing theories and empirical evidence on project finance by banks for foreign firms as well as local firms. The first section presents a review of theoretical literature which includes a brief definition and an overview of foreign project finance. The regulation of NBE to the sector also would be presented in this section. The constraint factor for project financing would also concise in the theoretical review of the literature. The second section presents empirical evidence of the literature that experienced by different countries commercial banks. As this research focuses on the case of Ethiopia, the discussions in empirical literature give emphasis on commercial banks task on foreign project transaction and credit process and international business process.

2.1 Theoretical Literature

2.1.1. Project finance

Project finance is a pervasive method of financing in developing countries. It has a significant advantage over traditional financing approaches. In the era of the globalization of business and investment, where the demand for energy has soared and many international oil companies and private and institutional investors ventured into the developing world, this method of finance has created a wealth of new opportunities to finance capital-incentive ventures, including development of oil production, gas transmission, and electric power generation facility (Kayser, 2013).

Project financing is one of the sole functions of banks. Banks finance different kind and forms of a project because its profitability depends on it. The financial structure of a bank comprises of both the short term claims and long term claims. A firm’s project is financed with long term claim and therefore, the long term claim is said to form the capital structure of an organization or business firm embarking on a project. Banks project financing is a very significant managerial decision because it influences the shareholder's returns and risk. The task of every financial manager is to plan the capital structure that would best maximize the firm’s value and reduces cost. Firm’s managers, who are able to identify the optimum capital structure, are rewarded by minimizing the firm's cost of financing, and maximizing the firm’s revenue. (Grang, 2007)

In the mid-1990s banks and institutions, investors financed projects with structures and terms that would have been hard to imagine just five years before. The total worldwide volume of the project finance increased rapidly from 1994 to 1997, lessened after the Asian financial crisis in 1997 and then increased to a new high 2000. Project finance then declined once again along with the collapse of equities, particularly in technology and telecommunication the related decline in technology and telecom capital expenditure and Enron bankruptcy and associated scrutiny of power companies trading activities and balance sheets. (Forrester, 1995)

2.1.2. Foreign Projects Financing

Access to finance is a challenge for the Ethiopian local market. Local private banks often require a large percentage of loans as collateral, which must usually consist of cash, real estate or durable capital physically located in Ethiopia. The National Bank of Ethiopia must approve loans from overseas institutions that require hard currency debt repayments. (Habtamu, 2019)

The World Bank's International Finance Corporation provides some equity financing for private sector projects. African Development Bank also provides financing for some projects which are involved in production for exporting purpose. African Development Bank is working with Power Africa on energy generation, transmission, and distribution projects. They also finance transportation and other infrastructure projects. Other European and Asian Development Finance Institutions are collaborating on the financing of infrastructure projects. (Levine, 2005)

In 2016, the U.S. Export-Import Bank (EXIM) Board of Directors approved Ethiopia for long term financing. EXIM Bank financing of long term projects could create significant business opportunities for U.S. companies’ engagement in Ethiopia, particularly in upcoming mega infrastructural projects. The U.S. Overseas Private Investment Corporation is also open for business in Ethiopia and is looking at financing options for the energy, agriculture and other infrastructure projects. (OPIC, 2016)

As a part of the Government of Ethiopia initiative to develop the manufacturing sector and export-oriented investments, the Development Bank of Ethiopia (DBE) allocates funds to finance 70% of investment projects in selected sectors including commercial farms, agro-processing, export-oriented businesses, and manufacturing sector with the remaining 30% covered by owner's equity. (NBE, 2017/18)

Commercial banks have always had an active role in project finance transactions. In fact, project finance is generally thought to have begun in the 1930s when Dallas bank made a non-recourse loan to develop an oil and gas property. It "came of age" in the 1970s and '80s with the successful financing of North Sea oil and gas projects. Project finance is also commonly used in countries whose domestic capital markets are small relative to their project development requirements or relatively immature. (Girma, Gong, & Görg, 2008)

2.1.2.1. Traditional Role

Commercial banks can provide project financing because they are able to evaluate complex project financing transaction and to assess and assume the construction and performance risk usually involved in such financings. Largely because of the short-term nature of a commercial bank liabilities (its deposit), however commercial bank participation is usually limited in amount, although banks closely monitor and control their other long term assets. Most permanent financing commitments by commercial banks include specified increases in the applicable interest rate ("step up" in the applicable margin or spread over the banks cost of funds) to provide incentives for the commercial bank financing to be refinanced before its scheduled maturity. (forrester, 1995)

The successful commercial bank syndicate for a project financing usually seeks to "sell down" its underwritten commitments in further coordinated syndication to a large bank group. This subsequent syndication may occur before financial closing or after depending on

1. The confidence of the original syndicate banks in the "marketability" of their transaction in the commercial bank project finance markets, and their willingness to assume the risk of adverse change in such markets.
2. The timing constraints of the projects
3. The project sponsors preferences in this regard, or the original banks desire to reduce their levels of commitment
4. All or any combination of these circumstances.

The project construction financing which normally bears interest at a floating rate, usually requires interest rate swap, cap or collar. Upon completion of construction and demonstration of the project acceptable performance, most sponsors would seek to refinance the project which permanent, long-term and fixed rate financing.

2.1.3. Historical development of banking in Ethiopia

Ethiopian banking history goes as far back as 1905, when the first bank, the Bank of Abyssinia was established in the country. The second relevant event was the nationalization of issuing banking decided by Haile Selassie with the establishment of the Bank of Ethiopia. The third event was Italian Invasion in 1936, when, following the liquidation of the Bank of Ethiopia, a broad banking network, extended to encompass all Italian possessions in the Horn of Africa and closely linked with the metropolitan financial system, was set up. (Mauri, 2014)

Following the change of government in 1991, and the subsequent measures are taken to liberalize and reorient the economy towards a system of economy based on commercial considerations, the financial market was deregulated. A proclamation number 84/94 was issued out to affect the deregulation and liberalization of the financial sector, and a number of private banks and insurance companies were established following the proclamation. Directives issued in subsequent years further deepen the liberalization mainly including the gradual liberalizations of the interest rate, foreign exchange determination, money market operation, etc. (Gashayie & Singh,2016)

The structure of the financial sector has barely changed over more than a decade and is dominated by state-owned financial institutions. The financial sector in Ethiopia currently consists of 18 banks, 17 insurance companies, 35 microfinance institutions, and five capital goods finance companies. Banking is the dominant subsector, accounting for 78 percent of total financial sector assets, followed by insurance companies, representing 15 percent. The two state-owned banks (Commercial Bank of Ethiopia and Development Bank of Ethiopia) account for 65.7 percent of total deposits, 62.4 percent of outstanding credit, 35.9 percent of total branch networks, 64 percent of total banking sector assets, and 48.9 percent of total banking sector capital as of December 2016; the remaining 16 private banks cover the balance.

The state-owned insurance company accounts for 23 percent of the total capital of the industry. (EPDS, 2018) (NBE report, 2017/18)

2.1.4. Financial institutions in Ethiopia

Most of the contemporary qualified economic literature emphasizes the relevance of financial innovations, embodied both in financial institutions and in financial technologies, in promoting and speeding up economic development. (Mauri, 2014)

Basic changes and convenient arrangements conducive to economic development were brought up in Ethiopia also in the financial sector during the first decades of the 20th century. Ethiopian banking history, in fact, goes as far back as 1905, when the first bank, the Bank of Abyssinia was established in the country. The second relevant event was the nationalization of issuing banking decided by Haile Selassie with the establishment of the Bank of Ethiopia. The third event was Italian Invasion in 1936, when, following the liquidation of the Bank of Ethiopia, a broad banking network, extended to encompass all Italian possessions in the Horn of Africa and closely linked with the metropolitan financial system, was set up. (Mauri, 2014)

In a modern banking technology banking system is one of the most important components of the Ethiopian financial system. The same applies to other countries in the world. It is the hearth of the financial system. This is because apart from being the key operators in the financial market, monetary policies of the government are implemented through the banking system. Moreover, the banking system creates money and by doing this influences the economy of a country in no small way. These are in addition to the traditional roles of savings mobilization and intermediation and provision of settlement mechanism. (Oghoghomeh & Akakabota, 2015) Banks/financial sector constitute the major source of credit to the economy. Project financing is one of the numerous functions of the banks financial sector that entail a lot of risks. The functions of banks as financial institutions is to pool resources (savings) from the surplus economic units and then channel them to the economic deficit units who would then put such funds to productive use. This singular role helps to increase the production base of the economy. (Oghoghomeh & Akakabota, 2015) In Ethiopia today both Commercial and Government banks have contributed by playing a vital role in the financial system through mobilizing financial resources and making same available for financial development. For a country like Ethiopia, with a limited number of banks operating various parts of the country, there should be an impact in terms of project financing for local and foreigners by these few banks in terms of promoting the development of the public and private sectors of the country. Banks are expected to extend credit to finance economic activities from the areas where deposits are mobilized. Therefore, the expectation is that banks in the country should grant credit to the, Federal Government, state governments, small and medium scale enterprises which are seen as having a vital role in the regeneration of the economy and as a continuing source of strength and innovation including inhabitants of the rural areas and to the agricultural sector which is the backbone of the Ethiopia economy.

This would no doubt lead to the development of the states in particular and the country in general. However, experience has shown that not much has been done on the part of banks in this crucial area of project financing in Ethiopia commercial banks. It is also our conviction that banks are mobilizing enough savings within the geographical area of the country. The reciprocal gesture from banks is to get them involved in the development of the country through project financing. as sighted in (Adekanye, 2009) the primary function of banks is the extension of credit to worthy borrowers. In making credit available, banks are rendering a great deal of social services and through their action, production is increased. Capital investments are expanded and a higher standard of living is realized.

Banks are known to be willing and able to finance projects, but the risk a bank is taking has to be looked into; because banks in Ethiopia give a large amount of credit for agricultural purposes. (Abate, 2009) The time element should also be put into consideration, that is the time the project would be completed and the time and means through which the loan would be repaid, this gives us an insight into the various methods used by banks in appraising a loan proposal so as to reduce the risk of bank debt. Like many other countries in sub-Saharan Africa, the financial sector plays important roles in the productivity and growth-enhancing effects in the government of Ethiopia. (Shaw, 1973)

2.1.5. Banking sector and foreign direct investment

Our identification strategy requires us to be able to predict banking FDI in a way that is unrelated to non-financial FDI directly. (Abiad et al. 2010) have collected detailed data on the degree of banking sector regulation along several dimensions. Since these are specific to the banking sector, these should not affect non-financial FDI directly other than through banking, while controlling for other market reforms. Other important market reforms that we are able to control for are trade liberalization. (Wacziarg and Welch, 2008)

According to (Maduka, 2014), banking sector development insignificantly attracted foreign direct investment (FDI) inflow whilst financial markets, in general, could not register any meaningful foreign direct investment inflow into the country. On the contrary, higher financial market development negatively impacted on foreign direct investment inflows while trade openness, rule of law and natural resource endowment attracted foreign direct investment inflows (Anyanwu, 2012). However, a study by (Saibu, 2012) revealed that foreign direct investment had a direct significant positive impact on the banking sector and financial markets development in a host country.

2.1.6. Foreign Investment

A foreign investor is “a foreigner or an enterprise owned by foreign nationals, having invested foreign capital in Ethiopia, and includes an Ethiopian permanently residing abroad and preferring treatment as a foreign investor.” Foreign investment is an investment by a foreign investor while a domestic investment is an investment by a domestic investor. (Article 2(6) of Proclamation No 280/2002)

A foreign investor is one who is a foreigner not permanently residing in Ethiopia and who invests capital obtained from foreign sources or reinvests profits accruing to her/him from investment already made in Ethiopia or A foreigner who is an Ethiopian by origin and chooses to be treated as a foreign investor and invests capital s/he raised abroad, or reinvests profits made in Ethiopia from previous foreign investment or an Ethiopian permanently residing abroad and chooses to be treated as a foreign investor and invests capital obtained outside Ethiopia, or reinvests profits obtained from prior foreign investment in Ethiopia, or an enterprise owned by foreign nationals who invest capital raised abroad or reinvest profits made from previous foreign investment in Ethiopia. In general, an investment made by a foreign investor is foreign investment. (Abate, 2009)

2.1.7. Investment

During 2017/18 fiscal year, 1,550 projects become operational under Ethiopian Investment Commission and regional investment offices; which were 231.2 percent higher than a year earlier. All of which were private and at an operational stage. These projects command investment capital Birr 25.9 billion; showing 190.8 percent annual growth. Of the total investment projects, 1,496 (96.5 percent) were domestic with a capital of Birr 20.7 billion (80 percent); and 54 projects were foreign having Birr 5.2 billion capital. The average capital per project for domestic investors was Birr 13.8 million and that of foreign investors Birr 95.9 million, signifying that foreign investment projects were more of capital intensive than domestic ones.

Table2.2: - Number of Projects

		2015/16	2016/17	2017/18		Percentage change	
		A	B	C	Share	C/A	C/B
1. Total Investment	Number	852	468	1,550	100.0	81.9	231.2
	Capital	6,708.6	8,896.9	25,876.3	100.0	285.7	190.8
	Permanent Workers	12,724	20,712	332,003	100.0	2,509.3	1,502.9
	Temporary Workers	12,710	9,775	36,214	100.0	184.9	270.5
1.1. Total Private	Number	852	467	1,550	100.0	81.9	231.9
	Capital	6,708.6	3,896.9	25,876.3	100.0	285.7	564.0
	Permanent Workers	12,724	20,692	332,003	100.0	2,509.3	1,504.5
	Temporary Workers	12,710	9,775	36,214	100.0	184.9	270.5
1.1.1. Domestic	Number	772	424	1,496	96.5	93.8	252.8
	Capital	5,463.7	3,295.0	20,698.2	80.0	278.8	528.2
	Permanent Workers	5,869	17,810	233,115	70.2	3,872.0	1,208.9
	Temporary Workers	8,993	9,051	14,044	38.8	56.2	55.2
1.1.2. Foreign	Number	80	43	54	3.5	(32.5)	25.6
	Capital	1,244.9	602.0	5,178.1	20.0	316.0	760.2
	Permanent Workers	6,855	2,882	98,888	29.8	1,342.6	3,331.2
	Temporary Workers	3,717	724	22,170	61.2	496.4	2,962.2
1.2.Public	Number		1				

	Capital		5,000.0				
	Permanent Workers		20				
	Temporary Workers						

Source: - NBE Annual report 2017/18 and Ethiopian Investment Commission

2.1.8. Foreign direct investment in Ethiopia banking

The government of Ethiopia has established the Ethiopian Investment Authority (EIA) in the year 1992 among other things to promote, coordinate and facilitate foreign direct investment in the country. Functions of EIA, among others, include; providing all the necessary information required by foreign direct investors, cheek and approving foreign investment applications, issuing investment permits, services related to registration, approving expatriate posts in approved investments and issuing work permits to foreign employees. Issuing trade and operating licenses for foreign investments, monitoring the implantation of licensed investment projects of FDI, approving and registering technology transfer agreements between local companies and foreign technology suppliers, and facilitating the acquisition of land by foreign investors in accordance with the relevant federal and regional government laws and regulations (Getinet and Hirut, 2006) (Solomon, 2008) and (Henok, 2014) (Habtamu, 2019).

2.2. Empirical literature

2.2.1. Credit Policies (NBE Procedure)

The foundation for effective credit risk management is the identification of existing and potential risks in the bank's credit products and credit activities. This creates the need for development and implementation of clearly defined policies, formally established in writing, which set out the credit risk philosophy of the bank and the parameters under which credit risk is to be controlled. Measuring the risks attached to each credit activity permits a platform against which the bank can make critical decisions about the nature and scope of the credit activity it is willing to undertake. (Chris sanders, 2015) & (CICM, 2012)

A cornerstone of safe and sound banking is the design and implementation of written policies and procedures related to identifying, measuring, monitoring and controlling credit risk. Credit policies establish the framework for lending and guide the credit-granting activities of the bank. The policies should be designed and implemented with consideration for internal and external factors such as the bank's market position, trade area, staff capabilities, and technology; and should particularly establish targets for portfolio mix and exposure limits to single counterparties, groups of connected counterparties, industries or economic sectors, geographic regions and specific products. Effective policies and procedures enable a bank to maintain sound credit-granting standards; monitor and control credit risk; properly evaluate new business opportunities; and identify and administer problem credits. Credit policies need to contain, at a minimum of a credit risk philosophy governing the extent to which the bank is willing to assume credit risk and General areas of credit in which the bank is prepared to engage or is restricted from engaging on it and clearly defined and appropriate levels of delegation of approval, and provision or write-off authorities.

The basis for an effective credit risk management process is the identification and analysis of existing and potential risks inherent in any product or activity. Consequently, it is important that banks identify the credit risk here in all the products they offer and the activities in which they engage. This is particularly true for those products and activities that are new to the bank where risk may be less obvious and which may require more analysis than traditional credit-granting activities. Although such activities may require tailored procedures and controls, the basic principles of credit risk management would still apply. All new products and activities should receive board approval before being offered by the bank. (NBE FXD/47/2017) & (Stevenson, 2005)

2.2.2. Credit policy for external loan

A foreign investor is eligible to acquire an external loan when it fulfills all requirements of the following: - (NBE FXD/47/2017)

- The debt to equity ratio may not exceed 60:40 of the foreign capital
- Application Letter
- Valid investment or any other valid business license given by pertinent licensing authority as the case may be applicable.
- Foreign capital registration certificate issued by a pertinent government body
- For external loan, the draft loan agreement with detailed terms showing interest rates and applicable charges, loan disbursement schedule repayment schedule borrower-lender relationships, the purpose of the loan and other particulars as may be deemed necessary by

the National bank of Ethiopia and For supplier's credit, pro-forma invoice with repayment period and term.

2.2.3. Lending Activities

Commercial Banks and Development Bank of Ethiopia (DBE) disbursed Birr 115.4 billion in fresh loans which were 5.9 percent higher than a year ago. Of the total new loans, about 58.2 percent was provided by private banks and 41.8 percent by the two public banks. About 26.4 percent of the loans went to the industry followed by domestic trade (17.3 percent), international trade (16.1 percent), other sectors (11 percent), housing and construction (10.6 percent) and agriculture (9.9 percent) while the remaining balance went to other economic sectors. (NBE Annual Report 2017/18)

Table2.3:-Lending activities ***(In Millions of Birr)***

	2016/17			2017/18			Percentage Change		
	D*	C*	O/S*	D*	C*	O/S*			
Lenders	**A**	**B**	**C**	**D**	**E**	**F**	**D/A**	**E/B**	**F/C**
A. Public Banks									
1.Commercial Bank of Ethiopia	42817.6	38126.6	54,164.0	41281.6	41414.6	173,294.4	-3.6	8.6	12.4
2.Development Bank of Ethiopia	5569.0	4772.5	34,202.8	6948.5	4551.1	39,155.4	24.8	-4.6	14.5
Sub-Total	***48,386.6***	***2,899.1***	***188,366.8***	***48,230.1***	***45,965.7***	***212,449.7***	**-0.3**	**7.1**	**12.8**
B. Private Banks									
3 Awash International Bank	6642.8	6975.0	22576.3	4860.5	8333.5	31209.1	-26.8	19.5	38.2
4. Dashen Bank	8694.1	7877.7	18078.9	9953.7	8392.3	23069.4	14.5	6.5	27.6
5. Wegagen Bank	3945.0	5595.1	10367.5	6194.8	6021.5	15038.5	57.0	7.6	45.1
6. Bank of Abyssinia	5384.3	2881.2	14105.4	4681.4	3795.2	18023.5	-13.1	31.7	27.8
7. United Bank	4961.6	5989.5	11996.3	4825.5	7230.3	14715.0	-2.7	20.7	22.7
8. Nib International Bank	6725.2	4555.4	10888.4	6197.2	4926.9	13692.7	-7.9	8.2	25.8
9. Cooperative Bank of Oromia	7360.3	4647.1	9995.5	8980.3	6587.9	15117.4	22.0	41.8	51.2
10. Lion International Bank	2663.4	2513.9	5598.3	2998.0	3223.7	7560.3	12.6	28.2	35.0
11. Oromia International Bank	1817.2	2103.4	4160.1	2095.7	2158.8	5182.3	15.3	2.6	24.6
12. Zemen Bank	3294.9	2882.3	7175.5	5103.6	4535.3	11596.3	54.9	57.4	61.6

13.Berhan International Bank	2741.1	2675.8	5366.7	3550.1	3558.5	7144.3	29.5	33.0	33.1
14.Bunna International Bank	2264.7	1491.6	5202.8	2781.0	1811.9	6915.1	22.8	21.5	32.9
15.Abay Bank	1902.3	1722.3	4274.3	1827.9	2231.1	5854.7	-3.9	29.5	37.0
16. Addis International Bank	425.1	552.2	1581.3	543.1	541.5	2053.6	27.8	-1.9	29.9
17. Debub Global Bank	654.6	617.5	794.3	1345.7	706.5	1584.2	0.0	0.0	0.0
18. Enat Bank	1148.2	1190.0	2479.1	1229.4	1594.0	3349.6	0.0	0.0	0.0
Sub-Total	***60,624.6***	***4,270.0***	***134,640.5***	***67,168.0***	***65,648.9***	***182,105.8***	**10.8**	**21.0**	**35.3**
Grand Total	***09,011.2***	***7,169.1***	***323,007.4***	***15,398.1***	***11,614.5***	***394,555.5***	**5.9**	**14.9**	**22.2**

Source: Commercial Banks

1/ Outstanding Credit excludes central government borrowing

D*=Disbursement, C*=Collection, O/S*= Outstanding Credit

2.2.4. The nature of credit risk in project finance

2.2.4.1. The main challenges of financing large-scale projects

Projects like power plants, toll roads or airports share a number of characteristics that make their financing particularly challenging. First, they require large indivisible investments in a single-purpose asset. In most industrial sectors where project finance is used, such as oil and gas and petrochemicals, over 50% of the total value of projects consists of investments exceeding $1 billion. Second, projects usually undergo two main phases (construction and operation) characterized by quite different risks and cash flow patterns. Construction primarily involves technological and environmental risks, whereas operation is exposed to market risk (fluctuations in the prices of inputs or outputs) and political risk, among other factors. Most of the capital expenditures are concentrated in the initial construction phase, with revenues instead starting to accrue only after the project has begun operation. Third, the success of large projects depends on the joint effort of several related parties (from the construction company to the input supplier, from the host government to the off-taker) so that coordination failures, conflicts of interest and free-riding of any project participant can have significant costs. Moreover, managers have substantial discretion in allocating the usually large free cash flows generated by the project operation, which can potentially lead to opportunistic behavior and inefficient investments. (Sorge 2004)

2.2.5. The key characteristics of project financing structures

A number of typical characteristics of project financing structures are designed to handle the risks illustrated above. In project finance, several long-term contracts such as construction, supply, off-take and concession agreements, along with a variety of joint-ownership structures, are used to align incentives and deter opportunistic behavior by any party involved in the project. The project company operates at the center of an extensive network of contractual relationships, which attempt to allocate a variety of project risks to those parties best suited to appraise and control them: for example, construction risk is borne by the contractor and the risk of insufficient demand for the project output by the off-taker. Project finance aims to strike a balance between the need for sharing the risk of sizeable investments among multiple investors and, at the same time, the importance of effectively monitoring managerial actions and ensuring a coordinated effort by all project-related parties. Large-scale projects might be too big for any single company to finance on its own. On the other hand, widely fragmented equity or debt financing in the capital markets would help to diversify risks among a larger investors' base but might make it difficult to control managerial discretion in the allocation of free cash flows, avoiding wasteful expenditures. In project finance, instead, equity is held by a small number of "sponsors" and debt is usually provided by a syndicate of a limited number of banks. Concentrated debt and equity ownership enhances project monitoring by capital providers and makes it easier to enforce project specific governance rules for the purpose of avoiding conflicts of interest or suboptimal investments. (Hainz and Kleimeier, 2003)

2.2.6. The scope of the banking business in Ethiopia

The scope of banking business differs from nation to nation as well as from time to time. In general, banking powers have been delineated either by detail description of possible activities or else at least by general exclusionary clauses that declare banks should not engage in certain activities particularly dealing in merchandise. Demarcating the precise boundary of banking activities and non-banking activities is not an easy decision. At any rate, some general definition of banking activities offers some guidance. The Ethiopian law also did that. (Tiong et.al, 2008) The banking business proc. 592/2008 in its relevant provision holds that having 'bank' defined as a company licensed to undertake banking business, banking business is any business that consists of activities listed herein under:

a) Receiving funds from the public through means that the National Bank of Ethiopia (hereinafter NBE) has declared to be an authorized manner of receiving funds;
b) Using the funds in whole or in part, for the account and at the risk of the person undertaking banking business, for loans or investment in a manner acceptable by the National bank;
c) The buying and selling of gold and silver bullion and foreign exchange;
d) the transfer of funds to other local and foreign persons on behalf of the banks themselves or their customers;
e) The discounting and negotiation of promissory notes, drafts, bills of exchange and other evidence of debt;
f) Any other activity recognized as customary banking business, which a bank engaged in the activities described from (a) to (e) may be authorized to undertake by the National Bank. (Business proc. 592/2008)

This definition of the scope of banking activities in Ethiopia is narrow as it mentioned limited and common activities that banks carry out. Interestingly, it seems by way of admitting the limitation in this listing, it paves the way for necessary accommodation by granting power to the NBE to authorize other activities. At the same time, it warns the NBE to adhere to customary activities of banks and once again vesting NBE substantial discretion to avail the less clear phrase 'customary banking businesses. (Directive No. SBB/65/2017), (Proc 592/2008,)

Again another leeway is opened in Art. 22 of the banking business proclamation whereby the NBE is empowered to determine the conditions and limitations on investments of banks, and a loan, advance or another credit facility, financial guarantee or any other commitment or contracts given by a bank, directly or indirectly to a person. Following that, a directive has been issued and the power of banks in investment has been determined. The directive supplements the proclamation by setting forth that a bank may not directly engage in the insurance business or other non-banking businesses such as agriculture, industry, and commerce. By way of exception, some level of direct engagement in non-banking business may be carried out but only in two specified sectors in the sphere of real estate acquisition and development; and securities. The NBE has determined that a bank enjoys the liberty to invest up to 20% of its net worth in the sphere of real estate acquisition and development, excluding investment for own business premises. And in the securities sector, a bank may invest up to a maximum of 10% of its net worth, excluding investment by way of equity participation in securities firms. Apart from these two exceptions (in real estate and securities), direct engagement in nonbanking business would be a violation of the regulatory regime. In line with the accepted principle that banks and commerce should be kept apart, banks in Ethiopia are not allowed to engage in trading or manufacturing or other typical areas of commerce featuring separation of banking and commerce in the Ethiopian context. However, some venting room has also been created for banks to engage in indirectly in the sphere of commerce by way of equity participation of banks in non-banking entities. (Yohannes, 2011)

2.2.7. Resource Mobilization

Total resources mobilized by the banking system in the form of deposit, borrowing and loan collection increased by 27.7 percent and reached Birr 298.2 billion at the end of 2017/18. Saving deposits grew by 30.4 percent followed by demand deposits (27.6 percent) and time deposits (21.7 percent) of the total deposits, saving deposits accounted for 52.4 percent, demand deposits 37.1 percent and time deposit (10.5 percent) and the total outstanding borrowing at the end of the fiscal year was Birr 65 billion up from Birr 39.8 billion a year earlier due to borrowing by Development Bank of Ethiopia (DBE) of the total borrowing, domestic sources accounted for 89.5 percent and foreign sources 10.5 percent, all are indicated on the following table. (NBE Annual report 2017/18).

Table2.4: - Deposit and Borrowing

Deposits and Borrowings of Commercial Banks and Specialized Bank as at June 30, 2018

(In Millions of Birr)

	2015/16	2016/17	2017/18	S/R	T/S
	R	S	T		
A. Deposits					
➢ Demand	171,019.5	212,082.1	270,670.0	24.0	27.6
➢ Savings	217,047.8	293,450.9	382,583.5	35.2	30.4
➢ Time	50,085.5	63,285.8	77,004.3	26.4	21.7
Total	**438,152.7**	**568,818.7**	**730,257.7**	**29.8**	**28.4**
B. Borrowings					
➢ Local	29,328.4	34,984.4	58,125.1	19.3	66.1

➢ Foreign	4,726.8	4,822.2	6,849.1	2.0	42.0
Total	**34,055.2**	**39,806.6**	**64,974.2**	**16.9**	**63.2**

Source: - NBE Annual report 2017/18

2.2.8. Lending Activities of commercial banks

NBE in its annual report published for the fiscal year 2015/2016 declared that Commercial Banks in Ethiopia disbursed fresh loans to the tune of Birr 81.7 billion in 2015/16, which was 19 percent higher than a year before. Out of the total fresh loans, about 44% was disbursed by private banks and the lion share was injected to the economy by public banks (CBE). About 29.0 percent of the loans went to industry sector followed by domestic trade (17.1 percent), housing and construction (15.5 percent), agriculture (15.2 percent) and international trade (10.8 percent) and others (12.4 percent) Among Commercial banks included in this study, DB disbursed (7%) of the loan to the economy during 2015/2016 and the other private banks injected 5% each. (NBE report, 2015/16)

As one of their functions, banks lend money to both physical and jurisdiction persons. They charge a certain interest rate on these loans, which represents the earning used to pay expenses such as office rent employees salary and wage and other administrative expenses and as a dividend for their shareholders. (Tilahun, 2017)

The bank finances different groups in the economy, manufacturers, domestic trade and service givers, importers, exporters, real-estate developer’s consumers and other depending on the banks' credit availability. The ways in which banks allocate their fund strongly influence the economic development of a country. Every bank bears a degree of risk in its granting of credit and without exception every bank expectance some loan loss when certain borrowers fail to repay their loan. Whatever the degree of the risk taken, loan loss can be minimized through a highly professional organization and management of lending functions. Banks have to be vigilant in their lending decisions so as to avoid loan losses and the accumulation of non-performing loans (Asad, 2014).

Banks need to concentrate on sectors that are performing well and minimize lending to those sectors which have a high risk that already recorded a significant amount of non-performing loans in some banks. Therefore, the fact that ideally expected to be the commercial banks have a partial privilege of making a business with a foreign investors or on foreign project investments, the question that, the relationship between the banks and foreign project has not yet been clarified and the hindering factors on foreign project financing have not been studied well, so it is important to address the gaps on the role of commercial banks participating on foreign project finance. In this paper, the researcher report the investigation of the factors of most common projects financed by commercial banks and also report the effect on foreign projects performance and profitability for the private banks with advantage and risk of a business. (Tilahun, 2017)

2.3. Conceptual Framework

The conceptual/theoretical framework is the foundation on which the entire research project is based. It is a logically developed, described, and elaborated network of associations among the variables deemed relevant to the problem situation and identified through such processes as interviews, observations, and literature survey. (sekaran, 2003) A number of author have discussed the importance of a clearly defined conceptual framework for a project, Project Financing by Financial Institutions(banks) in Ethiopia assumes significance role in the context of the fact that Ethiopia is on track of fastest growing economy. Project Financing is generally used to refer to a non-recourse or limited recourse financing structure in which debt, equity, and credit enhancement are combined for construction and operation, or the refinancing, of a particular facility in a capital intensive industry, in which lenders base credit appraisals on the projected revenues from the operation of the facility, rather than the general assets or the credit of the sponsor of the facility, and rely on the assets of the facility, including any revenue-producing contracts and other cash flow generated by the facility, as collateral for the debt. (Hoffman, 2001) and (Vikas & Kumar, 2007)

The researcher is able to investigate the challenges of commercial banks on financing a foreign project in Ethiopia and identify factors that hinder foreign project financing. Financial capacity with its key indicators as credit performance and deposit size in which the priority of lenders to ensuring the security of the project revenue stream, a number of financial ratios would be key to the analysis of a project financed transaction, Net interest income with its key indicators, loans return and related mortgage and securities. Foreign currency with its key indicators, export, and import, inward remittance, SWIFT and purchase of foreign currencies, National banks involvement with its key indicators, directive, circular and procedures in order to influence the role of commercial banks in financing the foreign project.

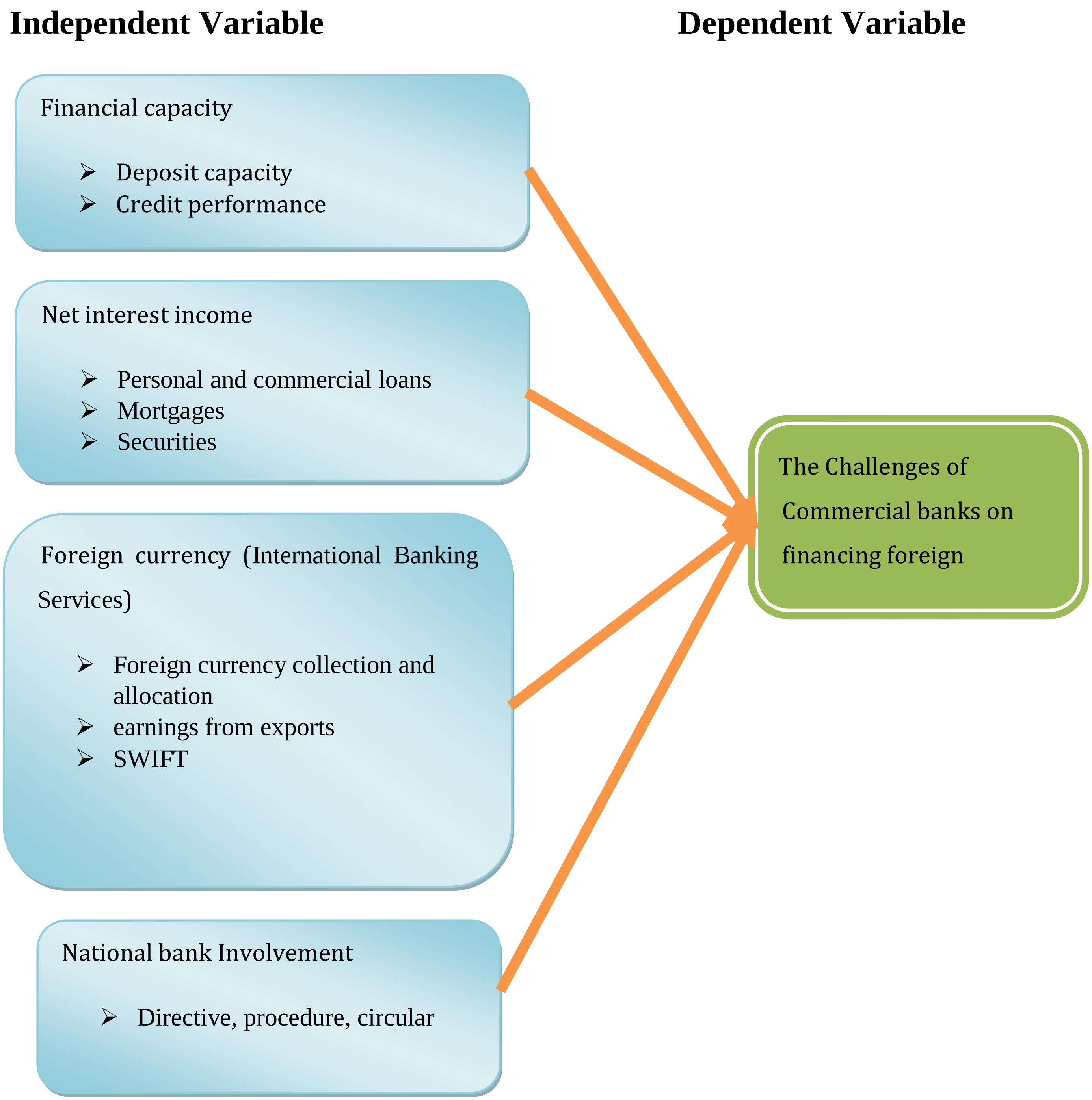

Figure 1: Conceptual Framework

Chapter Three
Research design and methodology

3. Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. When starting up research it is important to choose a proper approach in which to collect data. Kothari (2004) Different research designs can be conveniently defined by different scholars and researchers, the major emphasis in explanatory studies is on the discovery of ideas and insights. As such the research design appropriate for such studies must be flexible enough to provide an opportunity for considering different aspects of a problem under study. (Kothari, 2004) Based on this, the researcher has to choose to use Descriptive and Explanatory research design in this study. Because, it is transformed into one with a more precise meaning in explanatory studies, which necessitate changes in the research procedure for gathering relevant data and enables to get a deeper understanding regarding the challenge of commercial Banks in financing foreign projects in Ethiopia.

3.1. Data Source & Collection Methods

3.1.1. Data source

The main sources of input data for this study were the data gathering from a primary and secondary data source. A primary data source is an original data source, that is, one in which the data are obtained firsthand by the researcher on the variables of interest for a specific research purpose of the study. Primary data can be collected in a number of ways. In this study, most common techniques in primary data sources, such as questioners and interviews guide were prepared and distributed to the samples which select from six private commercial banks.

Secondary data refer to information gathered from sources already existing and the data collection were from the different sources, publication of Government, National bank, private bank, world bank, Economic Survey, Government of Ethiopia, Various Issues; Ethiopian Investment Commission (EIC), Investment Report 2008-2018 Published by EIC, Various Economic Related journals, Banking Operation Related journals, FDI related journals have also been referred.

3.1.2. Sample Size

In this part of the study, the minimum sample size, the researcher need to estimate the true population proportion with the required margin of error and confidence level were indicated. Sample size can be stated that whenever a sample study is made, there arises some sampling error which can be controlled by selecting a sample of adequate size. (Kothari, 2004) The researcher has to specify the precision that the study wants in respect of the population parameters and the following six banks were chosen,

Table 3.1. Banks performance

Rank	Bank	Gross profit	Net Profit
1	Awash bank	1.96 Billion	1.49B
2	Dashen Bank	1.14 Billion	929M
3	Wegagen bank	1.05 Billion	735M
4	Oromia Int’l bank	938 Million	728M
5	Abyssinia bank	766 Million	536M
6	United bank	706.9 Million	494M

The following fundamental measurement is applied to choose the above banks as per the 2017/18 annual report.

i. Profit of 2017/2018
ii. Number of Branches
iii. Number of foreign customers
iv. Number of Project
v. Accessibility of information,
vi. Availability of Credit for the Debtor

Due to the nature and number of population in the selected six private banks, the following formula is applied to calculate the sample size.

Confidence level	95%
P	0.3
Error	0.05
Population Size	300
Alpha divided by 2	0.025
Z-Score	1.96
Sample size	105.83

$$= \frac{\frac{Z^2 P(1-P)}{e^2}}{1 + \left(\frac{Z^2 P(1-P)}{e^2 N}\right)}$$

As per the above formula, the sample size is 105 out of 300 staffs that are directly participating in the project financing and foreign investment (Foreign Direct Investment) the confidence level is the probability that the margin of error contains the true proportion. In most social science studies, it is expected would be expecting the true value to lie within these ranges on 95% of occurrences. The researcher use 50% sample proportion or population proportion which is conservative and gives the largest sample size, note that this sample size calculation uses the Normal approximation to the Binomial distribution. The margin of error or confidence interval for this study takes 5% which means the actual precision achieves after the researcher collect the data more or less than this target number. (Sekaran, 2003) The total number of distinct individuals in this study population is 300 staffs all over the selected banks, getting from a simple survey and formula, the researcher use a finite population correction to account for sampling from populations that are small, as it indicates in the above paragraph.

3.1.3. Method of Sampling

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample and sample designs are basically of two types, Non-probability sampling and probability sampling. Non-probability sampling is also known by different names such as deliberate sampling, purposive sampling, and judgment sampling. In this type of sampling, items for the sample are selected deliberately by the researcher; his choice concerning the items remains supreme. In other words, under non-probability sampling, the organizers of the inquiry purposively choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one would be typical or representative of the whole. (Kothari,

2004) in this study the researcher used two level of sampling, Bank level sampling which is judgmental and individual level sampling which is random. Because it is expected that relatively big and profitable private banks were expected to engage in FDI more than relatively younger Banks provide reliable result.

3.1.4. Methods of Data Collection

Data collection methods are an essential part of research design. So in this study, both primary data as well as secondary data sources were gathered. The data for this study is largely collected through the survey from private commercial banks in Ethiopia. The instruments used in order to collect primary data are structured questionnaires and interviews. In addition, secondary data were also gathered from profiles of private banks, documents, existing literature, relevant books, articles, and journals; reports and directives of NBE. The data collected from the banking industry via interview and questionnaire survey is processed by the means of statistical analysis for the purpose of generalizing its findings.

3.1.4.1. Questionnaires

Questionnaires refer to forms filled in by respondents alone. Questionnaires can be handed out or sent by mail and later collected (Marczyk et al., 2005). In this study, the researcher prepared the questionnaire both by mail and by hard copy. In order to maximize return rates, questionnaires were designed to be as simple and clear as possible, with targeted sections and questions. Questionnaires, like interviews, can contain structured questions with blanks to be filled in, multiple choice questions, and can contain open-ended questions, to get information clearly and 105 questionnaires prepared and distributed.

3.2. Target Population & Method of Sampling

3.2.1. Target Population

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. (sekaran, 2003). The target populations are defined based on the nature of the study and the objective of the study. For instance, in this study the primary data sources were collected from the employees of private banks, including Awash bank, Dashen bank, Wegagen bank, Oromia Int'l bank, Abyssinia bank and United bank who were working in a credit and international business development department 300 staffs.

3.2.2. Sample Size

In this part of the study, the minimum sample size, the researcher need to estimate the true population proportion with the required margin of error and confidence level were indicated. Sample size can be stated that whenever a sample study is made, there arises some sampling error which can be controlled by selecting a sample of adequate size. (Kothari, 2004) The researcher has to specify the precision that the study wants in respect of the population parameters and the following six banks were chosen,

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3.3. Variables and Measurement

The variables describe as independent variable and dependent variable, that leads us to the objectives and precise measurement, in this study also subjective nature of variable are measured, the four independent variables, financial capacity, Net interest income, foreign currency, and National Bank Involvement (stakeholder Involvement) interrelate in order to influence the role of Commercial banks on financing foreign projects.

3.4. Method of Data Analysis and Presenting the Outcome

3.4.1. Method of Data Analysis

The data, after collection, has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan. This is essential for a scientific study and for ensuring that have all relevant data for making contemplated comparisons and analysis. (Kothari, 2004) Analysis can be categorized as descriptive analysis and inferential analysis (Inferential analysis is often known as statistical analysis). This study takes a regression analysis of data to analyze the data collected using questionnaire from the nominated banks. Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. There are three types of regression analysis, which are, linear regression, multiple linear regression, and Non-linear regression, in case of this study multiple linear regression is applied, for the reason that, there are more than two variables, four variables defined as independent variables which are the cause of the change in behavior of another one defined as dependent variable. The multiple linear regression models are expressed using the following equation. Kothari (2004)

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e$$

Where: - X1, X2, X3 and X4 are independent variables and Y being the dependent variable, a is the constants a, and b1, b2, b3 and b4 are the coefficients.

The data is represented by using tabulation methods, Frequency distribution, description of facts based on some statistical analysis in order to display the collected data in a concise and meaningful way.

3.4.2. Model Specification

The major aim of this research is to identify the challenges of Commercial banks on financing foreign projects: Relationship between Financial capacities (FC), Net interest income (BII), and foreign currency (International Banking Services) (IBS), National bank Involvement (NBEI) with Commercial banks on financing foreign projects (CBFP). The variables are taken from different papers discussed in the literatures taking into consideration the availability of data.

Table 3.2. Operationalization of Variables

No	Independent Variable	Indicator
1	Financial capacity (**FC**)	➢ Deposit capacity
		➢ Credit performance
2	Net interest income (**NII**)	➢ Personal and commercial loans
		➢ Mortgages
		➢ Securities
3	Foreign currency (International Banking Services) (**IBS**)	➢ Foreign currency collection and allocation
		➢ Earnings from exports
		➢ Swift
4	National bank Involvement (**NBEI**)	➢ Directive, procedure, circular
	Dependent Variable	**Indicator**
5	Financing foreign projects	➢ Project finance accessibility
		➢ Foreign project control method
		➢ Foreign currency accessibility
		➢ Bank reserve

CBFP= β0 + β1 FC+ β2 NII + β3 IBS + β4 NBEI + ε

Where

β0 = Constant β1 = β4 Coefficients of the regression equation ε = Coefficient of error

Source: - Developed for the research

3.4.3. Validity of Research Instrument

In order to establish the validity of the study instrument the researcher were planned to identify a causal relationship between the independent and dependent variables of the study. The researcher would also self-administered the questionnaire and explain the instrument concepts to the respondents which enhance its face validity as recommended by (Greener, 2008) to encourage and motivate respondents to participate in the study.

3.4.4. Reliability of Research Instrument

The data were tested for its reliability using Cronbach’s alpha. The most popular test of internal consistency reliability is the Cronbach‘s alpha. (Cronbach‘s alpha; Cronbach, 1946), The Cronbach’s Alpha has been used to measure the internal consistency of the scale in this research for the estimation of the consistency of the individual responded to items within the scale to the degree that items are independent measures of the same concept, they were correlated with one another. (Nunnally, 1978) the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure. (Sekaran, 2003) reliability is usually expressed as a correlation coefficient, which is a statistical analysis that tells us something about the relationship between two sets of scores or variables. (Marczyk et.al, 2005)

Chapter Four

Data Analysis and Interpretation

This chapter presents the analysis of data collected and a discussion of the findings on the challenges of Private commercial Banks in financing foreign Projects in Ethiopia on the selected Private Banks. The data analysis, presentation and interpretation are in the form of tables that show frequency, percentages, means, standard deviation and inferential statistics.

Out of the 105 questionnaires distributed 101 were properly filled and usable for further analysis. This chapter presents the descriptive analysis on variables of the study and results of regression analysis that constitute the main findings of this study. All the data were coded and entered in to SPSS version 25 and inferences were made based on the statistical results.

4.1. Reliability and Validity

The test of reliability is another important test of sound measurement. A measuring instrument is reliable if it provides consistent results. (Kothari, 2004) A reliability test is used to assess consistency in measurement items. If a research tool is consistent, stable, predictable and accurate, it is said to be reliable. (Selamawit, 2018) The greater the degree of consistency and stability in an instrument, the greater its reliability. Defined reliability as the degree to which the measure of a construct is consistent or dependable.

Internal consistency reliability test was used to determine reliability of the questionnaire by calculating Cronbach's Alpha which is used to measure the internal consistency of the measurement items. As shown in table 4.1 below, this study demonstrates high internal consistency and the total Cronbach Alpha coefficient is .901. Therefore, this study demonstrates high reliability.

Table 4.1. Reliability Statistics

Cronbach's Alpha	N of Items
.901	15

Source: Analysis of Survey data 2020, using SPSS 25

4.2. Demographic Information

The study sought to examine the demographic information of the respondents. The data sought included Gender, Age, Education and working experience with all selected banks. The results are as presented in the following sections.

Table 4.2. Demographic characteristics of respondents

Items		Frequency	Percent
Gender	Male	67	66.3
	Female	34	33.7
	Total	101	100.0
Age	<30	34	33.7
	30 - 45	52	51.5
	>45	15	14.9
	Total	101	100.0
Working experience	<5	31	30.7
	5-10	33	32.7
	11-20	36	35.6
	>20	1	1.0
	Total	101	100.0
Position	Director	3	3.0
	Manager	8	7.9
	Supervisor	15	14.9
	Officer	75	74.3
	Total	101	100.0
Education	Master Degree	45	44.6
	Bachelor	56	55.4
	Total	101	100.0

Source: Analysis of Survey data 2020, using SPSS 25

4.2.1. Demographic Profile of Respondents

As shown in the Table 4.2, in regard to their gender 66.3% were male and 33.7 % were female as indicated in the table above. In the sample selected 33.7 % of the respondents were <30 years, 51.5 % were 30 – 45 years, 14.9 % of the respondents were <45 years, as shown in Table. This implies that the majority of the workforce is between the ages of 30 – 45 years.

4.2.2. Work Experience

As shown in the above table, 30.7% of the respondents' have work experience of less than five Years, while 32.7% have worked 5-10 years of experience in their current position 35.6% have worked 11-20 years of experience and 1% of them works more than 20years.

4.2.3. Current Position in the Organization

The respondents are IBD Directors, Foreign Business manager's and supervisor, customer relationship officers and foreign business officer. In terms of their position 3% of respondent are directors, 7.9% were manager, 14.9% are Supervisor and 74.3% were officers from the entire respondents.

4.2.4. Educational Background

With regard to the educational background of the respondents 44.6 % of the respondents have a master Degree, and the rest 55.4 % were Bachelor degree holders (see table 4.2) Hence, we can see that the respondents are well qualified.

4.3. The impact of National bank of Ethiopia on foreign project finance

Table 4.3. Is the National bank of Ethiopia's regulation having a negative impact on foreign project finance?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	99	98.0	98.0	98.0
	No	2	2.0	2.0	100.0
	Total	101	100.0	100.0	

Source: Analysis of Survey data 2020, using SPSS 25

As shown in table 4.3, 98.0% of the respondents have selected "yes" which means national bank of Ethiopia have a negative impact on foreign project finance and 2% of them responding "No" or there is no impact on processing foreign project.

Table 4.4. If your answer is Yes, what types of challenges the organization subjected to

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Limitation on transaction	4	4.0	4.0	4.0
	Limitation on getting customer	16	15.8	15.8	19.8
	Restriction on foreign project finance	3	3.0	3.0	22.8
	All of the Above	76	77.2	77.2	100.0
	Total	99	100.0	100.0	

Source: Analysis of Survey data 2020, using SPSS 25

National bank of Ethiopia is one of the government banks that govern all private banks and the monetary system of Ethiopia, with the responsible organ of government. So all rule and regulation of financial institution have been published and deployed by this organ. From this point of view the government rule on foreign project finance have a negative impact on a private banks, as per this survey 98.0% (101) of the respondent agreed it has an impact on the bank and 2.0% (2) respondent are disagreed according to the survey. The challenges that the banks suffer from NBE are shown on a Table 4.4. And above 77.2% of respondent are agreed in the listed statements: Limitation on transaction, Limitation on getting customer and Restriction on foreign project

Table 4.7. Are there any challenges that affect the project's finance in your bank?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	71	70.3	70.3	70.3
	No	30	29.7	29.7	100.0
	Total	101	100.0	100.0	

Source: Analysis of Survey data 2020, using SPSS 25

According to my questionnaires results 71 (70.3%) of the respondent expressed that there is a challenge affecting project finance in the commercial private banks and 30(29.7%) of the respondent says that there is no challenge on project financing. From this, conclude that commercial private banks face a challenge to finance foreign project with their full capacity.

4.4. Role of commercial banks on financing foreign project

Table 4.5. Does your bank have its' own role on financing foreign project?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	81	80.2	80.2	80.2
	No	20	19.8	19.8	100.0
	Total	101	100.0	100.0	

According to the questionnaire results 81 (80.2%) of the respondent stated that there is a written role of financing foreign project, and 20 (19.8%) of the respondent says that there is no existed role for foreign project finance.

Table 4.6. Does your bank have the power to avail a new policy to manage foreign business finance?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	34	33.7	33.7	33.7
	No	67	66.3	66.3	100.0
	Total	101	100.0	100.0	

Source: Analysis of Survey data 2020, using SPSS 25

80.2% of the respondents have selected "yes" and 19.2 of them "No" this means the banks have a policy and role for handling foreign project request with the interest of the customer. Power to avail a new policy to manage foreign business finance is rated by respondents 66.3% is not agreed with preparing new policy and 33.7% of them responses to have a power to avail a new policy. Commercial banks have a great role in contributing to the economic development of the country. For this reason the role and contribution of these commercial banks is indispensable if we like to ensure development to our country. (Aregawi, 2014)

4.5. Descriptive Analysis on Variables of the Study

The different factors that affect the role of the banks on financing foreign project in Ethiopia, financial capacity, Net interest income, foreign currency, and National Bank Involvement (stakeholder Involvement) interrelate in order to influence the role of Commercial banks on financing foreign projects. These have been stated in the literature review and were analyzed as presented here below.

4.5.1. Foreign currency

This study determines the influence of foreign currency on the financing foreign projects. The researcher provided 3 (as shown in table 4.8) questions for all respondents.

Table 4.8. How is your bank's capacity to facilitate foreign project finance?

Items	N	Sum	Mean	Std. Deviation
Easy facilitation of foreign currency	101	154.00	1.53	.974
Import process for a foreign project is available	101	361.00	3.58	1.08
Foreign currencies allocation for foreign investors is separately managed	101	249.00	2.47	1.31
Valid N (list wise)	**101**		**2.55**	**1.12**

Source: Analysis of Survey data 2020, using SPSS 25

The final result showed that the grand mean of foreign currency to facilitate foreign project is 2.61. This means there is a shortage of foreign currency support and facilitation for foreign project, but as per the data collected below the import process for a foreign project is available if they have a source of income from abroad, and the allocation of foreign currencies is not separate from local customer or investors. Overall, the capacity of the bank to facilitate foreign project finance is weak.

Ethiopia’s strict foreign currency regime makes it challenging to convert the birr in other countries and additionally limits the foreign currency holding amount within local borders to a maximum of 30 days. Other the countries also experiences foreign exchange shortages, owing to high demand for local currency. The reported currency shortage is expected to continue for a few more years, however, privatization is expected to help resolve the challenge. (IMF, 2018).

4.5.2. National Bank Involvement

The survey used four (4) questions were prepared to investigate the national bank regulation involvement on foreign project finance.

Table 4.9. How would you rank the following National bank of Ethiopia's regulation on foreign project finance?

Items	N	Mean	Std. Deviation
Encourage foreign project finance by private banks	101	2.59	1.282
Provide a more stable source of getting foreign project finance	101	2.53	1.213
Giving a chance of financing for private banks instead of government	101	1.90	1.236
State the role of banks properly	101	2.53	1.261
Valid N (list wise)	**101**	**2.39**	**1.248**

Source: Analysis of Survey data 2020, using SPSS 25

As shown in Table 4.9, the total mean 2.39 for this variable revealed that national bank regulation is highly affected the process of foreign project on private commercial banks. Ethiopia has a highly regulated financial system. The banking system remains underdeveloped, coupled with restrictions in foreign participation in certain financial sectors. The banking sector continues to be dominated by state-owned financial institutions. The Commercial Bank of Ethiopia, which is the largest player in terms of assets and deposits, accounts for 47.7% of loans. In 2011, a directive was issued by the National Bank of Ethiopia (NBE), where private banks are expected to invest worth 27% of their lending NBE bond. Proceeds would be used to support the Development Bank of Ethiopia in funding loans directed towards the large sectors. (Deloite, 2019). Of course, this 27% mandatory purchase of Bond was removed now.

4.5.3. Financial capacity

For the examination of negative and positive factor that affect the foreign projects, five and three question were designed respectively.

Table 4.10. Negative factors that may affect project finance?

Items	N	Mean	Std. Deviation
Poor Monitoring and Risk Management	101	4.01	1.204
Imperfect structure of lending Policies and Regulations on NBE	101	3.77	1.103
Poor Management of foreign currency transaction	101	4.01	1.253
High interest rate (in respects to repayment performance)	101	3.80	1.039
The average time from application to first disbursement (Loan Issuing period)	101	4.03	1.212
Valid N (list wise)	**101**	**3.92**	**1.162**

Source: Analysis of Survey data 2020, using SPSS 25

Table 4.11. Positive factors that may affect project finance?

Items	N	Mean	Std. Deviation
Flexible loan and foreign currency approval for foreign investors	101	3.01	1.308
The amount of loan released is enough for the purposes intended,	101	2.55	1.109
large grace period and sufficient time for implementation is given for foreign projects	101	2.63	1.354
Valid N (list wise)	**101**	**2.73**	**1.257**

Source: Analysis of Survey data 2020, using SPSS 25

As represented in table 4.10 and 4.11, the total mean value for negative factor shows 3.92 and 2.73 for positive factors that affect project finance. This variable showed that there is a high negative impact on financing foreign project and the positive impact is less when compared with the negative factor.

Table 4.12. What would be the factors affecting foreign projects finance?

Items	N	Mean	Std. Deviation
Availability of finance from banks.	101	4.29	.684
Interest rates on borrowing amount are high	101	3.97	1.036
Foreign investment is riskier than local investment	101	4.03	1.068
Valid N (list wise)	**101**	**4.09**	**0.929**

Source: Analysis of Survey data 2020, using SPSS 25

This study sought to determine the factors that affect the foreign project finance, in an availability of finance or loan. The researcher provided a question and got a mean of 4.29, which means there is a capacity to finance foreign project by local currency. Interest rates on borrowing amount are high, for this question with a mean of 3.97, this means there is a high interest rate on the financed amount. And finally the foreign investment financing process is riskier than local investment as per the study result by a mean of 4.03. In general, the grand mean for this variable showed that 4.09. As shown in table above.

4.6. Correlation Analysis

Initially, referring to table 4.13 the Pearson Correlation Analysis (PCA) shows the relationship between Private commercial Banks in financing foreign Projects with the Financial capacities (FC), Net interest income (NII), foreign currency (International Banking Services) (IBS), National bank Involvement (NBEI) have strong correlation with financing foreign Projects with a p value 0.000 and p value 0.022 with a Pearson R value of 0.83, and 0.78 respectively. Financial capacity and National bank Involvement have relatively strong relationship with CBFP.

Table 4.13 Pearson's correlation

Correlations					
	CBFP	FC	BII	IBS	NBEI
CBFP	1				
FC	.784**	1			
NII	.828**	.819**	1		
IBS	.689**	.649**	.677**	1	
NBEI	.781**	.626**	.770**	.814**	1
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Analysis of Survey data 2020, using SPSS 25

From the correlation matrix above, we can see that multicollinearity is not a problem per (Palete 2005) who stated that if the correlation coefficient is less than 0.90, multicollinearity is not a problem.

4.7. Regression Analysis

Regression analysis is a statistical tool for the investigation of relationships between variables. As with correlation, regression is used to analyze the relation between two continuous (scale) variables. However, regression is better suited for studying functional dependencies between factors. The term functional dependency implies that X (partially) determines the level of Y. In this study, multiple regression analysis was carried out to get the predictive value of the theories considered.

Multiple regressions examine the relationship between a single outcome measure and several predictor or independent variables (Jaccard et al., 2006). The correct use of the multiple regression models requires that several critical assumptions be satisfied in order to apply the model and establish validity. Before a complete regression analysis can be performed, the assumptions concerning the original data must be made. Ignoring the regression assumptions contribute to wrong validity estimates (Antonakis, & Deitz, 2011). When the assumptions are not met, the results may result in Type I or Type II errors, or over- or under-estimation of significance of effect size (Osborne & Waters, 2002)

4.7.1. Assumption Analysis

The assumptions of multiple regressions that are identified as primary concern in the research include normality, homoscedasticity, and collinearity (multicollinearity). This section will specifically define each assumption, review consequences of assumption failure, and the interpretation of results.

4.7.1.1. Normality

Multiple regressions assume that variables have normal distributions (Osborne & Waters, 2002). This means that errors are normally distributed, and that a plot of the values of the residuals will approximate a normal curve (Keith, 2006).

Table 4.14 Case Processing Summary

Case Processing Summary						
Foreign project financing	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
	101	100.0%	0	0.0%	101	100.0%

Source: Analysis of Survey data 2020, using SPSS 25

Table 4.15 Descriptive

Descriptive				
			Statistic	Std. Error
Foreign project financing	Mean		3.9505	.11465
	95% Confidence Interval for Mean	Lower Bound	3.7230	
		Upper Bound	4.1780	
	5% Trimmed Mean		4.0226	
	Median		4.0000	
	Variance		1.328	
	Std. Deviation		1.15218	
	Minimum		1.00	
	Maximum		5.00	
	Range		4.00	
	Interquartile Range		1.50	
	Skewness		-.902	.240
	Kurtosis		-.367	.476

Source: Analysis of Survey data 2020, using SPSS 25

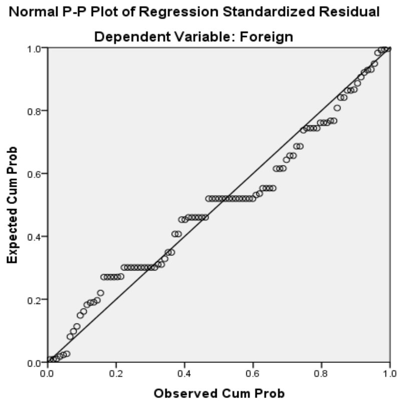
The researcher can test this assumption through several pieces of information: visual inspection of data plots, skew, kurtosis, and P-Plots (Osborne & Waters, 2002). Statistical software has tools designed for testing this assumption. Skewness -.902 and kurtosis -.367 can be checked in the above statistic tables, and values that are close to zero indicate normal distribution. Normality can further be checked through histograms of the standardized residuals (Stevens, 2009). The first assumption is normality. As can be seen from the table below, normality assumption was not violated

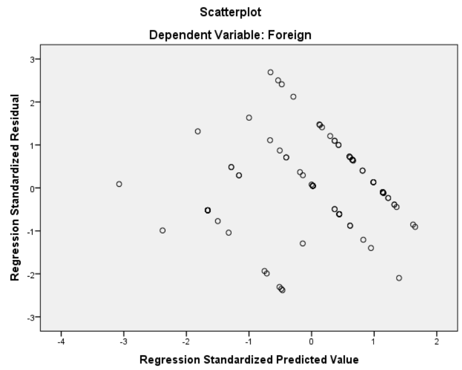
Table 4.16 Tests of Normality

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Foreign project financing	.270	101	.000	.795	101	.000
a. a. Lilliefors Significance Correction						

Source: Analysis of Survey data 2020, using SPSS 25

From the line graph below, we can see that the scatter points are relatively linear and Linearity assumption was not violated.

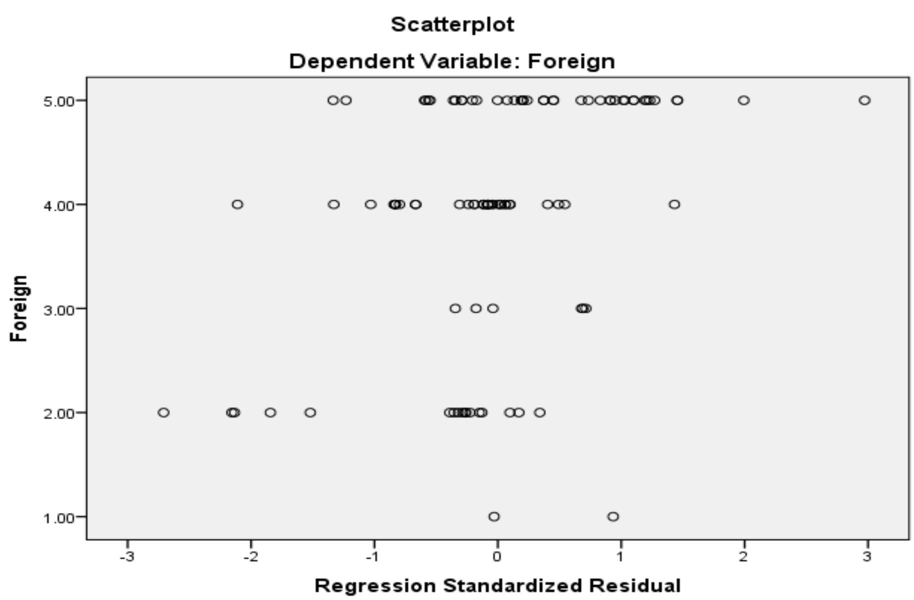




Source: Analysis of Survey data 2020, using SPSS 25

4.7.1.2. Homoscedasticity

The assumption of homoscedasticity refers to equal variance of errors across all levels of the independent variables (Osborne & Waters, 2002). This means that researchers assume that errors are spread out consistently between the variables (Keith, 2006). This is evident when the variance around the regression line is the same for all values of the predictor variable. Homoscedasticity can be checked by visual examination of a plot of the standardized residuals by the regression standardized predicted value (Osborne & Waters, 2002).



Source: Analysis of Survey data 2020, using SPSS 25

The scatterplot of the residuals would appear right below the normal p-p plot in the above output. There are points equally distributed above and below zero on the X axis, and to the left and right of zero on the Y axis.

4.7.1.3. Multicollinearity

Multicollinearity refers to the assumption that the independent variables are uncorrelated Keith, 2006). The researcher is able to interpret regression coefficients as the effects of the independent variables on the dependent variables when collinearity is low.

Table 4.17 Collinearity statistics

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.993	.230		4.327	.000					
	FI	-.181	.090	-.202	-2.019	.046	.433	-.203	-.114	.319	3.131
	NII	.017	.117	.018	.149	.882	.555	.015	.008	.212	4.726
	IBS	-.038	.075	-.041	-.507	.614	.389	-.052	-.029	.497	2.013
	NBEI	.449	.088	.492	5.115	.000	.665	.465	.289	.346	2.893

a. Dependent Variable: CBFP

Source: Analysis of Survey data 2020, using SPSS 25

Tolerance measures the influence of one independent variable on all other independent variables. Tolerance levels for correlations range from zero (no independence) to one (completely independent) (Keith, 2006).

4.7.2. Multiple regression analysis

The study conducted a multiple regression analysis for the independent variables and the dependent variable. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (CBFP) that is explained by all the four independent variables (Financial capacities (FC), Net interest income (NII), foreign currency (International Banking Services) (IBS), National bank Involvement (NBEI)).

Table 4.14 Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.885[a]	.783	.722	.45829

a. Predictors: (Constant), FC, NII, IBS and NBEI

As indicated above in the model summery (Table 4.14) the appropriate indicators of the variable used to identify the CBFP were explored. That is, the value of Adjusted R square used to identify how much of the variance in the dependent variable (CBFP) identified by the model. The larger the value of Adjusted R square, the better the model is. The overall contribution of FC, NII, IBS and NBEI accounted for 72.2% (Adjusted R Square .722). The rest 28.0 % represents other independent variables not included in this study.

Table 4.19 Coefficient

Table 4.18 Anova

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	59.043	22	2.684	12.778	.000[b]
	Residual	16.382	78	.210		
	Total	75.426	100			
a. Dependent Variable: CBFP						
b. Predictor: (Constant), FC, NII, IBS, NBEI						

Table 4.19 Coefficient

Coefficients[a]							
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations
		B	Std. Error	Beta			Zero-order
1	(Constant)	.993	.230		4.327	.000	
	FC	-.181	.090	-.202	-2.019	.046	.433
	NII	.017	.117	.018	.149	.882	.555
	IBS	-.038	.075	-.041	-.507	.614	.389
	NBEI	.449	.088	.492	5.115	.000	.665

a. Dependent Variable: CBFP

From the table above it can be deduced that CBFP is predicted by FI (β = -.181, p = .433), NII (β = .017) IBS (β = -.038) and NBEI (β = .449). This implies that FI and NBEI is the dominant factor to CBFP. In contrast NII and IBS have insignificant effect on the business. Therefor the banks should give more focus on FI and NBEI influences.

CBFP = .933 + -181 FC + .017 NII + -.038 IBS + .499 NBEI

Where

FC= Financial capacity

NII= Net interest income

IBS= International Banking service

NBEI= National bank of Ethiopia Intervention

4.8. Net interest income (NII)

Though there were no new entrants to the banking industry, competition among the existing players particularly in deposit and foreign currency mobilization activities has reached a sever stage. (Bank A. , 2019) The Ethiopian economy had also felt this global slowdown through declining export performance, decreased FDI and price changes of fuel, which in unison accentuated the foreign exchange shortage, widening trade deficit putting the country's debt high. The country experienced unprecedented social and political unrest that put both citizens and foreign investors into gloomy depiction and challenged the business environment. According to Awash bank report foreign currency earned during the year was extremely high reaching USD 918,88M and a growth of 55% was recorded as compared to the preceding year. And Oromia international bank increases the foreign currency earned by 30.78M and a growth of 9% compared to last year same period achievement and United bank have a growth of foreign exchange by 88.21%.

Table 4.20 Foreign Exchange earnings

S.no	Items	Foreign Exchange earnings (in million)	
		2017/18	2018/19
1	Awash bank S.co	413.49	918.88
2	Abyssinia Bank S.co	381.74	342.64
3	Oromia Itn'l Bank S.co	311.22	342.00
4	Wegagen Bank S.co	291.00	251.00
5	United Bank S.co	17.38	105.59
6	Dashen Bank S.co	-	-

Source: - 2017/18 & 2018-2019 annual report

4.9. Financial performance (Capacity).

Financial capacity is one of the indicators for the attraction of foreign investors or projects, according to this the above listed banks have a transaction of billion birrs within a year, from this in 2018/19 fiscal year tow banks are profited by billions.

Table 4.21 Income and Profit

S.no	Items	Income		Profit	
		2017/18	**2018/19**	**2017/18**	**2018/19**
1	Awash bank S.co	5.41^{B}	8.06^{B}	1.96^{B}	3.34^{B}
2	Abyssinia Bank S.co	3.27^{B}	4.25^{B}	765.7^{M}	1.02^{B}
3	Oromia Itn'l Bank S.co	2.44^{B}	3.2^{B}	872.34^{M}	938.00^{M}
4	Wegagen Bank S.co	3.1^{B}	3.2^{B}	574.1^{M}	735.1^{M}
5	United Bank S.co	2.79^{B}	3.8^{B}	706.97^{M}	979.80^{M}
6	Dashen Bank S.co	4.4^{B}	6.9^{B}	1.14^{B}	969.00^{M}

Source: - 2017/18 & 2018-2019 annual report

Financial services, banking, insurance, power transmission and distribution, wholesale and retail trade, telecommunications and some transportation services are currently closed to foreign investment. But Common types foreign projects financed by Commercial Banks in Ethiopia from multinational companies such as Huajian Shoes, Heineken, the Blackstone Group, KKR, GE, Orange, Etur Textile, the BDL Group, Jiangsu Lianfa Textile Co, Diageo, SABMiller, PPC, and Starwood Hotels have made significant investments in Ethiopia in the last few years, illustrating the country's attractiveness as a market and the list of sectors shown below under table 4.17.

Table 4.22 Key sector opportunities based on limits on foreign control

Sector	Investor
Agriculture & Agro processing Sector	Domestic and Foreign Investor
Construction Sector	Domestic and Foreign Investor
Energy & Resources Sector	Government and Foreign Investor
ICT Sector	Domestic Joint-venture and Foreign Investor
Manufacturing & Consumer Business Sector	Domestic, Joint-venture and Foreign Investor
Services Sector	Domestic, Government and Foreign Investor

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The following chapter presents a summary of the major findings on the challenges of private commercial banks in financing foreign project in Ethiopia. It also presents conclusions and recommendations. Areas of further research are also included.

5.2. Summary of the major Findings

In line with the objective of the research i.e. to investigate the challenges of commercial banks on financing a foreign project in Ethiopia. The researcher has adopted questionnaires to gather firsthand information from the respondents with heterogeneous age bracket, level of education, and service period. Then, reliability and validity test was conducted in order to check the inconsistency of the data. As the reliability test confirmed the consistency of the data for the analysis, the collected data from the respondents was analyzed using SPSS.

As presented in chapter four, the study presented description of the processes on the challenges of private commercial banks, from this foreign currency (International Banking Services) (IBS) and National bank Involvement (NBEI) has negative effect on the Commercial banks on financing foreign projects (CBFP).

This study also demonstrates the empirical support for earlier researchers' theoretical work on factors that affect private commercial banks on financing foreign projects such as studies by (Forrester, 1995), (Laura, 2017), (Gashayie & Singh, 2016) .

5.3. Conclusion

As presented in chapter one, this study started with the major objectives of investigating the challenges of private commercial banks on financing a foreign project in Ethiopia. Nowadays, foreign project financed by private commercial banks are very small as we look on the survey. The major factors that stated on the study is National bank of Ethiopia regulation and foreign currency shortage have a negative impact on the business or process of foreign project financing.

In the study, positive investment climate is being created for foreign investors and the country is highly engaged in promotion of the same. At the same time, (IMF report, 2014) reveal that FDI inflow to Ethiopia is low. According to the respondents for my questionnaire believe that local private banks have a capacity to facilitate finance for foreign investors by local currency.

Based on the reviewed literature the trends of financing foreign project is lower than Local financing, may be local financing is preferable than cross-border financing because it allows investors to hedge the exchange rate risk associated with sales or cost denominated in the local market currency. In a recent private commercial bank business trend the financial capacity of the banks would be increased to take advantage of getting foreign project.

Financing foreign project is a substantial for private banks to increase their profit, but there is a common sector is release to private commercial bank to finance the business. Allowed sector should be Agriculture and agro processing sector, construction sector, Energy and resources sector, ICT sector, manufacturing and consumer business sector. The U.S. Overseas Private Investment Corporation is also open for business in Ethiopia and is looking at financing options for the energy, agriculture and other infrastructure projects. (OPIC, 2016).

The significantly positive affect of foreign project finance by commercial private banks is the length of processing foreign currency approval for foreign investors is too short and amount released for managing or processing the project is more flexible than government owned banks and gives long term grace period for the repayment.

The Analysis of the above data appears to suggest that the main obstruct for the fragile performance of commercial private banks to finance foreign project include inadequate foreign currency supply of the required import request for project, Lack of clear policies from the government and insubordination of policymakers and sophisticated procedure and directive of banks governor (National bank of Ethiopia).

5.4. Recommendation

Based on discussions, analysis and findings, the study suggests the following recommendations.

1. The roles and function of the private commercial banks is too many and too vast, it is difficult to mention each and every role and function of the banks in overall aspects of the business. Governors of Ethiopian banks (NBE) would state clear regulation of foreign business operation such as foreign project management.
2. Private Commercial banks have a great role in contributing to the economic development of the country So NBE needs to decrease the number of intervention on the private commercial banks operation on foreign project financing.
3. The study recommends that all private commercial banks need**s** to push the financial sector reforms by bringing capital, new technologies and foreign project know how.
4. Private commercial banks and financial sector should review upward the maximum amount of credit and loans to foreign project requiring large amount of funds to embark on. In addition the Banks and financial sector could form alliance with other financial institution to provide large loan which cannot be financed by only one bank.
5. Creating efficient exchange of information between government agencies and private financial institutions handling international (Foreign) projects.
6. A more detail procedure and detailing of contract documents that support foreign project officers, to avoid the mistrust of national bank on commercial private banks.
7. Commercial private banks need**s** to decrease borrowing interest rate for foreign investors with the tolerance rate of national bank and gives a service by segmenting the foreign customer as per there capacity of making a transaction or deposit performance.
8. Due to shortage of foreign currency, National Bank of Ethiopia needs to create a linkage between foreign importer and exporter, to make a balance between the output and input of the foreign currencies.

5.4.1. Direction for further research

1. Further research by including NBE, consultants, financers and other stakeholders would help to get the clear picture of the challenges of private commercial banks on facilitating foreign project in the country.

Reference

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Annex -1-

Jimma University

Department of Accounting and Finance

The purpose of this questionnaire is to collect primary data for conducting a study on the topic, **"The role of Private commercial Banks in financing foreign Projects in Ethiopia: a case study on selected Private Banks"** as partial fulfillment to the completion of the Master of Arts Degree in project management and finance.

This study is purely for academic purpose and in no way that affects the respondent's personality as it would be kept confidential. Therefore, your genuine view, frank opinion & timely responses are very valuable in determining the success of the study.

Thank you for your time and cooperation. I hope this experience was a pleasant one. Please remember that your opinion counts!

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I. General Information

Instruction: - Please fill the spaces provided and put a (√) mark to indicate your best.

1. Gender: ☐ Male ☐ Female
2. Age ☐ <30 Year s ☐ 30 to 45 years ☐ >45 years
3. How long have you been working in a bank?

   ☐ <5Years ☐ 5 to 10 Years ☐ 11 to 20 Years ☐ >20 Years
4. Your Position in the bank

   ☐ Director ☐ Manager ☐ Supervisor ☐ Officer

   Other Specify ___________________
5. Educational Qualification

   ☐ PHD Other please specify_______________

   ☐ Master Degree

   ☐ Bachelor Degree

II. Assessment for the project Question

6. Is the National bank of Ethiopia's regulation having a negative impact on foreign project finance?

Yes No

6.1 If your answer is Yes, what types of challenges the organization subjected to

a) Limitation on transaction……………………………
b) Limitation on getting customer……………………
c) Restriction on foreign project finance…………….
d) All of the Above……………………………………
e) Other Specify________________________

7. Does your bank have its' own role on financing foreign project?

Yes

8. Does your bank have the power to avail a new policy to manage foreign business finance?

Yes No

9. Are there any challenges that affect the project's finance in your bank?

Yes No

9.1 If your answer is Yes, please list their recent challenge/s

a) ________________________________
b) ________________________________
c) ________________________________

Please indicate with a (√) to the statement with a rating on the scale of 1 to 5. (1= strongly disagree (SD), 2 = disagree (D), 3 = Neutral (N), 4 = agree (A), 5 = strongly agree (SA))

10. How is your bank's capacity to facilitate foreign project finance?

Statements	SA	A	N	D	SD
Easy facilitation of foreign currency					
Import process for a foreign project is available					
Foreign currencies allocation for foreign investors is separately managed					

11. How would you rank the following National bank of Ethiopia's regulation on foreign project finance?

Statements	SA	A	N	D	SD
Encourage foreign project finance by private banks					
Provide a more stable source of getting foreign project finance					
Giving a chance of financing for private banks instead of government					
State the role of banks properly					

12. Positive factors that may affect project finance?

Statements	SA	A	N	D	SD
Flexible loan and foreign currency approval for foreign investors					
The amount of loan released is enough for the purposes intended,					
large grace period and sufficient time for implementation is give for foreign projects					

13. Negative factors that may affect project finance?

Statements	SA	A	N	D	SD
Poor Monitoring and Risk Management					
Imperfect structure of lending Policies and Regulations on NBE					
Poor Management of foreign currency transaction					
High interest rate (in respects to repayment performance)					
The average time from application to first disbursement (Loan Issuing period)					

14. What would be the factors affecting foreign projects finance?

Statements	SA	A	N	D	SD
Availability of finance from banks.					
Interest rates on borrowing amount are high					
Foreign investment is riskier than local investment					

15. If you have any comment regarding the role of Private commercial Banks in financing foreign Projects in Ethiopia, please mention it

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THANK YOU!!!