IMPACT OF CIVIL WAR ON FINANCIAL PERFORMANCE OF INTERNATIONAL BANKS IN SOUTH SUDAN

BY:

DENG HE YUOT KUIR

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN FINANCE, UNIVERSITY OF NAIROBI

2018

DECLARATION

This research project is my original work and has not been submitted for the award of a degree in any other University.

Signed……………………….. Date ………………………

Deng He Yuot Kuir **D63/74451/2014**

This research project has been submitted for examination with my approval as University Supervisor

Signed……………………….. Date ………………………

Mr. Abdulatif Essajee
Lecturer, Department of Finance and Accounting
School of Business
University of Nairobi

ACKNOWLEDGEMENT

First and foremost, sincere gratitude to my supervisor, Mr. Abdullahi Essajee from Department of Accounting and Finance; School of Business, for his patience and invaluable support throughout the research. It was a great privilege and honour to study under his guidance. My heartfelt thanks to my lovely wife, Esther Adut Isaac, family and friends for their prayers during my studies. Without their encouragement and motivation, I would not have completed this degree. Lastly, many thanks and praises to Almighty God for protection and give of knowledge to achieve this level of academic success.

DEDICATION

For her unwavering support to me and my children, I dedicate this research project to my humble wife; Esther Adut Isaac

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LIST OF ABBREVIATIONS AND ACRONYMS

CPA	Comprehensive Peace Agreement
CPIA	Country Policy and Institutional Assessment
SPLM/A	Sudan Government and the Sudan People Liberation Movement/Army

ABSTRACT

The study sought to explore the effect of civil war on financial performance of international banks in South Sudan. It focused on the 2013 abrupt SPLM party internal power struggle which degenerated into a national armed conflict. Civil war can exterminate infrastructural facilities as well as human resources, a situation that has the likelihood to significantly impact on both people and business organisations. War negatively affects the sales, exports, and decisions to invest for any firm regardless of size or incumbency. This affect the allocation of resources and output levels among the firms in existence and also on their entry and exit (Camacho & Rodriguez, 2010), circumstances of which international bank performance largely reflected after the recent conflict in South Sudan. The study investigated the bi-variate period performance of the international bank by comparing the pre-ante and post ante financial performance within the 6 years before and after the civil war in South Sudan in order to determine the influence of unrest on the performance of banks. Measuring performance financially entails assessing the returns on assets. The study concluded that the financial performance of international banks in South Sudan was significantly influenced by the civil war that broke out in 2013. The study established that civil wars in South Sudan had a significant influence on performance of the international banks. The researcher recommended that state political stability and vulnerability to armed conflict ought to be carefully assessed by cross border traders and international trade investors before establishing especially financial institutions.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Wars have influenced monetary history profoundly across time and space. There is mass destruction of property among other activities that lead to economic development (Goldstein, 2003). It is a fact that most civil wars have occurred in Africa because of many economic circumstances such as low infrastructural development and low earnings. However, over the centuries, civil wars have diminished except in a few nations where the effects of the war are still being felt (World Bank, 2011). For example, in Egypt, during the 2011 - 2013 Arab spring democracy revolution, the real gross domestic product (GDP) dropped and stock market value declined about 15% (IMF, 2014).

South Sudan, as a region in the old Sudan, has been under a series of civil wars with the Khartoum government for over fifty years because of socio-political and cultural differences leading to its independence in 2011 (Al Jazeera, 2011). Market potential motivated many international banks from the East Africa region to invest in South Sudan (Kalman, 2012). The Chief Executive Officer of Bank of Khartoum said to the Ulf Laessing that South Sudan could see oil revenues up to $6 billion annually, which will lure investors and help, build up a financial system as cross-border trading rises (Laessing and Abdelaziz, 2012)

In December 2013, just two years after independence, there were splits within the sovereign party, (SPLM) which led to internal sporadic tribal and military confrontation leading to a civil war within South Sudan which escalated over two years. In light of the political instability in South Sudan, financial investment remained a venture difficult to think of, especially banking business which is highly conflict sensitive (Laessing, 2012).

Banks that go international are exposed to a number of risks that include political, currency, liquidity and operational risks. As per the Africa Development Bank (2013), there has been a huge financial panic among international banks in South Sudan due to frequent civil wars. According to Cunningham (2013), as we study the impact of civil war on international banks, it is imperative to acknowledge that the banking sector remains an important integral part of any economy where variables interrelate. According to the records of Bank of South Sudan (2014), international banks have the largest market share in terms of deposits, customer base and even branch network, making them not only the great beneficiaries but also the great losers in the current civil war economic crisis.

This study consequently seeks to determine the impact civil war has had on the performance of international financial institutions in South Sudan.

1.1.1 Civil War

This is a war amongst well thought-out groups within the same state (Regan, 2000). Classic theoretical models of conflict have been applied to understanding civil war. The models also explain the reasons which encourage the groups to participate in the wars. The encouragement at times is fuelled by an over ambitious opposition group that wants to overthrow the reigning government (Fearon, 2007). Correlates of War (COW) argues that between 1991 and 1993 the rate of civil wars rose from 8% to 13%, moreover, at this time there was 18 civil wars around the globe and yearly, civil wars roughly caused 1,200 deaths.

Waging civil war and fighting insurgence is an expensive undertaking for all parties involved and the economy of the country. Modoch & Saders (2004), avered that the war lends to an 85% reduction in the country's growth within the first five years. Though some recovery is evident the rate of growth is still diminished by between 31% 35 years later. The human cost estimates might have increased since then and/or worst might have happened as well as economies that experience these wars develop at a slower rate compared to when there is no turmoil and if there was a war that happened over seven years, the economy would be 16% lower as a result of insufficient basic needs to the people or even inflation and limited savings by people or the government (Gleditsch, Peter and Wellensteen, 2002).

Since 1983, SPLM has been the vehicle by which the oppression of South Sudanese under several regimes in Khartoum has been vanquished; the instrument by which the long-standing civil war was ended; and the mechanism by which independence was achieved (Deng, 2014). The escalating South Sudan 2013 civil war has had adverse effect not only on people but largely on the economy and more specifically on the banking sector. The conflict resulted in massive destruction and looting of properties of unknown value involving private infrastructure like banks, hotels, private and humanitarian warehouses, public offices and valuable installations, especially, in Juba, Bor, Malakal and Bentiu towns amongst other towns to smaller extend (voanews.com, 2015).

1.1.2 Financial Performance

Financial performance assists in measuring the progress of entities through return on equity and investments. The use of ratios such as profitability and liquidity ratios can also be helpful. The progress of a firm can be derived by choosing a base year and the amount of item for that year. This helps in determining the performance of the company compared to other firms over time (Metcalf and Titard, 2013).

The performances of international banks covers a wide range of socio-economic and political aspects which affects cross-border business operations and banking industry environment; these include periodic liquidity position (capital, access reserves and demand deposits), loans performance, currency and exchange rate effects, profitability, political and business risks (Dunne, Smith, and Willenbockel, 2005).

The study shall use ratio and trend analysis to quantitatively and qualitatively determine assets/liability position and evaluate the effects of other factors like banks financial, political and business risks underpinning banks operational environment to measure financial performance for international banks in South Sudan.

1.1.3 Civil War and Financial Performance

In a conflict affected environment, neoclassical growth theory holds the recovery of economic recovery is rapid and then it stabilises. Other models argue that recovery can take a long time because among other reasons the speed of human capital recovery is slow (Barro and Sala-i-Martin 2004). Nations are likely to be entangled at diminished equilibrium levels in situations of conflict –performance coexistence (Sachs 2005).

Lately, there has been major concern on the relationship between politics and international investors. The effects of war can be felt in different sectors of the economy; at the microeconomic level, it affects the social connections which are key to financial transactions occurring in growing economies and at the macroeconomic level, it affects the general economic confidence as nations that have weak financial structures suffer more (Collier, P. and Hoeffler, A. (1998)

Arbarch and Page (2007) argue that economic collapse is associated with minor conflicts and that major conflicts hampers chances of growth. It is difficult to understand the connection between financial instability and armed conflict. There is proof that compares the major stock markets in the African continent and the growing markets in South East Asia and Latin America; the results show that despite the conflicts, the African markets can reach the level of the Asian and American markets (Magnusson and Wydick, 2001)

Upcoming organisations can suffer severely from the effects of war. Their long term aims on sales exports, profitability and investment are disrupted as well as the distribution of assets (Camacho and Rodriguez, 2010). The impact of the war conflict and disagreements between South Sudan and its neighbour Sudan is already being felt by the Kenyan banks (Ngigi, 2014)

After the mayhems, financial markets not only experience disruptions of their activities due to the disruptions resulting from massive destructions of properties as well as systems of communications but raising levels of uncertainty and volatility of the markets (Johnston and Nedelescu, 2005)

1.1.4 International Banks in South Sudan

International banks are financial entities that offer a variety of services such as borrowing and lending opportunities to foreign customers (Kothari, 2003). These customers can be individuals or well-known firms, although every bank located overseas has their own policies regarding whom they do business with. The process of financial integration and globalization has been greatly facilitated by international banks. Lately, international banks have helped emerging markets through international trade and close sustained customer relationships (Papaioannou, 2009)

There are about twenty nine (29) commercial banks licensed to operate in South Sudan, out of which seven (7) are international commercial banks. Kenya Commercial Bank became the first ever international commercial bank to enter into the South region of Sudan in 2004 followed by other six international banks during the interim period of Government of South Sudan (GoSS) between 2005/2011 of transition to independence.

1.2 Research Problem

The current South Sudan civil war triggered a terrible economic meltdown eroding international banks confidence in already weak governing systems leading to vicious cycle of instability and investor's unrest as various commercial banks experience shortfalls of foreign currency, clearing houses closed and interbank correspondence stopped as the effects of conflict hit the economy (Edwards, 2015).

When foreign currency stops flowing into the banking system, inflation is inevitable, particularly if the South Sudanese government is unable to borrow more foreign currency and forced to print money to meet payroll costs (Tamazuj, 2015).

The civil war substantially affected the loans portfolio of international banks. As the economy slowed down due to Central foreign currency reserves dwindling with some bank branches closing or destroyed by conflict and creditors disappearing without paying loans it is expected that international banks would not meet their projected performance targets.

Empirical studies by many writers in 2015 contend that the Bank of South Sudan under financial pressure restricted the release of commercial banks access reserves amidst public panic and economic pressure of the conflict prompting customers to demand more cash within a short time span. This also exerted pressure on the international banks to avail cash to customers which they could not sufficiently sustain leading to liquidity shortfall. International banks had to resort to importation of foreign currency at a very high cost of transportation and insurance from their parent banks to meet their financial obligations of serving customers, paying creditors and financing critical business opportunities. This reverse process contrary to the normal profit repatriation depleted the excess foreign currency at the parent banks, hence affected their performance as was reveal by the regulatory authorities like the Central Bank of Kenya (businessdailyafrica.com, February 3, 2014).

Locally, studies by Majok (2012) and Ngigi (2014) contended that the growing concerns about further deterioration of South Sudan's civil war, economic situation and the risk of capital flight and the potential for an oil production shutdown was of major negative impacts. The study findings posted that prior currency devaluation, there were shortages of hard currencies and the rising inflationary pressures had begun to affect sales for many national and internationally affiliated businesses in South Sudan. This study seeks to provide answers to the question, what is the impact of civil war on performance of international banks in South Sudan?

1.3 Objective of Study

To determine the impact of civil war on financial performance of international banks in South Sudan

1.4 Value of the Study

The research is hoped to be of significance to various stakeholders in the society. These stakeholders include banks, government, foreign investors and citizens. Banks will be able to make rational decisions when planning international expansions. Further, the findings will enlighten the bank management on how to timely evaluate situations and respond to effects of civil war.

The findings of the study shall assist the Government of South Sudan to develop appropriate economic impact mitigation strategies which will enlighten and safeguard international banks financial performance in order to assure continuity and attract more financial investors. The findings of the research will help government authorities understand how civil war affects financial performance of international banks and take appropriate measures to protect interests of foreign investors.

To foreign investors, this study will help in the implementation of proper civil war economic impact mitigation policy. This will help them decide on whether to invest or not depending on how they understand the potential effects of civil wars on their financial performance and the future of their business.

To the South Sudanese citizens, the study will provide better understanding of the effect of civil war on the performance of international financial institutions. They will push the government to institute measures to mitigate the effect of civil war in order to continue enjoying the benefits of international investors like banks in the economy. The findings of the study will also enlighten the South Sudan citizens to reject civil war under any government and promote international investment in order to create jobs and develop the country.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section covers a review of the theoretical framework and experiential research that relate to the area of study.

2.2 Theoretical Review

In order to create a theoretical connection between civil war and its effect on financial performance, credit risk theory, liquidity risk theory and interest rate parity theory are reviewed in this section.

2.2.1 Credit Risk Theory

Credit risk theory posits that all businesses face risk from the day of their incorporation whenever payment is done or expected. The risk arises from the tendency of another person or business entity to default in payment.

Financial lending majorly depends on the parties' timely willingness and ability to meet their contraction obligations. As civil war displaces population and destroys business property, it is highly anticipated that some borrowers' willingness and abilities will be compromised and international banks will face credit risk.

2.2.2 Liquidity Risk Theory

Liquidity risk can be established as the inability to fulfil obligations due to the risk of having inadequate funds (Hoffernan, 2005). The theory posits that for the provision of funds for development and for the adjustment of liquidity positions, the performance of money market is very crucial (Greuning, 2003).

Liquidity risk can be divided into two types of risk; funding risk and market liquidity risk. According to Plesner (2008), funding risk is the risk of inadequate liquidity funding of a particular financial institution to meet its liabilities while market liquidity risks means that loss suffered participants in a market wish to engage in some trade to liquidate a position in the immediate term though not getting the best price.

As wars in South Sudan erupted and escalated, government revenue generation and infrastructure got disrupted, spending rapidly expanded putting pressure on ministry of finance to unilaterally take banks' reserves and borrow on short note from the Bank of South Sudan. The withheld reserves without interest incomes were already becoming highly demand deposits due to war anxiety which cost the banks. Public outcry and inability to meet immediate obligations by banks led to loss of public confidence in the banking industry.

2.2.3 Covered Interest Parity theory

This theory was developed by Keynes in his Monetary Reform Tract. It discusses interest arbitrage and its relation to financial performance. According to Muendler (2011), Covered cover interest rate parity (CIP) shows that association of nominal interest rate from one economic environment to the nominal rate of interest in the other together with the forward premiums.

Interest rate parity is important in foreign exchange markets, relating interest rates, spot and foreign exchange rates. The South Sudan pound has been a fairly strong and stable currency internationally before the outbreak of the civil war. However, this drastically changed during the civil war as foreign reserves got depleted, market destabilised, and banks were expected to have made interest and exchange rate losses on currency translations and transactions. It is also believed that inflation and devaluation of the south Sudanese pound is highly expected to have affected the assets of the international banks.

2.3 Determinants of Financial Performance of International Banks

International banks are geographically dispersed in different countries and operate under a variety of rules. The interest rate and set-off prices also varies overtime (BIS, 2013). A number of factors influence the financial performance of international banks. They consist of the country economic environment, gross domestic product, foreign exchange rates and reserves, local currency stability, financial regulatory guidelines and interest rat~~es~~

2.3.1 Country Economic Environment

The growth of the financial sector of an economy is correlated to the economic growth of a nation (Kwambai & Wandera, 2013). Kwambai et al (2013) demonstrate that the system is a crucial influence on mobilising and channeling of funds for productive use. The funds are taken from surplus to deficit units and they also help the government to manage economic policies. The political scene has effects on the economic setting of nation overtime. For instance, Uganda's banking system has been affected by political scenes leading to huge losses especially in the early 1990s. According to a publication by the World Bank, the banking system in Uganda is weak with huge non-performing assets (Ngetich and Wanjau, 2011)

2.3.2 Gross Domestic Product

Gross Domestic Product means the final value of the total output of a nation over a specific duration of time, normally 12 months. It is an important indicator because it shows the economic progress of a nation. When GDP increases, the earnings of individuals within a country also increases thus improving ability to repay loans by borrowers so as to reduce bad loans and vice versa (Kemraj & Pash, 2009).

Financial sector performance largely depends on the overall country economic situation and shift of the GDP during the war is expected to have negatively impacted the performance of the international banks in South Sudan.

2.3.3 Foreign Exchange rates and Reserves

The exchange of one currency for another is known as foreign exchange. It is driven by balance of payment amongst the trading countries. Balance of payment clearly explains the demand and supply of a country's currency in respect to exports and imports. A nation's balance of payment is an indicator that it is ready to partner with the rest of the world in order to do business.

This balance between a nation's export and imports leads to foreign currency deficit and surplus which influence market exchange rate. At times net inflows are bought into a particular nation in order to inhibit the funds from affecting the exchange rate among the country's currency and other currencies.

South Sudan floated the exchange rate in 2015 and oil export income plays a leading role in market foreign exchange rate adjustment that oil price is expected to be a major external effect that influences the profitability of international banks especially during profit conversion and investment.

2.3.4 Local Currency Stability

A currency is stable when one it effectively plays the role of a medium of exchange. Unit of account and a store of value due to the stability of its purchasing power (nbbmaseum.be). A situation where the value of domestic currency is diminished by a monetary authority against the worth of a foreign currency is referred to as depreciation or devaluation. Mostly, depreciation can be seen in a free market economy whereas devaluation exists in fixed or semi-fixed exchange rate situations. During

German hyperinflation, Stefan Zweig (1941) said, “I have experienced days when I paid 50,000 marks for a newspaper in the morning and 100,000 in the evening; anyone who had to change foreign currency staggered the exchange transaction through the day, because at four o’clock he received a multiple of what he would have obtained sixty minutes earlier (...). You found 100,000 mark notes in the gutter: a beggar had thrown them away disdainfully; a shoe lace cost more than a shoe had previously.”

2.3.5 Financial Regulatory Guidelines

Regulatory framework provides a guideline that guide lending by financial institutions. Ngetich and Wanjau (2011) argue that financial regulatory guidelines are not usually consistently enforced at times. For financial institutions to be guaranteed survival in the market and also to maintain their profitability, they need to have a proper credit risk management framework (Kalapo,Ayeni & Oke, 2012). To reduce unethical acts such as insider lending, regulators in the financial markets must act firm. Increasing the profitability of a bank, Nge (2011) says that one should focus on the regulatory resources available. The net income of any financial institution particularly banks, at times diminishes because of increase in the loan reserves. According to Nge (2011), tier 2 capital entails accrued loan losses or rather loan loss reserves; it refers to as the add-back reserves, as in, amount of capital that is available during good economic times which replaced the capital which was lost during bad economic times.

In a nutshell banks need to take measures that ensure they continue operating as going concerns and reduce losses in case of drastic business disruption, sufficient contingency and business continuity plans (Johnston and Nedelescu, 2005.)

2.3.6 Interest rates

Banks tend to increase their interest rates when dealing with high risk customers (Farhan, Sattar, Chaudhry, Khalil, 2012). They also argued that non-performing loans (NPLs) can affect the decision of banks to charge high interest rates on those customers who already possess a substandard payment record. Recently, the level of interest rates consists of bank profit margins together with risk premiums or other costs such as information search costs. International bank credit investments are mostly large and for long term investment.

2.5 Empirical Review

2.5.1 Global Studies

According to Doaa and Abdou (2013), the Egyptian revolution adversely affected a lot of economic activities such as low foreign direct investments. Provision of basic needs for the common folks was also a problem coupled with a high debt and unemployment rate. The transitioning period was especially tough for financial institutions. Doaa and Abdou noted the effects of the revolution by using descriptive and conceptual studies to deduce solutions to the challenges affecting the economy. The study showed that economic growth was slowed especially where the GDP fell to 1.7% from 5.1% in 2009/10. For the rest of 2010/11, the economy grew from 1.7% to 2.5%. WDI (2011) states that the level of food prices increased as did the level of poverty. Moreover, the GDP per capita increased by 2%.

Abadie at el (2003) conducted a case study on the Basque Country region of Spain. Focusing mainly on the economic cost of conflicts. He used time series analysis to test the effects of terrorism and the growth of Banque country economy. In his findings, he noted that the per capita GDP in the region reduced to roughly 10% when terrorism erupted in the late 1960s compared to when there was no terrorism. As a result, the country dropped in its per capita GDP rankings to 6th in the region.

Serneels and Verpoorten (2012) did a study on the effect of war on the performance of Rwanda economy post the 1994 conflict. Their findings stood out that conflict and economic growth correlate strongly but negatively. Lopez and Wodon (2005) using aggregated data argued that, in absence of conflict Rwanda would have registered a 25%-30% higher, GDP per capita in 2000.

In Somalia, the market has suffered from war related instability over the last two twenty years. This causes a lot of operational concerns for the organisation, in conflict zones but this is more challenging for financial sector firms. (guardian.com, Feb 28, 2014). The study went on to indicate that money service businesses (MSBs); an serious cash-handling entities requiring good risk management practices to guard against the risk of enabling illicit flow of money .This is important mostly for those areas that are higher in risks and where the safest and most transparent means of sending money into the country as remittances are projected to contribute 50% of the national income.

2.5.2 Local Studies.

Ngetich and Wanjau (2011) looked at the determinants of non-performing loans and apart from election violence; they also looked at interest rate spread. The study used quantitative and qualitative techniques in analyzing data of the relationship. The findings indicated that regulatory environment including violent conflict affects the interest on loans charged to customers based on their character and past payment behavior. The study however lacked depth on civil war market which was on its infancy.

In 2007, violence erupted in Kenya caused by a disputed election. The violence caused a breakdown in public order that lasted for two months (Human Right Watch, 2008). This violence was very damaging to the economy, tourism declined by 34.7 percent and FDI stagnated (Nabutola, 2009. Generally it the estimated cost to the economy as a result of the violence was U.S $3.7 billion (Voice of America, March 04, 2008).

Cut flower farming in Kenya was started by Europeans living in Kenya in the 1960s and 1970s (Hughes, 2000). In a research paper; the impact violence on cut flower sector, it shows a structural change in the export of cut flowers in Kenya after the 2007/08 post-election violence and political disorder. The study shows that prior the violence export growth rate was roughly 3% per year, which declined to –2% (Muhammada, D'Souzab and Amponsahc, 2011). During the February 2008 Valentine's Day season when EU demand for roses is high, reported the Ethiopian flower exports to EU increased as a result of the violence in Kenya. (Muhammad, 2009).

According to the World Bank report - the Pathway for Peace (2018), in Kenya, the businesses suffered losses in excess of $800 million in the 2007 post-election-violence .The rate of economic growth declined two per cent from seven per cent and the Kenyan government still owes Rwandan and Ugandan traders who suffered losses from looting more than 50 million dollars.

2.6: Conceptual Framework

This is a graphical depiction of the relationship between the study variables before and after the Civil war. Bank Revenue streams of the base year will be represented by the independent variable while returns indicators periodic change will be represented by the dependent variables as shown below.

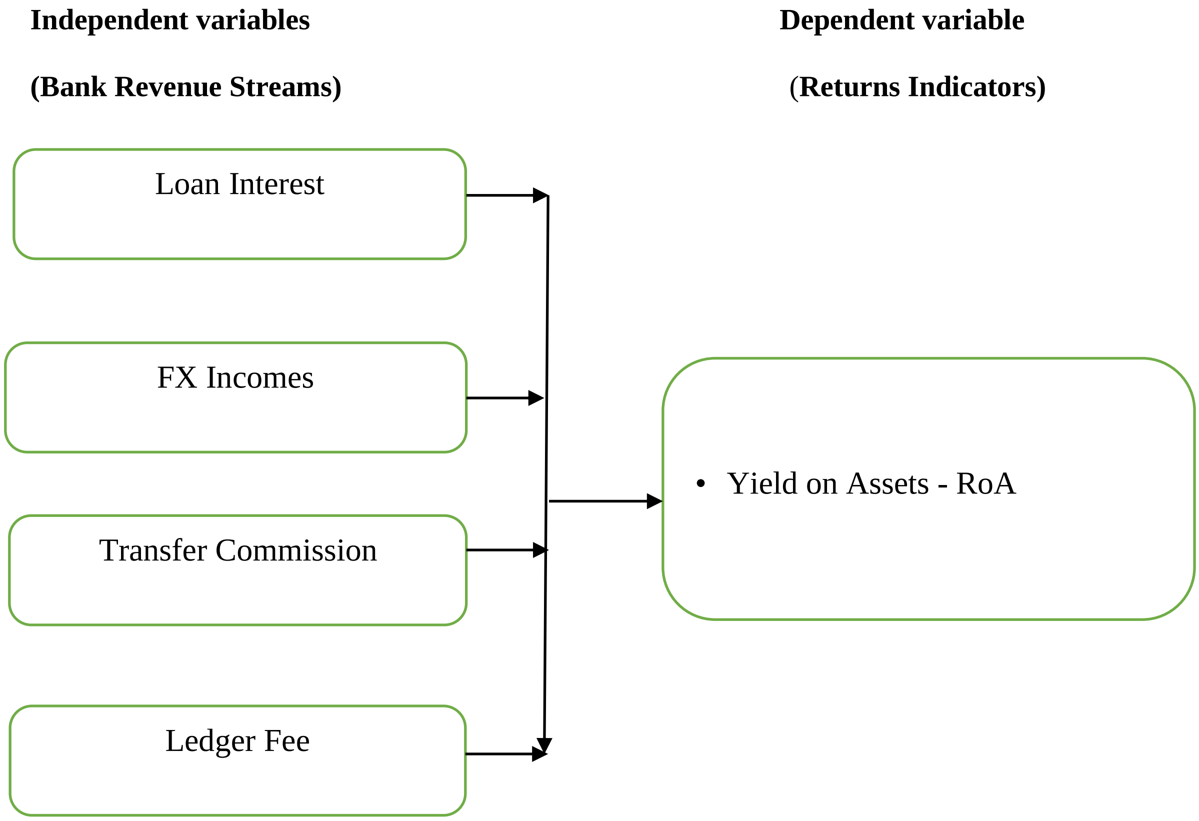

Figure 2.1: Conceptual Framework

2.7 Summary of the Literature Review`

The above literature analysis provides a strong contention between civil war and financial performance. There is need to investigate the connections between armed unrest and financial uncertainty complexities. Whereas the above empirical evidence compares the efficiency of financial institutions in comparison with civil war; their results inconsistently suggest that the effects of wars are less competent than in other developing markets even though mostly these nations are more conflict prone.

The study sought to determine if financial instability is affected by the uncertainties that arise during conflicts. Furthermore, the uncertainties generate socio-political uncertainties which taint the confidence of those who want to engage in business. This is supported when there is devaluation of home currency which leads to a widespread .loss in accumulated capital.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the methodology adopted for the study. It expounds on the design, target population, data collection techniques and data analysis and presentation methods adopted.

3.2 Research Design

This research adopted a descriptive research and casual/explanatory design. This describes a particular matter by developing a profile of group of problems, persons or event by gathering of data and the tabulation of the frequency on research concepts or their association (Schindler and Cooper, 2008).

3.4 Target Population

There are seven international banks operating in South Sudan of which only three of them were established 3 years before the year 2013 conflict. The study investigated the 3 years (2010-2012) financial performance of the earlier established three international banks and compared the results with their 3 years (2013-2015) financial performance. The variance depicted the difference which determined the extent of impact of civil war on the international banks financial performance between 2010/2015. The study also tried to capture other underlying effects of South Sudan subsidiaries on the performance of their parent banks in their home countries

3.5 Data Collection Technique

Secondary data needed for this investigation was collected from the international banks annual pre-civil and post-civil war financial reports. Data to be gathered comprised of; annual deposits, aggregate gross loans, loan loss necessities, non-performing loans and profitability. The data collection was done through the schedules attached at the appendix section which captured the above highlighted data requirements to enable collection of quantitative data that was needed for analysis and drawing a conclusion from.

3.6 Analysis of Data

To obtain accurate and reliable findings econometric models were used in the analysis of data. More important was the GARCH models that captured the effect of inflation on the volatility of stock returns. Statistical software like SPSS and excel were used to analyse and test the data. The findings were then presented in graphs and tables.

3.6.1 Model Specifications

The study adopted the f-test to get the correlation variance of the panel data for ex-ante and ex-post. The study also used independent t-test to test the significance in the means. Independent t-test compared the means of before civil war and after groups on the same continuous, dependent variable.

3.6.2 Significance Test

The study t-test was subjected to 95% significance level. If the Test is significantly (the value under "Sig." is less than .05), the two variance are very diverse. If it is not significant (Sig. is greater than .05), the two the same.

3.7: Test of Differences

The study conducted a test of differences for the six-year period analysis. The half split was of 3 year periods of the conflict. This gave a two time differentials. The illustration of the paired test of differences T distribution by df = n - 1

$t = \frac{\bar{d} - \mu_o}{s_d / \sqrt{n}} \sim$ T-distribution with df = n - 1

Whereby $\bar{d}$ is mean difference of the before from the after CIS value, $\mu_o =$ the hypothesized value for the mean paired difference which is 0, s_d is the standard deviation of mean difference while n is number of observations which will be 42.

$\bar{d} \pm t\left(s_d / \sqrt{n} \right)$ Where t came from the appropriate quantile of t-distribution df = n – 1. The intermission was provided as having 100(1-α)% chance of covering the true mean paired difference.

3.7.1 Model Specifications

Since the series spread is not linear, a step-wise concept was used in the study. The standard linear GARCH (1, 1) was used to first capture the volatility of performance. Descriptive statistics for determinants for the whole sample were then computed. GARCH (1, 1) coefficients volatility model for returns series and respective standard errors were projected. To estimate volatility, GARCH model was calculated as follows;

Mean was calculated as $r_t = \mu + \varepsilon_t$

Variance was calculated as $\sigma_t^2 = \omega + \alpha_1 \varepsilon_{t-1}^2 + \beta_1 \sigma_{t-1}^2$

Where $\omega > 0$, $\alpha_1 \geq 0$, $\beta_1 \geq 0$ to ensure that variance is strictly positive,

r_t is stock return at time t, μ is average stock return, ε_t is residual stock returns defined as $\varepsilon_t = \sigma_t z_t$ where z_t is standardized residual stock returns and σ_t^2 is conditional variance.

The variation equation modelled the time changing of volatility of the residuals resulting from the equation of the average. The GARCH (p, q) model was, thus as below:

$$\sigma_t^2 = \omega + \sum_{j=1}^{q} \alpha_j \, \varepsilon_{t-1}^2 + \sum_{i=1}^{p} \beta_i \, \sigma_{t-1}^2$$

In the case where p was the total lagged σ^2 terms which was 1 and q was the number of lagged ε^2 terms which was 1 in this study. As such, the model captured time varying volatility of the financial performance. The study alongside sought to find out if asymmetry impact for ROA volatility exists.

For the purposes of determining differences in ROA volatility in the pre and post-civil wars periods, the study undertook test of difference using independent t-test. This assessed if there was a statistically big difference between the means in the two groups.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The study aimed to investigate the impact of civil war on financial performance of international financial institutions in South Sudan. The data was obtained from 3 international banks in South Sudan which were established 3 years before the year 2013 within which the civil war broke out. The study used describes and inferential analytical techniques in analysis of the data obtained. Data was collected on subcomponents of the variables which were Loan Interest, Transfer Commissions, Ledger Fees and FX Income from which the dependent variables are to be driven. The response rate was 100% because all the 3 sample international banks responded to the questionnaire.

4.2 Descriptive Statistics

Table 4.1 shows the statistics and the variables distribution looked at in the study: Loans interest, Transfer Commission, Ledger fees and returns on Assets. The statistics used were minimum, maximum means and standard deviation. Mean was used to establish the average value of the data, standard deviation was meant to give the dispersion of the data.

Table 4.1: Descriptive Statistics

	ROA	Loan Interest	Transfer commission	Ledger Fees	FX Income
Mean	0.02049	6.60275	0.11073	0.04098	76.62024
Median	0.03000	6.57858	0.11000	0.05000	76.95000
Maximum	0.04000	7.37464	0.18000	0.08000	96.36000
Minimum	-0.05000	5.93524	0.07000	-0.02000	63.30000
Std. Dev.	0.01688	0.44567	0.02274	0.02719	6.71015
Skewness	-2.19477	0.18245	0.90356	-0.44417	0.25723
Kurtosis	9.14466	1.77294	4.52740	2.22803	3.77473
Jarque Bera	97.41747	2.79965	9.56432	2.36616	1.47750
Probability	0.00000	0.24664	0.00838	0.30634	0.47771
Sum	0.84000	270.71270	4.54000	1.68000	3141.43000
Sum Sq. Dev	0.01139	7.94492	0.02068	0.02956	1801.04500

The table 4.1 shows the descriptive statistic of the series of data. From the table, all series exhibits non-normality a common thing in financial time series data. They all have a coefficient of kurtosis, less than or greater than 3 compared to the standard value of 3 for a normally distributed data and a greater than zero coefficient of excess kurtosis. The Jarque-Bera statistic is also significant for all the data series and therefore the time series data can be concluded to have a non-normal distribution. Jarque-Bera statistic tests whether the coefficient of skewness and kurtosis are both zero and that would not be significant for a normal distribution.

4.2.1: Graphical Representation

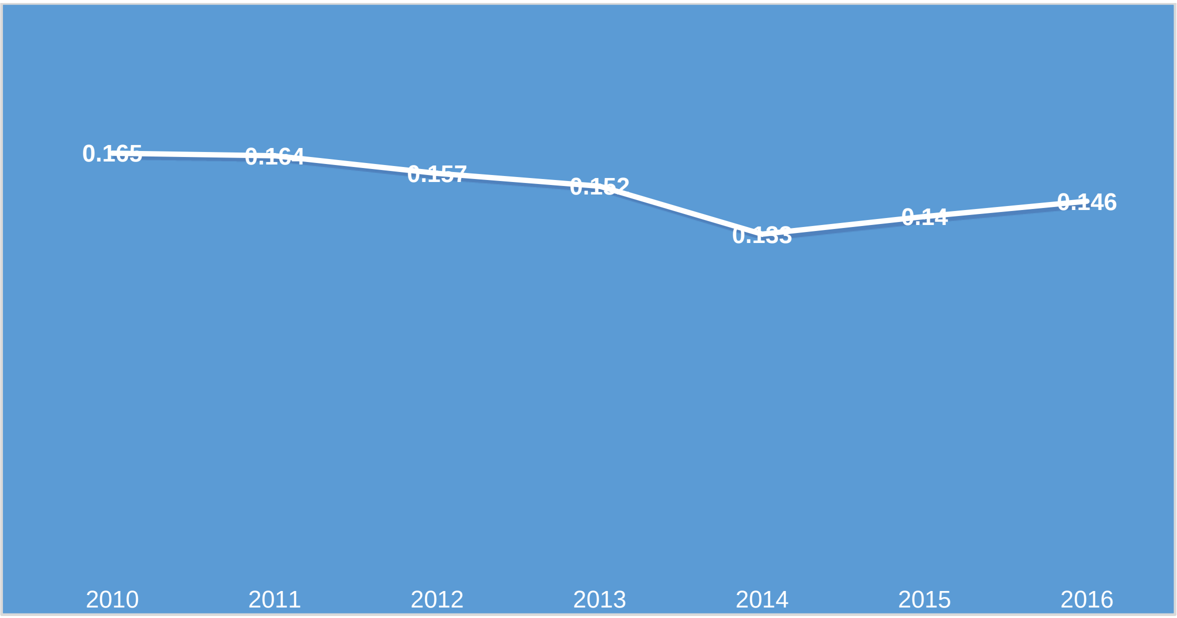

Figure 4.1: Return on Assets

The figure 4.2 above schematises the trends of the return on assets, of international banks in South Sudan from the year 2010 to 2016. It shows the trends variables under study. Figure 4.1 shows that return on assets steadily declined between 2013 and 2014 then, increase was witnessed in 2015 and another increase in return on assets in the year 2016.

4.2.2 GARCH Test

The study conducted GARCH test to establish the fluctuations of the Return on Assets. The study conducted a GARCH (1, 1) model which incorporates 1 lag in its estimation. That is, 1 lag of the model residual and another for the variance. Appendix II shows that auto-correlation functions (ACF) and part autocorrelation function (PACF) pointed at running 1 ARCH and 1 GARCH terms as the first lags went beyond the confidence bands. Average ROA fluctuations had a constant of 0.00169 ($p < .001$). Therefore, ROA of the international banks is 0.169%.

The study established a GARCH effect of 0.5133 and ARCH of .1113 both significant at p = .096 and p = .20 respectively. Since the ARCH t-ratio is significant, the study concludes that the variance is autoregressive conditionally heteroskedastic. Therefore, the overall variance or fluctuation in returns is 0.5133.

Table 4.2: GARCH Model

```
ARCH family regression

Sample: 2011 - 2015                                 Number of obs   =        305
Distribution: Gaussian                              Wald chi2(2)    =          -
Log likelihood =  1284.2                            Prob > chi2     =          -

------------------------------------------------------------------------------
             |                 OPG
        Aver |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
Aver         |
       _cons |   .0016937   .0002049     8.27   0.000     .0012921    .0020953
-------------+----------------------------------------------------------------
ARCH         |
        arch |
         L1. |   .1112557   .0833116     2.32   0.020     -.052032    .2745434
             |
       garch |
         L1. |   .5132627   .3088037     1.66   0.096    -.0919814    1.118507
             |
       _cons |   4.94e-06   3.72e-06     1.33   0.184    -2.35e-06    .0000122
------------------------------------------------------------------------------
```

4.2.3 Test of Independence

The study conducted independent t-test to determine the differences in ROA of the international banks before and after the civil war in South Sudan. Independent t-test test the null hypothesis of no significant differences against the alternative of significant differences. As presented in Appendix II, it was established that there is no significant differences in ROA fluctuations of majority of the international banks. However, the overall independent t-test was significant, t = -3.399 at 6 degrees of freedom with a significance value of p = .016. This signifies that there is an overall difference in the means of the ROA of the international banks before and after the civil war.

Table 4.3: Independent T-Test

	Levene's Test for Equality of Variances		t-test for Equality of Means		
	F	Sig.	T	Df	Sig. (2-tailed)
Equal variances assumed	3.939	0.052	-3.399	6	0.016
Equal variances not assumed			-3.389	51.793	0.016

4.3 Regression Analysis

The study conducted a linear regression analysis using ordinary least square to determine the effect of civil war on financial status of international financial institutions in South Sudan. This owes to the randomness of the profit after tax and total assets as it is a function of the variance in ROA. Being a macroeconomic data, the study removed outliers lying 5% above or below the confidence level.

The model was used to determine the relationship between individual independent (Loan Interest, FX Income, Transfer Commissions, Ledger Fees) and dependent variable (Financial Performance). The regression analysis was of the form:

$$FP= ß_0 + ß_1X_1+ ß_2X_2 + ß_3X_3 + ß_4X_4 + _e$$

Whereby FP is Financial Performance, X_1 is the Loan Interest, X_2 is FX Income, X_3 is Transfer Commissions, X_4 is Ledger Fees, β_0 is regression constant, β_1 to $\beta_4$is regression coefficients and ε is model’s error term.

Table 4.3 illustrates the strengths of relationships between Financial Performance and predictor variables. It is notable that the variables of the study relate well given R values of 0.826 and R-square values of 0.682. That is an indication that the predictor variables account for 68.2% of the deviations in Financial Performance of international banks in South Sudan.

The researcher adopted the Durbin Watson (DW) test as well to ensure that model residuals did not auto-correlate because their independence is a key basic hypothesis of regression model. Since DW statistics were neared the required value of 2.0 (2.192) for residual independence, it is conclusive that autocorrelation did not exist.

Table 4.4: Model Goodness of Fit

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.826[a]	.682	.633	4.30321	2.192

Predictors: (Constant), Loan Interest, FX Income, Transfer Commissions, Ledger Fees

Dependent Variable: Financial Performance

Analysis of Variance (ANOVA) was used to compare two or more means; to test whether a significant relationship existed between variables. This brings out the significance of the regression model. The ANOVA results shown in Table 4.4 indicate that the regression model has a margin of error of $p < .001$. This indicates that the model is less than 0.1% probable to give false prediction; hence the model is significant.

Table 4.5: Analysis of Variance

	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	127.897	1	127.897	6.907	.000b
Residual	18.518	1	18.518		
Total	146.415	3			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Loan Interest, FX Income, Transfer Commissions, Ledger Fees

Table 4.5 shows that the regression coefficients of the independent variables. The following regression model was established:

FP = 56.147 + 0.775*Loan Interest+ 0.318*FX Income+ 0.316*Transfer Commissions + 0.627*Ledger Fees $p<.001$

From the equation, the findings were that holding loan interest, FX income, transfer commissions, ledger fees at zero Financial Performance will be 56.147. Additionally, when other factors are constant, a unit increase in loan interest would lead to a 0.775 increase in financial performance. A unit increase in FX income would lead to a 0.318 increase in financial performance. Holding everything else constant, a unit increase in transfer commissions would lead to a 0.316 increase in financial performance, a unit increase in ledger fees would lead to 0.627 increases in financial performance of the international banks in South Sudan.

Table 4.6: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	56.147	17.253		4.008	.000
Loan Interest	.775	.312	.771	2.482	.018
FX income	.318	.365	.282	.869	.391
Transfer Commissions	.316	.024	.102	.716	.479
Ledger Fees	.627	.684	.536	3.401	.002

a. Dependent Variable: Return on Assets

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents a summary of the findings and conclusions of the study to help address the study objectives. After addressing each research objective, the recommendations will suggest the relevant actions to resolve all the addressed issues.

5.2 Summary

From the findings, there is evidence that suggests that several bank specific factors (Loan Interest, FX Income, Transfer Commissions and Ledger Fees) are important determinants of financial performance. This study established a significant difference in financial performance before and after the outbreak of civil war in south Sudan. The study established the following equation:

FP = 56.147 + 0.775*Loan Interest+ 0.318*FX Income+ 0.316*Transfer Commissions + 0.627*Ledger Fees $p<.001$

The study established significant, positive and good linear relationships between banks' financial performance and loan interest, FX income, transfer commissions and ledger fees.

5.3 Conclusions

The study concluded that the financial performance of international banks in South Sudan was significantly influenced by the civil war that broke out in 2013. A lot of arguments have been advanced that war impacts on organisational performance positively or negatively. Though the general contention is that conflict has negative effect it is in a position to enhance innovativeness and productivity which improves financial performance. Henry (2009), avers that establishes teamwork among the personnel in organisations. However, in the case of the banking industry in South Sudan the empirical findings revealed that there was a negative relationship between civil war and financial performance of international banks. The study found out that civil wars in South Sudan had a significant influence on financial performance of the international banks.

5.4 Recommendations for Policy

The study found that the civil wars in South Sudan had a significant influence on the financial performance of the international banks as it had been observed in the significant change in returns on assets during the civil war period. There is therefore a close correlation between bank revenue streams and returns on assets which international investors and interested parties must consider in their strategic planning. State political stability and vulnerability to armed conflict ought to be carefully assessed by cross border traders and international trade investors before establishing especially financial institutions like commercial banks which based their operations and profitability in foreign currency.

The relationship between civil war and financial performance is therefore, indeed an area which must be continuously studied to avert possible future business losses and public suffering.

5.5 Limitation of the study

To achieve the study objectives the study focused on only 3 international banks in South Sudan. Micro finance institutions were excluded since their operation is different from the one of the international banks. The study could not therefore incorporate the impact of civil war on these companies.

Secondary data obtained from financial reports. Precision of secondary data used in the study was a limitation. Though the data was verifiable having originated from the Central Bank publications, it was still vulnerable to inaccuracies.

The study focused on a six year study period, 2010 to 2016 that is three years before and after the major civil wars in 2013. Focusing on a longer time frame could have captured longer spans of time and economic trends like recession and boom which have some economic significance. It probably could have given the problem a given a broader dimension to the problem.

5.6 Suggestions for Further Studies

The objective of this research was to examine the impact of civil wars on financial performance of international financial institutions in South Sudan. This research be replicated by expanding the sample of analysis and determine if the findings would differ from the current study. The study may also be extended to cover other fields of performance measurement such as effectiveness, economy, prudence and soundness of the international banks in other countries.

Alternatively, future researchers could replicate the study but consider other methods of analysis such as ARCH model, VAR model, and Co-integration analysis among other models and try to establish if the results would be different.

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APPENDICES

APPENDIX I: SAMPLED INTERNATIONAL BANKS IN SOUTH SUDAN

1. Kenya Commercial Bank

2. Equity Bank

3. Ethiopia Commercial Bank

APPENDIX II: INDEPENDENT T-TEST – RETURN ON ASSETS

Firm		Levene's Test		t-test		
		F	**Sig.**	**t**	**df**	**Sig. (2-tailed)**
Kenya Commercial Bank	Equal variances assumed	1.363	0.244	-0.8	303	0.424
	Equal variances not assumed			-0.796	265.045	0.427
Equity Bank	Equal variances assumed	8.908	0.003	-0.801	303	0.424
	Equal variances not assumed			-0.795	238.177	0.427
Ethiopia Commercial Bank	Equal variances assumed	0.166	0.684	0.433	303	0.665
	Equal variances not assumed			0.433	302.844	0.665