THE FINANCIAL ROLE PLAYED BY FOREIGN BANKS IN THE DOMESTIC BANKING SECTOR: A CASE STUDY OF BARCLAYS BANK OF KENYA

BY

RITA WANGUI MUCHERU

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

DECLARATION

Declaration by the candidate

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

Signed: ___________________________ Date: ___________________________

Rita Wangui Mucheru

D61/63789/2011

Declaration by the supervisor

This project has been submitted for examination with my approval as University supervisor.

Signed: ___________________________ Date: ___________________________

Dr. John Yabs

Lecturer,

School of Business

University of Nairobi

ACKNOWLEDGEMENT

I am most grateful to Dr. Yabs my project supervisor, for his guidance and assistance. Their suggestions and criticisms at various stages of this work made it possible for me to see it through. I will not forget my other lecturers who always encouraged me to work hard. I would like to express my sincere appreciation to my colleagues for their words of encouragement as we struggled through the semester. Lastly but most important, God bless you all.

DEDICATION

I dedicate this work to my Lovely Family the Mucheru's for the support and motivation to complete this work.

ABSTRACT

The study attempted to establish the role played by foreign banks in the Kenyan banking sector. A sample of 12 top level management was targeted as respondents for the study. The study got all the intended respondents. A contextual analysis was used to achieve the objective of the study. Interview guides were the main source of collecting data. The study established that there is a great sense a financial impact by foreign banks to the domestic banking sector. However it was also noted that all foreign banks come in to the country at different time and for different reasons but the most attracting reasons for their entry are the promising economy and the fact that Kenya is a developing country with untapped market share when it comes to banking. The study also found out that there is a great financial impact or role as they introduce new products to the market, have better management skills that help in running the banks in a more professional way, they also have a wider credit facility as they can get help from their other branches. However it is also evident that Kenyan local banks are also doing well as they have managed to get into the rural areas and educated the people there on need of saving. The study recommended that there should be a larger study on the same so as to get a clearer outcome on ways that our local banks can also improve and earn high profits which is going to benefit the local community. Financially the foreign banks have been seen to bring more cash flow in the economy which improves the economy of the country at large, more credit is also advanced to the citizens hence enabling them to better living standards if the loans are used accordingly, they have also been seen to provide a one stop shop for financial services which is a great improvement towards reaching our vision 2030.Another approach of the study would be one, which would detail the various sectors of the Kenyan economy and growth as affected by foreign banks, and track how these affected the performances of the domestic banks by trending profit and loss results and stock prices, market share. This way the specific financial role of foreign banks would be identified.

TABLE OF CONTENTS

Declaration……………………………………………………………………………….……....II

Acknowledgment…………………………………..………………………………..…..…III

Dedication………………………………………..…………………………..…..…IV

Abstract……………………………………………………………….………………………..V

CHAPTER ONE: INTRODUCTION...…………………………..……………….……..…..1

1.1 Background of the study……………………………………….………….…..………1

1.2 Research problem……………………………………………..………….…………7

1.3 Research objective……………………………………………………….……........9

1.4 Value of the study ……………………………………………………..………..10

CHAPTER TWO: LITERATURE REVIEW...…………………………………….………..11

2.1 Introduction……………………………………………………….…..…..……..…11

2.2 Theoretical Background……………………………………………..……....…11

2.3 Entry Strategies by Foreign Banks………………………….…………….…………14

2.4 Foreign Banks Entry and Firms Performance…………………………………….…………14

2.5 Role of Foreign Banks ……….………………………………………….…………..…....16

2.6 Consequences of Foreign Bank Entry……………………………….………….…….17

2.7 Future Prospects of Bank Investments……………………………………….…….…….19

2.8Impact of foreign banks on financial sector development……………………………..…...20

CHAPTER THREE: RESEARCH METHODOLOGY……….…………………….……….24

3.0 Introduction……………………………………………………………………………24

3.1 Research design………………………………………………………………….….24

3.3 Data collection…………………………………………………………………………25

3.4 Data analysis……………………………………………………………………...25

CHAPTER FOUR: Data Analysis, Results and Discussion……………………………….26

4.1 Introduction……………………………………………………….…………………26

4.2 Demographic Information……………………………………..……..…………26

4.3 Entry in the Kenyan Economy……………………………………..……………..27

4.4 Domestic Banking Sector…………………………………………….…………..30

4.5 Role of Foreign Banks…………………………………………………….………...31

CHAPTER FIVE: Summary, Conclusion and Recommendation………………………..34

5.1 Introduction…………………………………………………………………………34

5.2 Summary of Findings……………………………………………………………….34

5.3 Conclusion…………………………………………………………………..………34

5.4 Limitation of the Research…………………………………………….…..……..35

5.5 Recommendation of Further Research……………………………………………35

REFERENCES…………………………………………………………………..………36

APPENDIX ONE: INTERVIEW GUIDE……………………………………...………..I

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Over the last two decades, there has been a surge in direct investments in the banking sectors of emerging markets. Foreign Direct Investment (FDI) is an important source of capital and economic growth in developing countries. It provides a package of new technologies,

management techniques, finance and market access for the production of goods and services. However, attracting FDI is a major challenge for host countries as it faces the challenge of identifying the major factors that motivate and affect the FDI location decision.

Foreign direct investment (FDI), as a key element of the globalization and of the world economy, is a driver of employment, technological progress, productivity improvements, and ultimately economic growth. It plays the critical roles of filling the development, foreign exchange, investment, and tax revenue gaps in developing countries (Smith, 1997; Quazi, 2007). In particular, it can play an important role in Africa"s development efforts, including: supplementing domestic savings, employment generation and growth, integration into the global economy, transfer of modern technologies, enhancement of efficiency, and raising skills of local manpower (Dupasquier and Osakwe, 2003; Anyanwu, 2003).

Foreign banks play a crucial role in strengthening the financial structure of an economy. Foreign banks increase competition at domestic level but at the same time it helps domestic banks to become more efficient. In Kenya there is large number of foreign banks and many others are on their way to become part of one the fastest growing economies of the world. Both foreign and domestic banks together present a sound stock market. Currently there are 44 registered commercial banks in Kenya including 13 multinationals banks, 6 banks that have government participation, and 12 banks that are locally owned. In addition there are 2 non-bank financial institutions 2 mortgage finance companies, 4 building societies and 47 foreign-exchange bureaus. (Economist Intelligence 2003).Seven banks control approximately 70% of the market share (The Banker 2003).

The banking sector in Kenya is supervised by the Central Bank of Kenya. Kenyan policies on foreign investments generally have been favorable since independence, with occasional tightening of restrictions to promote the Africanization of enterprises. Foreign investors have been guarantees ownership and the right to remit royalties, dividends and capital.

.

1.1.1 Entry Strategies

After independence Kenya preserved the relatively liberal trade regime in financial services and foreign banks maintained their traditional markets. In the 1980s, these banks weathered the financial crisis relatively well in part owing to their access to parents capital and targeting activities toward locally operating multinationals. Prior to liberalization, however, financial repression policies discouraged activities of foreign banks, and the liberalization of interest rate and credit ceilings, and exchange and capital controls created incentives for a more active and diversified participation of foreign institutions in the provision of financial services. Financial liberization helped promote the development of financial services markets and encouraged entry of new foreign and domestic banks in Kenya.

The foreign banks that were allowed to operate generally appear to have better managed and to have posted better results than their domestic counterparts. Yet they failed to unambiguously strengthen banking soundness

Kenya has had a rather accommodating entry policy for foreign investments. This made it easier for more economic growth in terms of financial sector liberalization.

In the 1970s, the government disallowed foreign investment unless there was also some government participation in the ownership of an enterprise. Notwithstanding some restrictions, between 60 and 70 percent of industry is still owned from abroad, a significant portion of which can be traced to fraudulent asset transfers by the colonial Britain during transition to independence. This denied Kenyans the opportunity to progress economically - relegating most of them to poverty and forming conditions that would tip to dependency on foreign aid. However, Kenyan has had more economic success and more success raising its own quality of life than some of its neighbours in Sub-Saharan Africa.

Although interrupted by the recent financial crisis, the past two decades have seen an unprecedented degree of globalization, especially in financial services. Not only have cross border bank (and other capital) flows improved dramatically, but also many banks, from both advanced and developing countries, have ventured abroad and established presence in other countries. Although there are exceptions and regional differences, few countries have been left out from this trend of increasing financial integration. As a result, foreign banks have become important in domestic financial intermediation.

Entry mode selection. Due to complexity and variety in the international business environment, each firm has its own circumstances to consider with regard to entering a foreign market to its best advantage. In other words, each mode of entry is taken into account by firms in light of their own resources and capabilities in the changeable environment and fluctuating conditions of the host country. Firms have to stress the differences in the international environment when instituting globally competitive strategies so as to exhibit their overall power to obtain competitive advantages. "Mode of entry," or "entry strategy," is interpreted to mean an appropriate way for enterprises to enter foreign markets to operate their international businesses

by exploiting their advantages (Root, 1994). Terpstra and Sarathy (1994) state thatone of the most critical issues in an international market entry strategy is the selection of an appropriate entry mode. Consequently, service firms also need to consider which modes and styles of operation they are going to adopt before they conduct any foreign market investment. Herein, the importance of entry mode selection is obvious. This research assumes a simplified involvement of licensing/franchising and exporting for "low involvement entry mode selection" and management contract, joint venture, or sole ownership for "high involvement entry mode selection" (Ekeledo and Sivakumar, 1998)

Multi-National Corporations

Foreign Banks have a long history in Sub-Saharan Africa, having first set up operations under colonial rule. They dominated African Banking systems at the time of independence, but then lost in importance through nationalization and the establishment of government-owned banks and local banks. In a few countries, however, foreign banks never stopped being major players in the sector, and in others, they were pivotal in the restructuring of the banking sector. In Kenya two of the three largest banks accounting for 38 percent of bank deposits in 1993 were foreign owned.

Foreign banks investment in the banking sector can solve various major problems of a country like financial insecurity, incompetent management, capitalization problem, altering the financial market environment and technical progress in the foreign market. It also helps in handling problems relating to innovative financial products and nonperforming assets

1.1.2 Multinational Corporations Banks in Kenya

In Kenya, the very dominance of the foreign banks promoted the government to encourage the proliferation of local banks and NBFIs. The hasty and poor preparation behind this move led to adverse selection, with the foreign banks keeping the best borrowers to themselves and leaving the new entities with the riskiest loans. Foreign owned banks have dominated commercial banking. There are currently 13 foreign owned banks in Kenya

The origin of commercial banking in Kenya related to commercial connections in East Africa, which existed towards the end of the 19th Century. First of all there was National Bank of India in Kenya in 1896 after the establishment of the British in the region. It was followed by Standard Bank of South Africa in 1910. In 1916, the National Bank of South Africa merged with Anglo-Egyptian Bank Ltd to form Barclays Bank (dominion colonial).

Claessens and Jansen (2000) as cited by Kamau (2009) argued that foreign banks usually bring with them better know-how and technical capacity, which then spills over to the rest of the banking system. They impose competitive pressure on domestic banks, thus increasing efficiency of financial intermediation and they provide more stability to the financial system because they are able to draw on liquidity resources from their parents banks and provide access to international markets. Beck and Fuchs (2004) argued that foreign-owned banks are more profitable than their domestic counterparts in developing countries and less profitable than domestic banks in industrial countries, perhaps due to benefits derived from tax breaks, technological efficiencies and other preferential treatments. However domestic banks are likely to gain from information advantage they have about the local market compared to foreign banks.

The foreign investment strategy with Kenya is full of passion and confusion both at the same time. The presence of the foreign banks no doubt affects the economy of the country and Kenya

is not an exception to it. If the competition with the foreign banks influences the financial services in a country positively, through increased competition and importation of the banking skills and technologies, then it would help to liberalize the policies for the foreign bank entry (Deepak 2007). Foreign banks began to spread their roots in Kenya during the British rule and now with globalization of the country many new foreign banks are likely to come up shortly. The foreign banks are also called as foreign exchange banks due to their capacity to finance and assist the foreign trade of the country (Tarapore 1999).

Barclays bank and Standard & Chartered banks have avoided accumulating significant non-performing loans by adopting conservative lending policies with strict lending with strict lending controls largely modeled on those of their parent banks. Their lending has been concentrated mainly on prime (I.e. the most creditworthy) corporate customers, multinational corporations and the larger local companies.

1.1.3 Barclays Bank of Kenya

Barclays undertook a major expansion programme in the rural areas in the mid 1980's with the aim of mobilizing rural deposits. Its rural branch network appeared to have been profitable, because it enabled the bank to mobilize low cost rural deposits and channel these into remunerative loans and investments, primarily in urban areas.

Its establishment in Kenya was just in line with the practice of British banks to follow the development of trade in their colonies and concentrate on finance of international trade. National

Bank of India operated mainly in India while the Standard Bank of South Africa had its main business in South Africa. Since the banks had links with Europe, South Africa and India their businesses affected their operations, because they were mainly dealing with customers from their respective areas. Open opportunities for traders and settlers who had come to Kenya and the growing community provided initial sources of deposits in excess; and the surplus, which remained unutilized in Kenya were invested in London. Deposits were also made locally. This situation prevailed mainly because there was a gap between bankers and prospective borrowers.

Barclays Bank of Kenya Ltd. (Barclays) is a financial services provider, based in Kenya. It operates through Personal Banking, Corporate and Investment Banking, and Treasury sectors. The company's Personal Banking sector offers Premier Life, Savings, Transactional Accounts, Loans, Barclaycard, Retail Internet Banking, and Local Business services. Its Corporate and Investment Banking sector Transactional Banking, Asset Finance, and Trade Finance services. The company offers asset finance for Cars, trucks, trains, busses, forklifts, farm machinery, capital equipment, plant equipment, IT Equipment. Its Treasury sector offers foreign exchange in all major currencies, risk management solutions, investment services, and Barclays corporate bond. The company offers agriculture, manufacturing, tourism and financial services. It has a network of 117 outlets with over 230 ATMs spread across the country. "Barclays has a long history of innovation firsts and will continue to lead the way in the banking industry"

A few years back it was faced with a restructuring decision where it closed most of their rural area branches, this was due to the fact that they wanted to create a niche market with the urban

people as the grassroots by then were not very developed. However in recent times we have seen them getting more branches that is increasing their customer base in the country.

The profitability of the bank has been as a result of a combination of factors. Their cost of funds has been low because their reputation and their branch networks allowed them to mobilize a high proportion of total deposits from current accounts and to pay relatively low interest rates on savings accounts. The bank's financial performance over the years has built confidence among the Bank's shareholders, with a reputation as one of the leading blue chip companies on the Nairobi Stock Exchange.

1.3 Research Problem

This study will examine the financial role played by foreign banks on Kenyan economy and domestic banks in Kenya. Since pre-colonial times when the foreign banks were established in Kenya it has seemed to be very crucial for them. The foreign banks introduced Kenyans to better ways of saving and accessing finances.

The greater foreign bank participation in the domestic banking system lower is the possibility for a country to face a banking crisis. It also boosts up the long-run economic growth accelerating the domestic banking efficiency. Foreign direct investment in the banking sector can solve various major problems of a country like financial insecurity, incompetent management, capitalization problem, altering the financial market environment and technical progress in the foreign market. There are few disadvantages attached to the foreign banking which includes monopolization of the Indian external trade financing through which they are earning handsome

amount of money by way of brokerage, commission, etc. At the time of inflation, the cost of living increases as well as the prices increases.

However, today, due to the emergence of local banks and strong government owned banks in Kenya and Africa at large it is not clear whether the foreign banks have such a huge influence in the financial sector. Through this study we will to find out if the foreign banks have any special effects anymore.

In summary, the main question of our research will be to find out whether foreign banks influence the economy of Kenya positively and what makes the other nations invest in the economy of Kenya?

1.4 Research Objective

The objective of this study is to find the financial roles played by Barclays Bank of Kenya to continue surviving in the market and its impact to the domestic banking sector.

1.5 Value of the Study

This study is expected to help find out whether the foreign banks influence the economy of Kenya positively and what would make more foreign banks invest in the Kenya economy. An attempt will be made to understand how the economy is affected due to foreign investment, inflation and fluctuations in the stock exchange. This study can also detail the various sectors of Kenyan economy and growth as affected by foreign banks, and track how these affected the performances of the domestic banks by trending profit and loss results, and stock prices, market share. By valuing or establishing the financial results of the changes in how domestic banks do

business, importance of changing established business practices and strategies in response to the emergence of the foreign banks is effectively quantified.

If competition between foreign and Kenyan banks is really in effect, there should have supplementary institutions. At present time, Kenyan banking are regulated strictly, Capital item has not opened, and financial market has not developed, cultural difference, stable relation between Kenya banks and corporations. Under these conditions, foreign banks have limited impact on Kenyan banking in short run.

It will also help to look at the effects it has made to the financial sector categorically the Kenyan Local bank, with this information domestic banks can be able to grow and become internationally recognized like opening more of their branches beyond the Kenya borders.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter details the literature related to the impact of foreign banks in Kenya. It talks about the foreign banks and presents its monetary gains and profits. It also presents a separate section on the research background. Foreign direct investment and its advantages and disadvantages on the Kenyan economy have also been discussed

2.2 Theoretical Background

In the past, governments in many developing countries often saw multinational enterprises (MNEs) as part of the development problem, due to assertions of exploitation of the environment and of the labor force. At present, MNEs are seen as part of the development solution for several reasons.

The attitude towards inward foreign direct investment (FDI) has changed considerably over the last couple of decades, as most countries have liberalized their policies to attract investments from foreign multinational corporations (MNCs). On the expectation that foreign

MNCs will raise employment, exports, or tax revenue, or that some of the knowledge brought by the foreign companies may spill over to the host country's domestic firms, governments across the world have lowered various entry barriers and opened up new sectors to foreign investment.

According to the comparative advantage theory, the banks that enjoy a comparative a comparative advantage in the banking industry will offer more competitive financial products,

and will therefore be more competitive in international markets. Furthermore, banks engage in foreign entry to increase the bank's profitability, within an acceptable risk profile and risk diversification goals. Focarelli and Pozzolo (2000) find that banks prefer to have subsidiaries in countries where expected profits are larger, owing to higher expected economic growth and the prospect of reducing the local banks inefficiency.

Rugman (1981) argued that the internalization theory can be applied to multinational banks, and concluded that the reasons for internalization include low marginal costs, market intelligence advantages, the information provided by the headquarters in the home country, reputation, regulations(e.g. deposit insurance and foreign exchange regulations), transactions costs , growth and risk reduction. Cho (1986) developed a growth model of multinational banks using eclectic paradigm, and empirically verified that the banks' scale of operations in the home country, differences in loan interest rates , the market size of the host country are the main factors that facilitate the growth of multinational banks in host country.

As of June 18, 2012, the Kenya Economic Update launched in Nairobi, indicating that the economy is improving due to government action in the third quarter of 2011. The actions taken consisted of a raise in interest rates that in turn brought inflation down. The latest World Bank economic report projected an economic growth of 5% in 2012, but the economy is still vulnerable to shocks that may reduce growth to a lower. Johannes Zutt, the World Bank County Director for Kenya, quoted--"Kenya's per capita income has exceeded US$800 for the first time, and Kenyans have an opportunity to enjoy better standards of living as the economy progresses towards middle-income status in the coming years." Jane Kiringai, the Bank's Senior Economist for Kenya, makes a point that--"Structural weaknesses, including a widening current account deficit, pose a significant risk to Kenya's economic stability. Another oil price

shock, poor harvest, or contagion in the Euro zone could easily create renewed economic turbulence and reverse the recent gains." Although these problems are currently taking place, the East African Community is creating opportunities to reduce the shocks occurring in Kenya's economy.

Several researchers and financial experts (Williamson 1987; Greenwood & Jovanovic 1990; Bencivenga & Smith 1991; Obstfeld 1994; Boot & Thakor 1997; Greenwood & Smith 1997; Levine 1997; Levine 1999; Levine, Loayza, & Beck 2000) have confirmed the role of banks in the growth process (Arun & Truner 2002). Beck and Levine (2004), Rousseau and Wachtel (2000), Levine (1998) have found that both banks and stock market are essential elements for economic growth of a country.

The effects of the entry of foreign banks on development and efficiency appear to depend though on some conditions. Limited general development and barriers can hinder the effectiveness of foreign banks (Garcia-Herrero and Martinez Peria, 2005; Demirguc-Kunt, Laeven and Levine, 2004). Also, the relative size of foreign banks' presence seems to matter.

With more limited entry (as a share of the total host banking system), fewer spillovers seem to arise, suggesting some threshold effect (Claessens and Lee, 2003). In terms of individual bank characteristics, it seems that larger foreign banks are associated with greater effects on access to financial services for small and medium-sized enterprises, perhaps as they are more committed to the market, while smaller banks are more niche players (Clarke et al. 2005). Furthermore, the health of both the home and the local host bank operation seem to matter, with healthier banks showing better credit growth

2.3 Entry Strategies by Foreign Banks

Foreign banks can operate in Kenya, either by acquiring a Kenya bank or by obtaining a license to operate as a Kenyan affiliate bank of a multinational bank. In practice, affiliates of multinational banks are provided full market access and national treatment, but Kenya has not bound this practice at the WTO. The European Union has requested that Kenya commit to national treatment of foreign investment in the sector by binding this commitment at the WTO (Kiptui, 2007);

The entry of foreign banks is generally thought to have favorable effects on the development of host banking systems, including through increased credit extension.

2.4 Foreign-Bank Entry and Firm Performance

There is a common perception that foreign banks alleviate financial constraints, improve access to credit, and lower borrowing costs, thereby improving firm performance in host countries. Entering institutions often have access to a larger pool of capital, which potentially increases the supply of loanable funds to domestic firms. The resulting increase in local lending should relax financial constraints on firms' activities, which would then translate into higher real growth, the greater the foreign-bank presence. During local banking crises, this "loan-supply" effect should be particularly valuable because foreign-owned lenders, which fund themselves through their parent companies, can continue to extend credit to firms, which otherwise face a credit crunch.

However, foreign institutions with superior lending expertise can also exert competitive pressures on local banks, which might cut back their lending activities to an extent that the

overall supply of credit falls. Dell'Arricia and Marquez (2004) or Sengupta (2007) show that the high cost of For instance, Japan, the US, and EU argue in a joint memo to the World Trade Organization that policies that impede competition, such as entry restrictions and restrictions on foreign banks, have been shown to raise the cost of financial services and hurt economic performance. Acquiring borrower-specific information might induce entrants to only lend to the best credit risks, which is consistent with empirical evidence in Berger, Klapper, and Udell (2001), Haber and Musacchio (2004), and Mian (2006). Local banks facing a deteriorating borrower pool reduce their lending activities so that greater competition might worsen firms' access to credit (Petersen and Rajan, 1995 or Gormley, 2008). Whether foreign entry improves the availability of credit and lowers borrowing costs therefore depends on the competitive reaction of the local banking sector. If foreign banks exacerbate financial constraints on firm performance due to a retrenchment by domestic lenders a larger outside presence should lead to slower industrial growth.

At the same time, entrants can suffer from adverse selection if local credit markets are informationally opaque and the domestic banking sector holds the informational advantage (Dell'Ariccia and Marquez, 2004). Foreign banks' success now critically depends on their ability to screen borrowers (Broecker, 1990) and attract good credit risks (Gehrig, 1998). In this context, the mode of entry becomes important. Entry through acquisitions as opposed to greenfield investments provides access to local lending expertise which allows foreign banks to overcome asymmetric-information problems and lend more efficiently. Hence, acquisitions should have a larger immediate effect on real economic activity the greater the informational obstacles are, e.g., in developing countries.

2.5 The Role of Foreign Banks

Access to finance and, a well-functioning financial sector are of central importance for firm performance and economic growth. In particular, inefficient banking systems often constrain economic activity because firms with external financing needs lack access to credit. In this context, the role of foreign direct investment by banks in mitigating financial inefficiencies is ambiguous. On the one hand, foreign entry by banks can act as a catalyst for financial development by providing superior expertise (Claessens et al., 2001) or new sources of financing (BIS, 2001 and 2006) and might induce consolidation in fragmented banking systems (Gelos and Roldos, 2004), which all can improve the efficiency of local intermediation and availability of credit (Beck et al., 2004). On the other hand, foreign-owned lenders might exert competitive pressures on domestic banks which, in response, cut back their own lending activities (Giannetti and Ongena, 2007) to such a degree that the overall availability of credit decreases (Gormley, 2008). Hence, the effect of foreign banks on domestic economic activity is both an important empirical and policy question all the more that present work offers conflicting predictions and contradictory empirical evidence.

To fill this gap in the literature, a study investigating the role of foreign banks in improving firm performance and the economic channels through which their presence affects real economic activity in Kenya which is a developing country was done. It was estimated that the presence of foreign banks stimulated industrial growth by reducing external financial constraints on organizations activities. The primary variable of interest is an interaction term between an index of financial dependence by industry and the share of total domestic banking assets held by

foreign-owned lenders. By interacting country attributes (presence of foreign banks) and an exogenous industry benchmark (external financial dependence) in a difference-in-difference framework we isolate the independent impact of foreign banks on real growth across countries and industries while avoiding simultaneity and reverse-causality concerns.

A surplus of time, country, and industry fixed effects address potential omitted-variable bias.

The results provide strong evidence that foreign banks consistently and significantly alleviate financial constraints and improve firm performance. The greater an industry's dependence on external finance, the more their presence increases real growth, especially in developing countries, Since King and Levine (1993) and Rajan and Zingales (1998) a growing body of literature has shown that a country's level of financial development has a direct bearing on its economic prospects (see, e.g., Beck et al., 2000). When a relation of the impact of foreign banks on firm performance to the occurrence of local banking crises, the results are that nonlocal lenders mitigate their severe consequences on growth (see Kroszner et al., 2007 or Dell'Ariccia et al., 2008) to the point of insignificance. In a similar vein, first-time foreign entry, which has a much greater impact than later incremental entry, unambiguously and immediately lessens the negative effects of financial dependence on real economic activity, especially in developing countries. Taken together, our findings suggest that foreign banks as marginal suppliers of credit relax financial constraints on firms when they bind the most.

2.6 The Consequences of Foreign Bank Entry

Studies on the consequences of foreign bank entry have predominantly focused on three main areas: the implications of foreign bank entry on the efficiency and degree of competition in the

banking sector, the impact on banking sector stability, and the effects on access to finance, in particular for opaque borrowers such as small businesses

Foreign bank presence, efficiency, and competition **-**A series of cross-country empirical studies show that the presence of foreign-owned banks is associated with greater efficiency and competition in a host country's banking sector. In particular, foreign bank presence has been linked to lower net interest margins, profitability, cost ratios, and non-interest income for domestic banks in developing countries (Claessens et al., 2000, 2001; Claessens and Lee, 2003; Bayraktar and Wong, 2004). Also, foreign bank presence and fewer restrictions on banks' activities have been directly linked to greater competiveness in a host country's banking sector as reflected in the Panzar-Rosse H statistic (Claessens and Laeven, 2003, Gelos and Roldos, 2004).

Foreign bank penetration and banking sector stability - Evidence on the effects of foreign bank presence on banking sector stability is more clear-cut than that regarding efficiency and competition. Early cross-country evidence from developed and developing countries indicates that greater foreign bank presence is associated with lower probability of systemic banking crisis in the host country (Demirguc-Kunt et al., 1998). Subsequent research on a broader sample of 107 countries shows that official barriers to foreign bank entry are associated with measures of banking system fragility (Barth et al., 2004).

Restrictions on foreign participation and the role of crisis - Another obvious factor that has been shown to affect the level of participation by foreign banks is the existence of restrictions on

foreign bank entry and on the activities that banks can pursue, as well as the burdens imposed by regulations and supervision in the host country.

Pursuing opportunities in the host country - Along with the desire to serve home clients, studies have emphasized the importance of economic opportunities in the host countries as a motivation for foreign bank entry. In this regard, there is ample evidence that foreign banks are drawn to larger, more vibrant economies, with greater profit opportunities. Early studies for the US and Japan demonstrated that foreign bank participation was linked to measures of real GNP and GNP per capita (Goldberg and Johnson, 1990; Yamori, 1998) and to more specific measures of banking sector activity such as the size and growth rate of the banking sector and the rate of domestic investment (Goldberg and Saunders, 1980; Goldberg and Saunders, 1981b; Goldberg and Johnson, 1990; Yamori, 1998).

2.7 Future Prospects of Bank Investments

The role of the financial system in the growth of an economy has been undergoing a transformed attention in the research of many economists (Greenwood & Jovanovic 1990; Bencivenga & Smith 1991; King & Levine 1993; Obstfeld 1994; Boot & Thakor 1997; Greenwood & Smith 1997; Levine 1997). Levine, Loayza & Beck (2000) has even confirmed the role of banks in the growth.

In recent years, Kenya has made substantial progress in improving the stability and efficiency of its banking system. Upgrading of the supervisory framework was accompanied by write-off of

non-performing loans and reductions in government's role in the financial sector. Interest spreads, while still high, have come down recently, due to lower loan loss provisions and overhead costs, but also lower profit margins, suggesting a certain degree of competition. This was accompanied by a reduction in inflation and the fiscal deficit and stable exchange rates, which in turn facilitated not only a drop in interest rates, but also improvements in the government-managed and influenced government institutions. Kenya's financial system, however, continues to face challenges. The banking system is still fragmented, with many small banks serving specific niches, but not contributing to competition in the sector. The outreach of the financial system is still limited.

The presence of foreign banks has had a positive effect on the local banking sector. Foreign banks as a group display greater efficiency than their national competitors. They have higher levels of assets, loans and deposits per employee than both State-Owned banks and private domestic banks. Foreign banks also have lower interest rate spreads than state owned banks. Since these two groups constitute the only large banking institutions in the country, foreign banks have been important in lowering financing costs faced by the local corporate and retailing borrowers.

2.8 Impact of foreign banks on financial sector development

A crucial question has been the impact of foreign-bank activity on a host country's financial development. Before the crisis, the general consensus was that the benefits greatly outweigh the costs in many dimensions. It was generally considered that foreign banks add to domestic competition, improve the quality of financial intermediation, increase access to financial

services, enhance financial and economic performance of their borrowers, and bring greater financial stability (Cull and Martinez Peria 2011).

Limited general development and barriers can hinder the effectiveness of foreign banks. Also, the relative market share and size of foreign banks seem to matter. With more limited entry as a share of the total host banking system, fewer spillovers seem to arise. And larger foreign banks seem associated with greater effects on access to finance for small- and medium-sized enterprises, perhaps as they are more committed to the market. Furthermore, healthier home and local host banks show better credit growth. Some studies though find that foreign banks can have perverse effects. Because foreign banks 'cherry-pick' borrowers, they can undermine overall access to financial services, since cherry-picking worsens the remaining credit pool, and therefore lowers financial development, especially in low-income countries where relationship lending is important (Detragiache et al 2008).

Revisiting this literature on foreign banking using the newly assembled data, cross-country analysis shows that the relationship between foreign-bank presence and financial sector development indeed differs by host country. Specifically, in emerging markets and high-income countries, foreign-bank presence tends to have an insignificant relationship with credit extended. In developing countries, however, foreign-bank presence is associated with less overall credit extended. Indeed, in these countries a one standard deviation increase in the foreign-bank share is associated with a decline in private credit–to-GDP of 5 percentage points, economically very large, since the mean of private credit–to-GDP in this group of countries is only 19%.

In summary, while foreign bank presence could have a negative relationship with financial development, this is not a general result. Therefore, it is important to allow for differences in

foreign bank presence, level of development, and other factors when considering the relationship between foreign banks, domestic credit creation, and other aspects of financial sector development.

Kenya's banking system has seen a significant improvement in asset quality over the past years, mostly due to loan write-offs and recapitalization of government-owned banks, has mostly well capitalized and liquid banks and, overall, the system is resilient to shocks. Interest rate spreads have decreased over the past years, a phenomenon mostly accounted for by foreign banks and the reduction in overhead costs they experienced. Outreach is still limited, but has improved over the past years, with M-Pesa having a significant impact in the domestic remittance market.

Finally, the different entry modes represent different degrees of control, asset commitments and risks. Thus, the entry mode should be highly correlated with the complexity of the local environment, the company's experience as well as its management ability. Bank managers could adopt an entry mode with a high degree of control, such as setting up a branch, a subsidiary or engaging in merger and acquisition activity when sufficient international experience has accumulated and they are capable of managing foreign branches. On the contrary, if banks are planning to enter a less familiar environment, an entry mode with a lower degree of control, such as a representative office, could be considered to avoid the operational risks associated with a new market.

The potential benefits of foreign bank presence have been studied for some time.

Still, little is known about the channels by which foreign banks can improve the efficiency of domestic financial systems, increase financial sector development and access to financial

services, and enhance countries' overall economic growth. Furthermore, the recent financial crisis has highlighted again that there can be risks associated with cross-border banking and foreign banks presence. These developments have led to an increased demand among policy makers and interest among academics for more analyses of the benefits and risks of foreign bank presence to help guide regulatory reforms by a very huge margin which is to their advantage.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used in conducting the study. It discusses the research design, study population, sampling methods, data collection and data presentation & analysis methods. This chapter therefore give a detailed methodology of the research for the purpose of validation of the data and findings.

3.2 Research design

According to Cooper and Emory (1995) that research design constitutes the blueprint for the collection, measurement and analysis of data. It is the plan and structure of investigation so conceived as to obtain answers to research questions. The study will adopt a case study research design. This is proposed to studying the financial role of foreign bank in the Kenyan Banking sector. The descriptive research design set the ground for more quantitative research on the subject. The data collected assisted the researcher to draw conclusions relevant to the research topic

3.3 Data collection

The primary data was collected through a structured interview guide comprising of open ended questions to avoid subjectivity to be answered by the respondents. These interview guides were self-administered. The guide tested for validity in a pilot test study before the actual field-work. These will be administered to the employees of the bank. They were reached by way of setting up appointments with them through their offices.

Secondary methods of data collection was used to supplement the primary data from alumni. This will involve in-depth discussion through individual meetings with the management of the bank. Cooper and Schindler (1998), emphasize the value of personal interview when they stated that it enables in depth and detailed information to be obtained. Documents and records belonging to the institutions as well as books, journals, and the worldwide web, university websites, indexes and bibliographies

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

3.5 Data analysis

The data collected by the researcher was be analysed using content analysis methods. The data collected was edited to check for completeness and consistency then checked for omissions and errors and arranged in a systematic manner to meet the purpose of the research objective.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the study. It analysis the interview responses received from all interviewees. It talks about the crucial points presented by the managers and supervisors during the interview. It presents the information, facts and thought as shared by the interviewee. The responses are also analyzed so as to gain in-depth understanding of the responses. A total of twelve respondents were interviewed; five were senior lever managers and the other seven were supervisors all based at the head office

This chapter analysis the interview responses received from each interviewee. It talks about the crucial points presented by the manager during the interview. It presents the information, facts and thoughts as shared by the interviewee. The responses are also analyzed so as to gain in-depth understanding of the responses.

4.2 Demographic Information

It was noted from that a majority of the interviewed were between 30 and 40 years and all graduates hence vast knowledge and skills. The respondents have worked in the Kenyan foreign banks for a period of between 4 years to 8 years, this gave an edge on the know-how of how the banks operates and the effects they have on the banking sector as a whole. The study being done from the top management of the bank made them appropriate to objectively answer the questions that were presented to them as they had the necessary knowledge on the topic under study and were well versed with the banking sector

4.3 Entry in the Kenyan Economy

4.3.1 Strategies Driving Investments

The strategies driving investments in Kenya by Foreign Bank named were a strong financial system that automatically drives the economy towards development and growth, the fact that the country, also the international trade and foreign investments is one strategy that is attracting foreign banks in the country. With the liberalization of the banking policies, they felt that many foreign banks along with their branches and other financial institutions have come up in Kenya. Domestic savings of the people and investments in large projects such as agriculture, tourism and mining is all in the rise hence making the environment for banks favorable and promising. They felt that foreign investment not only brings foreign exchange in the country but also makes it more stable and secure in the international market. They felt that possibilities in the Kenyan markets and corporate sectors are unlimited and only those who have the potential to take risk and act wisely can succeed. This strength of the stock market has strengthened the economy of Kenya by making it more stable. His views are that the new foreign banks present the domestic banks with a healthy competition and also provide more funds for lending. In future his bank is planning to cover the rural sector of Kenya

Most of the managers involved in the study were of the opinion that Kenya is attracting the investors towards itself because it's one of the fastest developing economies. One respondent felt that Kenya has a large potential for growth and advancement, another also thinks that foreign exchange also brings with itself stability and security, and considers Kenya to have a better developed financial system.

4.3.2 Benefits of Globalization of the Financial Market

All the respondents felt that the banking sector as a whole has benefited from the globalization of the financial market due to more developed IT systems, better management techniques and a wide range of products and experience that the foreign banks bring to the banking sector in Kenya. Globalization of capital market has added speed to the international trade in the country. Without finances one cannot expect any trade to take place either domestic or international.

The economic growth of the country and the pace of growth in the GDP during the recent years have made India a preferential country as far as investments are concerned and hence it is driving in FDIs. These foreign banks add to the competition when they contribute significantly towards the market share. As per his opinion globalization of capital market and coming up of more and more foreign banks in Kenyan has improved the trade in Kenya. The corporate sector now feels free to approach these banks as they extend loans and guide their clients through their crucial customer services.

4.3.3 Foreign Banks Effect on Recession

When asked about recession some of the responses were that; due to the fact that the foreign banks provide capital to the country and these finances help to stabilize the economy to a great extent. The country can easily fight against the deficiency of finances with the help of these foreign investment banks. Foreign banks ease the financial condition of the country by funding the nation and also bring comfort for the economy as a whole. The growth in the number of the foreign banks in Kenya will have a positive effect on its economy and will also help to stabilize

the economy to a greater extent. They were pessimistic about the further foreign bank's investment in India as the world's economy is showing a weak picture and recession has hampered every aspect of the economy. Two respondents answered affirmatively to the question

4.3.4 Effect of Investment

The effect of investment by foreign banks in the next five years, they felt that foreign banks will ease the availability of finances but they will toughen the competition in the banking sector in which the domestic banks are likely to suffer a setback.

One respondent felt that the foreign investments have strengthened the stock market and corporate sector of the country. 4 out of 12 stated that the foreign investments can provide stability to the Kenyan economy. 2 of them thought that foreign capital provides a solid platform for the development of the corporate sector of the country, and it also provides a solid platform for the development of the corporate sector, the others felt that foreign banks bring a large benefits to the country's financial system and brings efficiency with its new technologies services and administrative skills. Almost all the respondents agreed that foreign banks investment increase competition in the banking sector.

A boost to the domestic banking sector- what came out clearly is that host countries expect foreign banks to enter and galvanize the domestic banking sector by bringing in healthy completion. Domestic banks are expected to react to the foreign presence and compete fiercely to retain their previous market shares, thereby lifting the domestic banking sector to international levels of efficiency.

There will also be greater access to international markets-countries on opening their doors to foreign banks, expect them to aid in the development of trade and foreign direct investments. First their domestic operations will benefit local producers and in particular export/ import companies and MNC's. Secondly, foreign banks are expected to increase foreign currency inflows in the country.

4.4 Domestic Banking Sector

4.4.1 Effect on Local Banks

Respondents felt the establishment of the foreign banks improves the efficiency and competition spirit of the domestic banks. Also the investment of foreign banks is also considered to be a cause for the increase in the growth rate in Kenya

3 respondents think that Kenya is a promising economy in the world today and feels that the future of the banks is quite secure in Kenya. Another respondent thinks that the future of foreign investors in Kenya is quite bright especially due to the way the IT sector is progressing in Kenya. Foreign banks bring foreign exchange and help to build a strong forex base that can help the development of the stock market and the corporate sector of the society.

When asked on the problems the foreign bank has helped resolve in the banking sector the response was that they all felt in one way or another the foreign banks are of benefit to the banking sector. One way they have helped to improve the management practices in Kenya. Those banks who cannot withstand the competition face a tough time. Also three respondents felt they solve a problem of shortage of credit

4.4.2 Banks Efficiencies

Foreign banks make domestic banks improve their performance levels this is greatly seen by having products that customized banking products, improved customer relations that put the banks at a better marketing position with their clients as they feel appreciated and recognized.

All respondents expressed the opinion that foreign banks entry can help resolve the problems being by the Kenya banking sector to a greater extent and can also help to improve the management practices in Kenya

4.4.3 Effect on Competition

Foreign banks promote competition when they add considerable market share/ they felt that as capital is the spirit of trade and without globalization of the capital market globalization of trade will not yield the desired results. This was largely seen more when they add considerable market share as this proves they have already established themselves and the Kenyan people are identifying with their products and services. At the point of entry no much difference can be realized as they have to do some serious marketing to be able to attract customers and retain them

4.5 Impact on Foreign Banks

4.5.1 Benefits to the Foreign Bank Investments

Three reasons for recommending the foreign banks to invest in Kenya that clearly came out are; a promising economy compared to many developing economies during the present time,

secondly, the stock exchange of Kenya is showing an upward trend, also the IT sector is rapidly developing and lastly the savings of people is increasing day by day.

Respondents also felt the future of the banks investments is quite promising considering that there are still a huge percentage of the citizens who have not yet embraced banking. Also another reason that could lead to better future investments was that as a developing economy more people are going to school and job opportunities are opening up hence increasing the saving power of consumers who largely results to saving in banks. Banks have also resulted to going beyond banking only and also started a one stop shop where they have embraced insurance, forex services, money transfer services

4.5.2 Increase of Investments

When asked whether they would like to increase their investment in Kenya during the coming years, 9 respondents were of the view that they would like to increase investment mainly to take advantage of the economy, stock exchange and to earn more profits. According to them, the foreign investment banks will dominate Kenyan banks in the coming five years; while one felt that the rise in standard of living of the people and the stock exchange along with the growing economy were the reasons for attraction towards the Kenya economy.

Three reasons for recommending the bank to increase investment are to take advantage of its economy, stock exchange and to earn profits even doubling the said profits. Other responses which also came out clearly were rise in the standard of living of the people. However one

respondent was not expecting any drastic changes in the decision and practice of investments in Kenya relating to the foreign banks.

4.5.3 Decision and Practice of Investment

In the coming five years if the policies of the government do not change the investments in the country will increase because people save their earning although in small portions. Pooling of this small capital of the people can prove beneficial. Yet, the foreign banks are looking forward towards the Kenyan government to give relaxation to the foreign banks. And if the policy of the government becomes more favourable for the foreign banks the investment in the banking sector will increase tremendously.

Almost all the managers agreed that if the policies of the government remain same regarding foreign investments then investments in investments in Kenya are likely to increase, although some of them are looking forward for more liberty to be given to them in Kenya.

Two respondents stated that the FDI are directed towards Kenya in order to take advantage of its prosperous economy and stock exchange. According to them these foreign banks also promote foreign competition.

Almost all of the interviewees agreed that due to the foreign bank's investment recession has affected Kenya to a lesser degree as compared to other countries. But one was of the opinion that during recession foreign banks can help stabilize the situation if they are not facing recession in the home countries and that foreign finances provide stability to the economy.

CHAPTER FIVE: SUMMARY, CONCLUISIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides summary, conclusions and recommendations for further research from findings of the study. It talks about the limitations of the present research study and states the recommendations that can be applied for future research in this area.

5.2 Summary of the Findings

Foreign banks tended to equip themselves with much better customer information through professional database management than did local banks. That helped the foreigners to gain better access to VIP customers, whether foreign or local enterprises, whether wholesale or retail clients, whether individuals or firms. The presence of foreign bank stimulated a more competitive environment in Kenya's banking sector, in turn encouraging local banks to respond through financial innovation.

5.3 Conclusion

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

Potential stockholders, the entrance of strategic foreign partners could be expected to improve the CCB’s performance in a host of areas: overall governance, management mechanisms, internal auditing, adoption of a credit culture, and improved risk-assessment techniques. As well, FDI in the banks clearly had the potential to transform Kenya’s banking industry, and more generally to foster the development of an efficient, competitive financial system. These “external effects” augment the benefits obtained from the “internal effects,” including raising operating incomes and lowering operating expenses.

5.4 Limitations of the Research

The scope of this study is limited to short-term period which is in contradiction to the calculation of effect on Kenyan economy and domestic banks of Kenya. An important limitation in this analysis is the relatively small sample. The small samples can obscure trends in the data that might otherwise be observed. Furthermore, it limits the power to detect a significant effect. If there were more observations included for instance, more number of managers included in the study) in the analysis, there would be greater ability to detect a relationship between the dependent and independent variables and the results might be somewhat different and more powerful.

5.6 Recommendations for further research

There are a number of approaches in determining the financial impact of the foreign banks in Kenya. There can be a number of approaches that can essentially quantify this impact. The approach used in this study evaluates this impact mainly by collecting responses from top level

management in Barclays bank and referring to the related information already available for review. Another approach can detail the various sectors of the Kenyan economy and growth as affected by foreign banks, and track how these affected the performances of the domestic banks by trending profit and loss results and stock prices, market share. By valuing or establishing the financial results of the changes in how domestic banks do business, importance of changing established business practices and strategies in response to the emergence of the foreign banks is effectively quantified. This second approach creates an opportunity for further research.

REFERENCES

Batiz-Lazo B. and Wood D. 2003. *Strategy, Competition and Diversification in European and Mexican Banks*, International Journal of Service Industry Management Vol.21, 2002-2016.

Beck, T. & Fuchs, M. (2004). *Structural Issues in the Kenyan Financial System: Improving Competition and Access.* W/P 3363. [Online]. July 2004.

Blomström, M., A. Kokko and M. Zejan (2000), *Foreign Direct Investment. Firm and Host Country Strategies*, London: Macmillan.

Caves, R.E. (1974), *.Multinational Firms, Competition and Productivity in Host-Country Markets.* Economica, Vol. 41,

Clarke, George & Cull, Robert & Martinez Peria, Maria Soledad & Sanchez, Susana M., 2001. "Foreign bank entry - experience, implications for developing countries, and agenda for further research," Policy Research Working Paper Series 2698, The World Bank

Detragiache, Enrica, Poonam Gupta, and Thierry Tressel, 2008, "Foreign Banks in Poor Countries: Theory and Evidence," Journal of Finance, 63, 2123-2160.

Economist Intelligence Unit, 2003. Economic Survey.

Focarelli, D., & Pozzolo, A. (2000). The determinants of cross-border bank shareholdings: An analysis with the bank-level data from OECD countries. Federal Reserve Bank of Chicago

Gelb, Alan 1999, 'Financial Policies, Growth and Efficiency,' World Bank Paper 202

Globerman, S. and D. Shapiro (1999), .*The Impact of Government Policies on Foreign Direct Investment*: The Canadian Experience. Journal of International Business Studies, Vol. 30 (3)

Haaland, J.I. and I. Wooton (1999), .*International Competition for Multinational Investment*. Scandinavian Journal of Economics, Vol. 101

Haaparanta, P. (1996), .*Competition for Foreign Direct Investments*., Journal of Public Economics, Vol. 63,

Martinez Peria. M.S and A. (2004). *Foreign Participation and Market Penetration Impact Bank Spreads*" Journal of Money, Credit and Banking.

Meyer, K. (2001). Institutions, transaction costs and entry mode choice in Eastern Europe. Journal of International Business Studies,

Rugman, A.M. (1981). Multinational banking and the theory of internalization: Inside the multinationals. New York, Columbia University Press.

Mushkin S. Frederic 2001. "The Economics of Money, Banking and Financial Markets", 6th Ed. Addison Wesley, US. 198-245.

Saunders, M. Lewis, P. and Thornhill, A. 2003. Research Methods for Business Students. London. Prentice Hall.

Smith, S. (1997), "Restrictive Policy toward Multinationals: Argentina and Korea", ***Case Studies in Economic Development*****, 2nd Edition, 178-189.**

APPENDIX ONE: Interview Guide

Dear respondent,

Please fill in all the questions by writing and ticking appropriately in the spaces provided. By taking just a few minutes to contribute in our survey, you will be helping us evaluate the financial role played by foreign banks in the banking sector. Findings of the study will be used to note on the financial role played by foreign banks in the Kenyan banking sector. The information you share with us is confidential and will only be used for purposes of this research.

A. Personal Information

1). Age?

Less than 30 years	( )	40 to less than 50 years	( )
30 to less 40years	( )	50 to less than 60 years	( )
40 to less than 40 years	( )	60 years or over	( )

2). Sex Male ( ) Female ( )

3). Level of Education

O-Level	( )	University	( )
College	( )	Post-Graduate	( )

Others (Specify) ____

4). Position in the bank____

5. How many Years have you worked in the Kenyan Banking Sector _______________________

6. How many year have you worked in the foreign banking sector of Kenya? ________________

B. Kenyan Economy

7. What in your view is the approach driving the investments of Foreign banks in Kenya to date?____

____

____

8. Kenya has helped more from the globalization of the financial market than globalization of trade. Do you agree with it? Why? ____

9. Do you think that because of the investment by foreign banks recession in recent times has affected Kenya to a lesser extent as compared to other countries in Africa?____

10. In your View, how will the Kenyan economy be affected by the investments of foreign banks in the next five years? ____

C. Domestic Banking Sector

11. What has been the effect of foreign investments on the banking sector in Kenya?

____

12. Will more foreign banks entry help to resolve the problems faced by the Kenyan banking sector?____

13. Does foreign bank's investment affects domestic bank's efficiency?____

____

14. Do the foreign banks help us to improve management practices of a country?

____

15. When in your view do the foreign banks promote competition in a country, upon their entry or when they add considerable market share?____

____

D. Impact of Foreign Bank

16. What have been the major benefits to your bank from investment in Kenya?____

17. How do you see the future of your bank's investment in Kenya?____

18. Would you recommend foreign banks to invest in Kenya? Please provide three most important reasons for your answer____

____

19. Would you recommend your foreign bank to further increase investment in Kenya? Please provide three most important reasons for your answer.____

____

20. In your View, in the next five years how the decision and practice of investment in Kenya will affect your bank?____

____

Thank You