

**FOREIGN BANKING INSTITUTIONS AND ECONOMIC
GROWTH IN SOUTH SUDAN**

BY

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DECLARATION

I LUPAI MOSES CISONA: Declare that this Report Paper Entitled Foreign Banking Institutions and Economic Growth in South Sudan is entirely my effort and has not been submitted to the College of Applied Economics and Management Sciences by any other person.

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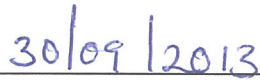
CERTIFICATION

This is to certify that this Report has been approved under my supervision to be submitted to the College of Applied Economics and Management Sciences Kampala International University, School of Economics and Applied Statistics, Department of Economics as a Partial Fulfillment of the Requirement for the award of Bachelor's Degree in Economics



MR.MUHEREZA FRANKLIN

Research Supervisor



Date

DEDICATION

I dedicate this work to my family, brothers, relatives and friends for their positive contributions towards by academic struggle

ACKNOWLEDGEMENT

In the first place my acknowledgment goes to the Almighty God, who granted me the wisdom that enabled me to pursue my studies successful, secondly my thanks goes to the university administration, all my lecturers and the unit head department of Economics Mr. Wakiku Fred for the support they rendered right from the time of admission, thirdly I acknowledge my beautiful wife Maneno Norah for being supportive during my study period for the last three (3) years, the next acknowledgment goes to my family members and relative at large, my brother Moi Ezra Lo Konga for his much support he had given me during the struggle, my brother Capt.Laguya Joseph Samuelson Kenyi LUPAI as my role model, my brother Joel Malish Alison, my beloved friend Sebit Abraham and the wife, not forgetting the government of South Sudan (GOSS) through the ministry of higher education science and technology for the financial support rendered for South Sudanese Students Studying in East Africa of which i was a beneficiary.

Finally, my humble acknowledgment goes to my supervisor Mr.Muhereza Franklin for his commitment in correcting and directing me on how to compile the data collected for the presentation of the final research report.

In conclusion, may the good Lord our loving God protect us and be with us all day long, AMEN.

ABSTRACT

The topic of the Research was Foreign Banking Institutions and Economic Growth in South Sudan. It was conducted in Juba, Republic of South Sudan and the main aim is to find out if there is any relationship between Foreign Banking Institutions and the level of Economic Growth in South Sudan.

In order to obtain the necessary data required for the research, the researcher used techniques such as questionnaires, text books, interviews, internet, and reports. The researcher used both primary and secondary sources to obtain the data.

Research findings were analysed, edited and presented numerical in table form

The study established that there was very slow level of economic growth as well no relationship between foreign banking institutions and economic growth in South Sudan.

The researcher concluded that Foreign Banking institutions do not contribute positively towards economic growth and recommended the government of South Sudan through the central bank and the national legislative assembly to review on monetary policy to regulate the operations of those banks.

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CHAPTER ONE

1.0 Background

The concern for economic growth throughout the world started long time in last century with economists such as Adam Smith and David Hume. Adam Smith in his article "The Wealth of Nations" stated that massive production is the only way for economic growth where people's standard of living will be improved. The two economists further said improve and increase in productivity capacity was "the wealth of nations". Whereas they stressed the importance of agriculture and saw urban industry as a core sub-sector, Smith extended the notion that manufacturing was central to the entire economy. In the views of other economists such as Robert Solow and Trevor Swan **(1950s)** says labour-time, capital goods, output, investments and technological change are more crucial in economic growth and needed to be supported by finance as working capital.

In the United States, the level of economic growth is different as reported by the Bureau of Economic Analysis; the Gross Domestic Product (GDP) in the United States expanded by 0.40 percent in the quarter of every year. The United States has one of the most diversified and most technologically advanced economies in the world. Finance, insurance, real estate, rental, leasing, health care, social assistance, professional, business and educational services account for more than 40 percent of GDP. Retail and wholesale trade creates another 12 percent of the wealth. The government related services fuel 13 percent of GDP. Utilities, transportation and warehousing and information account for 10 percent of the GDP. Manufacturing, mining, and construction constitute 17 percent of the output. Agriculture accounts for 1.5 percent of the GDP, yet due to use of advance technologies, the United States is a net exporter of food **(2008, World Bank Report)**.

In Africa, the level of economic growth is different from countries such as USA, China, Japan, Singapore and South Korea. For example, in (2008) World Bank reported that real GDP growth rate of South Korea was 17 times high than that of Ghana in the African Continent **(source: 2008, World Bank Report)**.

In East Africa Region, several countries, such as Uganda, Rwanda and Tanzania have managed to achieve the level of economic growth at 7 percent or more in the past five years (2008, World Bank Report).

In South Sudan, the level of economic growth is relatively very low where government still struggles to provide basic services to the population, the country remains relatively undeveloped and relies on subsistence economy. Although South Sudan has vast and largely untapped natural resources and opportunities abound for visible improvements in the quality of peoples' lives, but there are many challenges facing it. The country depends on oil export accounting for almost the totality of exports, and for around 80% of gross domestic product (GDP), directly and indirectly and 98% of fiscal revenue came from oil. Outside the oil sector, livelihoods are concentrated in low-productivity, poor health facilities, poor infrastructures, low access to clean water supply, unpaid agriculture, and pastoralists work. The South Sudanese economy has been plagued with high inflation reaching 80% in 2011, inflation has been driven mostly by increases in food prices due to limited local food production and a high reliance on imported goods (**source: 2008, World Bank Report**).

Foreign banking institutions; are banks whose head office is located outside the country in which it is operating. Foreign banking institutions include foreign bank branches, agencies, Foreign bank branches and agencies operating in different parts of the host country and report to the head office within the host (**source: Demirguc-Kunt et al. (1998)**).

Foreign Banking Institutions can mean financial institutions which operate in a country but foreign owned with their main headquarters' in their country of origin. Example, Kenya commercial bank (KCB) and Equity bank south Sudan Ltd is foreign owned banks by Kenyans with their main headquarters' in Nairobi, Kenya.

Wikipedia defined Economic growth as quantitative increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in *real gross domestic product*.

Whereas Clark, Colin, (1940) Conditions of Economic Progress. London: Macmillan; said "economic growth" typically refers to growth of potential output, i.e., production at "full employment,"

The Encyclopaedia Britannica (2007) says that foreign banking institution is an institution that is owned by state (central bank) and as it expands branches international in carrying out business, it is known as foreign bank in the host country.

Business dictionary defined Economic growth as an increase in the real value of goods and services produced in the economy from one year to the next.

According to the modern economic growth theory developed by Galor and Zeira (1993), suggests that income distribution by banks plays an important role in the determination of aggregate economic activity and economic growth. It stated that credit market imperfection approach demonstrates that inequality in the presence of credit market has a long lasting detrimental (negative) effect on human capital formation and economic growth.

It is by this research topic that the researcher is able to know real GDP growth rate, the level of foreign banks, its relationship on economic growth in South Sudan and made necessary recommendations for government to set up macroeconomic policy in order to increase the level of economic growth.

Statement of the problem

The level of Economic growth had been relatively very slow in South Sudan characterized by negative indicators such as decline in agricultural productivity, collapse of small scale and medium enterprises as quoted on 15th April 2012 by one of the private daily news paper "the citizen" shutdown business due to lack of foreign currency to purchase printing materials yet there are many foreign commercial banks in the country. Those institutions segregate in offering services, impose high interest rate, and concentrate only in urban centers, lend loan for short term only neglecting the agricultural sector which is a backbone of every developing economies hence leading to slow economic growth in South Sudan. Despite the fact that those banks have many customers holding different accounts, but still neglect them by not providing long-term loans in order to boost the non oil sectors such as agriculture and small scale businesses yet they charge high interest rate, commissions on customers' accounts since their establishments from 2005-2011. Investments in fixed assets in the country are not seen yet the banks made and still making lots of profits every day. There is high rate of cash-outflow, commodities prices at the markets keeps on increasing day by day causing inflation from 57.5% in august 2011 to 80% in October, 2011, it is difficult for consumers to make savings since the level of expenditure is very high. To close the wide gap between foreign banks and economic growth, there is a need for government to lay down strong macroeconomic policies to govern and regulate the operation of foreign banks in the country so that the people of South Sudan will get a fair share in term of financial services such as long term loan and employment opportunities such that savings and investments are made. If measures are not taken to improve the operations of foreign banks, south Sudan economy will not achieve high level of economic growth which the people of south Sudan fought for the last 49 years since January, 1956 to 09th January, 2005, it is by carrying of this study that the government should take necessary measures to increase the level of economic growth and stability in south Sudan.

Sources: <http://www.sudantribune.com> and ssnbs.com

<http://www.thecitizen.info.com>

Purpose of the study

The purpose of the study was to determine the relationship between foreign banking institutions and economic growth in South Sudan.

Specific objectives

- (1) To establish the level of economic growth rate in South Sudan from 2005-2011.
- (2) To determine the number of foreign banking institutions in South Sudan from 2005-2011.
- (3) To determine the relationship between the level of economic growth rate and foreign banking institutions in South Sudan from 2005-2011.

Research Questions

1. What is the level of economic growth rate in South Sudan from 2005-2011?
2. What is the number of foreign banking institutions in South Sudan from 2005-2011?
3. What is the relationship between foreign banking institutions and economic growth in South Sudan from 2005-2011?

Hypothesis

H₀; there was no significant relationship between foreign banking institutions and economic growth in South Sudan.

Scope of study

Geographical scope

This study was carried out in the Republic of South Sudan.

Theoretical scope

The research was guided by Galor and Zeira (1993), modern theory of economic growth in determining the level of foreign banking institutions and economic growth in South Sudan.

Content scope

The study focused on foreign banking institutions and the level of economic growth in South Sudan.

Time scope

The study considered figures of economic growth of 2005-2011 and it was conducted within the month of June 2012 to September 2012.

Significance of the study

This research will be useful to the government of South Sudan (**GOSS**) in the view of economic planning for development process.

This research will be useful to Non Governmental Organizations (**NGO's**), students and financial institutions such as banks, insurance companies, business enterprises and microfinance entity to obtain relevant information they require about economic growth in South Sudan.

Finally, this research is significant in a sense that it is one of the requirements for the award of my Bachelor's Degree in Economics of Kampala International University (Kampala, Uganda).

Source: a guide to research proposal writing, 2nd ED, institute of adult and continuing education, department of distance education, Makerere University, Kampala Uganda.

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Operational definitions of key terms

Economic growth; economic growth is the quantitative increase in the national income or increase in the per capita income of a country from one period to another; i.e., an increase in the real output (actual goods and services) produced over two periods. It does not matter who produces these goods and services.

Economic growth rate; is a measure of economic growth from one period to another in percentage terms. Economic growth rate provides insight into the general direction and magnitude of growth for the overall economy.

Banking; refers to the provision of financial and other services by a financial institution known as the bank, this service includes receipt of deposits from the customers, saving mobilization, provision of safe custody for money, jewels and other valuable goods for customers, sell travelers cheque to promote foreign trade and act as a source of various foreign currencies.

GDP; refers to the value of all final goods and services produced within the country by both national and foreigners using the country's resources in a given period.

Cash out flow; these are money disposals leaving the country or in a simple meaning, it is money transferred from the country to another country.

Macroeconomic policy; this refers to rules or laws that are drafted to guide control and protect the economy. It may refer to rules that regulate the supply and demand of money (monetary circulation) in the country in order to achieve stable prices at the market for a stable economy, such policies control inflation in the economy.

Investments; refers to capital goods employed or used by an individual, firms, organizations and inter-corporations companies to create more wealth for the owners of the businesses.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

According to experts such as Willis Yuko Oso and David Onen; literature review is the systematic identification, location, retrieval, analysis and evaluation of documents containing information that are related to the problem, as well as analysis of casual observations and opinions related to the planned research. This chapter deals with related literature that has been written by different authors and scholars on the subject of foreign banking institutions and economic growth. It looks at different definitions offered by various scholars. Equally it looks at the role of foreign banking institutions on economic growth, rate of economic growth as well the way forward.

2.1 Foreign banking institutions

According to Terrell (1979) and Goldberg and Grosse (1994) foreign banking institution is a bank with head office outside the country in which it is located, the above authors further stated that Foreign banking institutions include; foreign bank branches and agencies operating in different parts of the host country and report to the head office within the host Country.

Foreign banking institutions in the United States are subject to Federal Reserve regulations, and the Federal Reserve examines most foreign bank branches and agencies annually. Foreign banking institution is a multinational corporation operating in other countries both in developed and underdeveloped countries with different countries as registered members and having their headquarters in developed country (www.usbs)

The Encyclopaedia Britannica (2007) says that foreign banking institution is an institution that is owned by state (central bank) and as it expands branches international in carrying out business, it is known as foreign bank in the host country.

According to U.S state of economy the term "foreign banking" generally refers to any United States operation of a banking organization headquartered outside of the U.S. The first foreign banks established their presence in the United States in the mid-1800, with New York being the first state to license and regulate these institutions. While state governments took the lead in welcoming foreign banks to the United States, the federal government has also acted to ensure that American markets are open to banks from all nations. Today foreign banks are a significant presence in the American financial system providing many important benefits to individuals, businesses and the general economy. In fact, foreign banks make almost 40% of all loans to American businesses. As of December 31, 2000, state-licensed foreign banks held \$1.132 trillion in assets.

Paul M. Romer; Professor of Economics in the Graduate School of Business at Stanford University; Economic growth refers to persistent increase in the volume of goods and services produced in the economy in a given time. Population growth, increase in capital stock, availability of natural resources improvement in technology, organizational structure of productive agencies and macroeconomic stability are among the sources of economic growth in an economy.

2.3 Related study on foreign banking institutions and economic growth

The role of foreign banking institutions is to bring efficient gains to the host nation which includes new technologies, employment opportunities, products and management techniques as well as from increased competition stimulated by new entrants. This is because foreign banks may have greater access to resources from abroad; they have more stable funding and lending patterns than domestic banks. They also hold a more geographically diversified credit portfolio and hence would not be affected during periods of stress in the host country.

Enhance the mobilisation of financial savings in a way consistent with the stability of the financial system; it is the role of the foreign banking institution to adequately provide the type of financing required for economic growth in the host nation.

Thiman et al (2000), La Porta et al (2001) and Levine (1996), Mention that foreign banks brought new capital to many emerging market economies (EME) which experienced severe financial crises and that they also import supervision from their home country authorities.

Stability, diversification is another role of foreign banking institution; This is because of increasing globalization of financial markets and corporate links across economies and foreign banks can be a source of stability during periods of local stress as they are part of globally diversified entities.

Lend credit to small and medium size enterprises. It is the role of foreign banking institution to support Small and medium sized firms (SMEs) with loan because those small enterprises play a major role in emerging markets economies (and also in developed countries) as they represent around 90 percent of the total firms population and generate a large share of employment (more than 50 percent in many countries) and value added in the economy, a key supplier of credit to SMEs is the commercial banking system.

Investments, it is the role of foreign banking institutions to make investment as priority in the host country, such investments should cover the important sector or sub-sectors within the economy more especially the agricultural sector which is believed to be a backbone of most low developing countries which south Sudan is one.

Long term loan, this is one of the most important role that banking institutions make/play for sustainable development. Businessmen or farmers should be given long term loan to improve in their system of farming, i.e. from substance to modern system of farming, asset loan in presentations of collaterals by the parties interested in acquiring the loan from the bank. However, the study pointed out the following;

The institutions failed to provide varieties of financial and non financial services to individual and firms in the host country more especially the farmers (the agricultural sub-sector) and only provided short-term trade and working capital finance on high

interest or commission to big business. The commercial foreign banking institutions (sector) did not adequately provide the type of financing required to develop the economy of the host country apart from their country of origin.

(Claessens et al (2001)) found different impacts from foreign bank entry on banking efficiency in emerging market economies EME and in industrialized countries. In EME, subsidiaries of foreign banks enjoy higher interest rate margins and profitability than domestically owned banks, whereas in industrialized economies the opposite is true. These studies also found that significant foreign bank presence is associated with a reduction in margins, Profitability in domestically owned banks.

McFadden (1994), and Berger et al (2000) Studies by the two scholars shows that there is high cash outflow than cash inflow in terms of benefits or profits, the host country does not benefit much from the foreign banking institutions because all the massive and large investments are done in their home country

Hultman and McGee (1989) and Grosse and Goldberg (1991) also provided results that foreign banks entered to any market to service the international trade and direct investment needs of their home-country clients. This clearly indicates that foreign banking institutions did not do much to help locals towards economic growth.

(Jenkins (2000) according to a survey on lending practices to small and medium size enterprises SMEs, foreign banking institutions specialised only in mortgage finance and were not interested in the market for micro and small firm's loans. The banks reported that high administrative costs and lack of network and personnel to serve the markets were strong deterrents to engage in such business. However, for the banks that were engaged, the most important factors were the profitability and changing market conditions. Many domestic banks lost their large clients to the international foreign banks hence; they began to look for new creditworthy clients from small and medium sized enterprises.

(Cárdenas (2003) these banks provide funding only to a limited number of customers, which can be categorized as large firms as with a higher average amount of loans and smaller firms have problems in obtaining credit from foreign commercial banks

Beck et al (2003) the presence of foreign owned banking institutions as a mitigating factor of the possible negative effects of increased market concentration, the study found that concentration increases firms' financing obstacles; however the effect is dampened in countries with a larger share of foreign owned banks. Unfortunately, this does not guarantee that in times of stress funds will not be transferred abroad in order to finance projects with higher risk-adjusted profits, thus creating a credit crunch in the domestic market.

Berger, Klapper, and Udell (2001), Haber (2004), and Mian (2006) provide evidence that foreign banks tend to finance only larger and more established firms, foreign banking institution lower the welfare economics of individuals focusing on financial development in poor countries rather than growth.

Detragiache et al. (2008) argue that foreign banks benefit high end customers but may hurt other borrowers, thereby worsening overall welfare, and find empirical support for their predictions. Foreign banking institutions focus on investments at home-country than the host hence economic growth is hindered. For example Hultman and McGee (1989), Grosse and Goldberg (1991) of the united states stated that US banks do not lead but follow and further said that foreign banks entered the US market to service the international trade and direct investment needs of their home-country clients.

Sources: Denison, Edward F. Trends in American Economic Growth, 1929-1982, brooking institution 1985, Washington DC, USA.
Robert Gilpin, (1997), Understanding the International Economic order, Princeton university press, United Kingdom (UK)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study involved qualitative and quantitative strategies that used a case study in identifying data and explaining the findings in an orderly manner.

3.2 Research Population

The research population was made up of real GDP growth rates and the number of foreign banking institutions from 2005-2011.

3.3 Population Size

The record covered a sample size of five (5) years from 2005-2011, this is because they are the most recent years when South Sudan began experiencing foreign banking services and economic stability.

3.4 Sampling procedure

The study used cluster random sampling procedure by considering five (5) years and 100 questionnaires.

3.5 Research Instrument

The data was collected using record sheet ranging from 2005-2011.

3.6 Data Gathering

The first procedure involved receiving the researcher's introduction letter from the department of economics and applied statistics that introduced the researcher to the organization where the data of the study was collected from. However, the organization accepted the researcher to conduct the research by accessing their records through desking research thereafter, the researcher entered the data and analyzed it using STATA Statistical package

3.7 Data Analysis

The collected data as edited categorised and entered into a computer database for analysis. The data was analyzed using percentage distribution tables to establish the strength or relationship between the independent variable and dependent variable, regression was used. The relationship between the independent variable and the dependent variable were tested using Pearson's correlation co-efficient.

3.8 Ethical considerations

All data collected regarding the GDP growth rates and foreign banking institutions in this research were respected and their details are kept confidentially.

3.9 Limitations

The researcher expected to accomplish the research successfully; however, in the due course of the research, some few threats came into existence;

Confounding variables which were beyond the researchers' control such as honesty of the management and biasness by others.

The research environments were classified as uncontrolled settings which influenced the data gathered, such as negative comments due to competition from the banking sector and stress by the researcher due to long distance of work.

CHAPTER FOUR

4.0 PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

This chapter is dedicated to the presentation, analysis and interpretation of findings gathered during the research period in response to the purpose of determining the relationship between foreign banking institutions and economic growth in south Sudan.

Table 4.1: Age Structure of the sampled Respondents who hold bank accounts in foreign banks (South Sudan)

Age Range	Frequency	Percentage
18-25	24	24%
26-35	55	55%
35-45	16	16%
46 above	5	5%
Total	number 100	100%

Source: primary data 2012

As seen in the table 1 above, most of the respondents were within the age range of 26-35 representing 55% of the one hundred bank customers. The second group is between the age ranges of 18-25 representing a total number of 24 out of the 100 targeted customers. The third group of respondents were in the age range of 35-45 represented by 16% of the targeted population and the last group of the respondents ranged from age category of 46 above. These age groups were available for participation in the research process as they felt that they did not get enough service from the banks despite the fact that they are customers of those banks.

Table 4.2: Showing the Respondent's Highest Education Level

Level	Frequency	%
Diploma	18	18%
Bachelor's Degree	76	76%
Master's Degree	6	6%
PhD/Doctoral Level	00	00
Total	100	100%

Source: Primary Data 2012

As seen from the table 2 above, most of the respondents were bachelor's degree holders totalling to 76 out of the 100 bank customers taken as the sample size of this study.

The second group of respondents were diploma holders which is represented by 18% and master's holders were only 6 out of the targeted sample size. As seen from the table above, those respondents holding master's degree are few and as seen, no individual holding PhD participated in this study is an indication that there were lack of experts in the country who are suppose to advice the governments or draft monetary policies that helps in regulating the performance of banking sector in the country.

Table 4.3: Showing Real GDP growth Rates**REAL GDP FIGURES IN SOUTH SUDAN FROM 2005 - 2011**

YEAR	REAL GDP GROWTH RATE
2005	0.946
2006	1.778
2007	2.78
2008	-0.339
2009	0.897
2010	3.543
2011	3.837

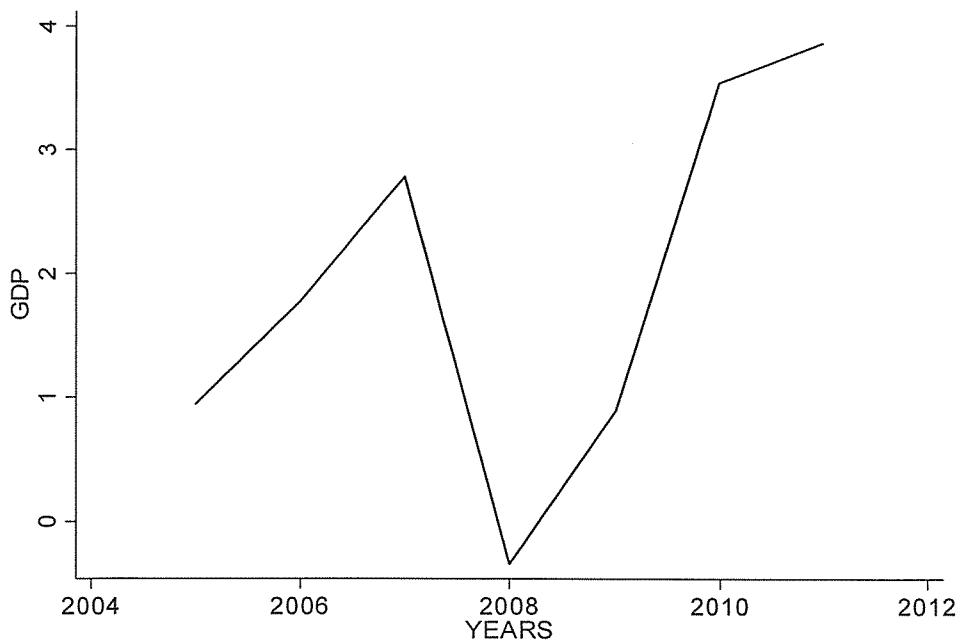
Source: compiled by the researcher

4.1 Level of Economic growth in, South Sudan From 2005 – 2011

The first objective in this study was to establish the level of economic growth in South Sudan from 2005 to 2011 using real GDP as the indicator of economic growth; According to the data collected the composition of economic growth in South Sudan does not appear to have altered significantly in the past five years. It has been very low as compared to the other neighbouring African states.

As seen from table three above, in 2005 south Sudan real GDP growth rate was only 0.946 this could be due to management challenges as the country just signed the comprehensive peace agreement. In 2006 and 2007 real GDP growth rates slowly increased to 1.778 and 2.78 respectively this can be due to set up of management systems by the government of Southern Sudan by then. In 2008 and 2009 real GDP growth rates declined drastically to -0.339, 0.897 respectively and this could be due to the world economic crisis and its effects while in 2010 and 2011 the real GDP growth rates slowly increased to 3.543, 3.837 respectively, this may be as a result of recovery from the world economic crisis and its effects

FIGURE 4.1: A Line Graph Showing Trends in Real GDP of South Sudan from 2005 - 2011



Source: Compiled by the Researcher

From the above trends the level of economic growth in South Sudan is generally low. Within the period considered 2005 – 2011, a lowest of -0.339 and a highest of 3.837 real GDP was recorded which is relatively very low.

An indicator that the economy of South Sudan and in particular is lowly developed. This is due to the following factors;

4.2 High Public expenditure by the government of south Sudan;

the south Sudan budget expenditures have been on the rise since the Comprehensive Peace Agreement (CPA), reaching levels that are quite in excess of those of its East African neighbours for example; the approved budget surged from SSP 3.4 billion in 2006 to SSP 5.9 billion after independence in 2011, of which most of the spending is on paying government civil servants than service provision to the people of south Sudan.

4.3 Over dependence on oil resource;

Almost **98%** of south Sudan income depends on oil as the main source of revenue although the country has got vast land resource which can be utilized for agricultural production to generate more additional revenue to the government. This could be one of the factors that contributed negatively to the decline in the level of economic growth.

4.4 The quality of leadership and economic management;

with respect to these issues, the quality of leadership of south Sudan was not efficient and effective, it is characterised by weak government institutions leading to poor governance and as a result of this, there was too much corruption where huge sum of public money went missing and as a result, economic growth in South Sudan is not significantly in an increase as seen from **figure 4 above**.

Table4. 5: Showing the Number of Foreign Banking Institutions and Rates of Economic Growth in South Sudan from 2005 – 2011

YEARS	Number Of Foreign Banking Institution	Real GDP Growth Rate
2005	4	0.946
2006	6	1.778
2007	7	2.78
2008	7	-0.339
2009	8	0.897
2010	9	3.543
2011	12	3.837

Source: Compiled by the researcher

4.5 The relationship between growth rate and foreign Banking institutions in South Sudan

The third objective in this study was to establish the existing relationship between the level of economic growth and the level of growth in the activities and number of foreign banking institutions in South Sudan between 2005 and 2011. In order to achieve this objective data that was collected on total number of banking institutions of foreign origin from 2005-2011 and this was regressed with data collected on economic growth to establish the relationship between the two variables and then correlated to find out the strength of the relationship in the model.

4.6 A Linear Regression Model Showing Real GDP Growth Rates and Number of Foreign Banking Institutions in South Sudan

A linear regression model was obtained to establish the linear relationship between the total number of foreign banking institutions and Real GDP figures. In the analysis the data was first put under a number of diagnostic tests, using STATA, the model tested here is the linear regression model because the data obtained seemed to best fit a linear trend.

**Table4. 6: Showing Regression Results Between Real GDP and From 2005-2011
(Fit in values)**

Variables Regressed	Adjusted R ²	F-value	Sig.	Interpretation
Real GDP and Number of foreign banking institutions	0.2967	0.119	0.550	Significantly positive effect
Coefficients	Beta	T	Sig.	
(Constant)	-1.0651	-0.64	0.119	Not Significant
Banks (X)	0.3943	1.88	0.550	Not Significant

Source; computed by the researcher

The Linear regression results in Table 2 above indicate that the number of foreign banking institutions does not have a significant effect on level of economic growth ($F=3.53$, sig. =0.119). The results indicate that the number of foreign banking institutions explains only 29.67% of the variations in economic growth within the region ($R^2 = 0.2967$). The coefficients section of this table indicates the extent to which the explanatory variable (number of foreign banking institutions) explains the explained variable (GDP) and this is indicated by Beta values. For example, if the explanatory variable which is number of foreign banking institutions increased by one unit it implies that the explained variable which is economic growth rate would increase by 0.3943

From table of results $F(1, 5) = 3.57 > 1.88$ the critical value. This implies that the number of foreign banking institutions in South Sudan collection has no significant influence on its level of economic growth and this situation is explained by the low levels of per capita income which leads to a low demand for banking services hence such banks are not attracted into the region, poor living conditions that do not attract foreign investors, high dependency ratio, low levels of education, political instability and low levels of economic activity.

Table 4.7: Showing Responses determining the relationship between foreign banking institutions and economic growth in south Sudan using the questionnaire;

QN	Questionnaire Opinion	YES	NO
1.	Do foreign banks offer loans to customers in South Sudan?	75	25
2.	Is the interest rate of foreign banks relatively low in South Sudan?	15	85
3.	Have you ever applied for loan from any foreign bank in South Sudan?	20	80
4.	Do foreign banks provide loans to small scale business and farmers in South Sudan?	10	90
5.	Have foreign banks contributed to the economic welfare of South Sudanese?	35	65
6.	Are you happy with the transfers and currency exchange services offered by those banks in South Sudan?	40	60
7.	Are you satisfied with the services offered to the people of South Sudan	30	70

As seen from the above responses, 75 respondents agreed that foreign banks give loans to south Sudanese but to specific groups of people like employees of which it is salary loan offered in reference to the salary paid by the employer, at the end the banks charge high interest which do not favour them, this can be confirmed by 85% respondents who agreed that the interest charged by the banks are very high, where as 80% of the respondents said they did not apply for any loans from those banks due to the unfavourable policies by the banks, 90% of the respondents said that foreign banks do not offer loans to small scale businesses and farmers in South Sudan, 65% said foreign banks do not contribute to welfare of South Sudanese because there are no community based activities supported by the banks as well 60% respondents said foreign banks provide hard currencies mostly to their nationals than South Sudanese and finally, 70% of respondents responded by saying they are not satisfied with the services offered by those banks.

CHAPTER FIVE

5.0 FINDINGS, CONCLUSIONS, RECOMMENDATIONS

This chapter presents the summary and major finding of the study in line with the objectives and hypotheses. It also presents some policy recommendations for foreign banking and economic growth as well as areas that need further studies

5.1 FINDINGS

Level of Economic growth in, South Sudan From 2005 – 2011

With regards to the level of economic growth in South Sudan from 2005 to 2011, due to high Public expenditure by the government of south Sudan, over dependence on oil resource and the poor quality of leadership and economic management, the study found out that economic growth in the past five years has been very low in south Sudan as compared to other neighbouring East African states.

As for the relationship between growth rate and foreign Banking institutions in South Sudan, the findings of the study indicate that foreign banking institutions does not have a significant effect on level of economic growth in south Sudan. It also implies that the number of foreign banking institutions in South Sudan has no significant influence on its level of economic growth and this situation is explained by the low levels of per capita income which leads to a low demand for banking services hence such banks are not attracted into the country.

In determining the relationship between foreign banking institutions and economic growth in south Sudan using the questionnaire, 70% of respondents responded and concluded by saying that they are not satisfied with the services offered by foreign banks operating in South Sudan.

5.2 CONCLUSIONS

According to Galor and Zeira (1993) modern theory of economic growth, the findings in this research report confirmed that it's true there is no relationship between foreign banking institutions and the level of economic growth in south Sudan despite the fact that there are growing number of foreign banks since the signing of the comprehensive peace agreement (CPA) on the 09th of January 2005.

Lack of strong monetary, fiscal and macroeconomic policies by the central bank of south Sudan created wide gap between those banking financial institutions and the level of economic growth.

As stated in chapter four, it is therefore true that most of south Sudanese citizens are not beneficiaries of the financial services offered by those institutions but rather tools used by those institutions to create more wealth for the shareholders of the business.

Interference by some politicians within the governments of south Sudan in the implementation of some policies by the central bank that might mitigate the wider gap between those banking institutions and economic growth in south Sudan, this happen because some of the politicians have hidden shares for their personal gain instead of government which represent all citizens of south Sudan.

Foreign banking financial institutions did not contribute much to boost economic growth in south Sudan as expected in more developed countries such as in the United States of America and some European countries. Foreign banks are not enemy for economic growth in the economy of a country however, in south Sudan foreign banking did not help much the citizens to develop their economy.

Finally, it is true that the level of economic growth in south Sudan was very slow since the signing of the comprehensive peace agreement in 2005 hence the government is tasked to carryout lots of reforms in order to increase economic growth.

5.3 RECOMMENDATIONS

5.3.1 The Role of the state

Creation of strong public institution; the government of south Sudan should create strong public institutions that will help in monitoring of government programmes in order to promote good governance in the country for economic growth.

The researcher recommends that the government should create developmental plans and carry out state own investments in varies sectors such as agriculture, infrastructures, communications, banking sectors , manufacturing sector, industry minerals mining and other potential area within the economy.

The government of south Sudan through the central bank should review its monetary and fiscal policies and make new amendments banning all black market money from exchanging money in the streets across south Sudan in order to tighten money circulation in the economy hence economic stability will be realized.

The government should strengthen domestic owned commercial banks by allocating more foreign currency and instruct all government workers to open their accounts and receive their salaries from those banks since they are the most country's dynamic financial institutions and they have the strongest equity base in relative terms. Therefore, successful economic development will clearly require that the commercial bank sub-sector be given precedence in the evolution of the country's financial system.

5.3.2 Role of the citizen

Agricultural sector; Much as the banks are there, citizens should fully participate in the agricultural sector to improve local production of agricultural commodities such that they can rely on local production for their domestic market that will help them reduce on importation of agricultural food commodities that require foreign currency in order to purchase food items from the neighbouring countries.

Support for local banks; the citizens of south Sudan should support their own domestic banks by depositing their money in those banks in order to increase their savings and investment as well as increasing the level of economic growth in south Sudan. With the support of the citizens, local banks will be in position to increase their capital formation and financial services in terms of short and long term loan hence increasing economic growth.

5.3.3 Role of Non Governmental Organizations

Nongovernmental organizations should support small scale business enterprises and farmers in south Sudan by establishing microfinance institutions and distribution of agricultural inputs in order to improve the non oil sector within the economy in south Sudan.

Nongovernmental organizations should as well help the government in capacity building of staff and establishment of public financial management policies in order to strengthen the public finance sector leading to efficiency and accountability of all public spending.

5.3.4 Suggested areas for further research or study;

There should be further Study on inflation

I suggested that there should be study on monetary policy

There should be study on competition between foreign banks and domestic banks

There should be further research on natural resources and management

There should be further study on population and economic growth in South Sudan

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APENDIX I

LETTER OF INTRODUCTION

Dear Sir/Madam,

My name is LUPAI MOSES .C, a student of Kampala International University. Am carrying out a study titled "foreign banking institutions and the economic growth in South Sudan. This study is part of the Requirements for the Award of a Bachelor's Degree in Economics at the University. I kindly request you to support me where necessary with the level of honesty to enable me finish my research report successful.

Thank you for understanding,

Yours faithfully

LUPAI MOSES CISONA

DATA ON (DEMOGRAPHIC INFORMATION)

Choose your correct answer by ticking inside the box;

1. What is your age range?

(i) 18-25 ☐

(ii) 26-35 ☐

(iii) 36-45 ☐

(iv) 46-above

2. What is your highest level of education?

(i) Primary level ☐

(ii) Secondary level ☐

(iii) Diploma level ☐

(v) Bachelor's degree ☐

(vi) Master's degree ☐

(Vii) PhD/Doctoral

QUESTIONNAIRE ON FOREIGN BANKING INSTITUTIONS AND ECONOMIC GROWTH

From any of the statements below, state your position by ticking the correct opinion;
YES or NO

Qn. 1 Do foreign banks offer loans to customers in south Sudan?

(i) YES (ii) NO

Qn2. Is the interest rate of foreign banks relatively low in south Sudan?

(i) YES (ii) NO

Qn3. Have you have ever got a loan from any foreign bank in south Sudan since their establishment?

(i) YES (ii) NO

Qn4. Do foreign banks provide loans to small scale business and farmers?

(i) YES (ii) NO

Qn5. Have foreign banks contributed to the economic welfare of south Sudanese?

(i) YES (ii) NO

Qn.6 Are you satisfied with the services offered to the people of south Sudan by these foreign banks?

(i) YES (ii) NO

Qn.7 Do you think the government of south Sudan is a share holder of those banks since their establishment?

(i) YES (ii) NO

Qn.8 Are you happy with the transfers and currency exchange services offered by those banks in South Sudan?

(i) YES (ii) NO

Thank you for your contributions towards this research may the almighty God bless you.

APENDIX IV

TIME FRAME

ACTIVITY	DURATION
Identification of research topic and interpretation.	1 st and 2 nd week July, 2012
Writing of Proposal Draft	3 rd and 4 th week July, 2012
Presentation of the draft proposal to the supervisor	1 st week August, 2012
Necessary corrections and modifications by supervisor	2 nd ,3 rd and 4 th week August, 2012
Travelling to the research sites in Juba, south Sudan including getting approval from the relevant authorities	4 th week of November and 1 st week December, 2012
Conducting actual field research in Juba, Republic of south Sudan	2 nd week December to 4 th week January, 2013
Compiling data & writing the research report plus returning to KIU from the research sites	1 st and 2 nd week of February, 2013
Report reading, editing, consultations with the supervisor & production of final copy	3 rd and 4 th week of February, 2012
Submission of the final research report to the College of Applied Economics and Management sciences, School of Economics, Kampala International University. Kampala, Uganda	1 st week of March, 2013

APENDIX V

RESEARCH BUDGET

S/No. Items	Quantity	Cost per Unit in (shs)	Amount in (shs)
001 pens	07	500	3500
002 Air Time			50,000
003 Transport			250,000
004 Research. Ass	04	50,000	200,000
005 Meals &drinks			100,000
006 Research proposal	04	10,000	40,000
007 Research report	05	15,000	75,000
GRAND TOTAL			UG.shs 718,500