Volume: 28, Issue: 1
Page: 1-20
2023

International Journal of Science and Business

Journal homepage: ijsab.com/ijsb

IJSAB International

The importance of Banking sector in the growth of Nation economy: A case study of Stanbic bank in South Sudan

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Abstract

The banking industry is essential to supporting other institutions and general economic development in sub-Saharan African countries, acting as a vital support system for other institutions and overall economic development. This research aims to examine the correlation between banking sector assets, bank deposits, and liquid liabilities and their implications for the economy. A comprehensive survey was conducted, targeting all commercial banks in South Sudan. The questionnaire was completed by 50 directors, managers, and senior officers. The findings showed a tenuous inverse link between consumer deposits and economic expansion. To address these concerns, it is imperative for the government to establish a stable political system, exercise fiscal discipline, and establish effective information infrastructure within the banking sector. Policymakers should also prioritize tackling tax evasion and avoidance to bolster bank profitability and effectively deal with the challenges faced by the economy.

IJSB
Accepted 24 July 2023
Published 29 July 2023
DOI: 10.58970/IJSB.2201

ISSN: 2520-4750 (Online) 2521-3040 (Print)

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Keywords: *Banking sector, Nation economy, Banking sector assets, Bank deposits, Liquid liabilities, Sub-Saharan countries, South Sudan.*

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INTRODUCTION

Numerous researchers have shown a keen interest in and conducted experimental investigations on the hypothesis that the growth of the banking sector correlates positively with economic growth. Banking institutions that accept deposits play a vital role in promoting economic development by channeling funds from surplus to investment requirements. In South Sudan, it is crucial for banks to facilitate growth by providing loans to essential sectors and acting as catalysts for economic development. To remain solvent and contribute to long-term economic growth, banks must effectively manage risks. A well-developed and stable banking system that can withstand external shocks is of paramount importance for financial intermediation in South Sudan. Schumpeter (1911) proposed in economic growth theory that financial institutions, particularly banks, serve as valuable instruments for enhancing the economy's productive capacity and represent a significant internal source of funding, especially during the early stages of economic growth. The primary function of the banking industry is to bridge the gap between economic units with surplus funds and those with insufficient funds. The banking system attempts to lower transaction and information costs brought on by flaws in the financial markets by serving as a middleman between lenders and borrowers. The banking sector is an essential part of the financial sector because it makes it easier to allocate resources across time and geography in an unpredictable environment (Elena et al., 2015).

The banking sector holds immense significance in developing nations' financial systems, constituting a major portion of financial transactions and assets. It plays a crucial role in mobilizing and allocating resources within the economy. In recent times, the distinction between banks and other financial markets has become less clear, as banks have expanded their operations into areas like securities markets, fund management, and insurance. South Sudan's real GDP shrank by around 2.4% in 2019, according to the African Development Bank's African Economic Outlook (AEO) 2020. Projections indicate further contractions of 1.6% in 2020 and 0.8% in 2021, influenced by political instability, weak private sector investment, and domestic demand issues. Currency depreciation led to high production input costs, contributing to an inflation rate of 50.6% in 2019. Additionally, South Sudan faced significant challenges due to prolonged civil war and substantial revenue losses from the shutdown of its oil production in 2013 and 2016, as the oil sector had been the primary driver of its GDP growth both before and after independence in 2011.

The banking sector is the area that includes numerous markets and instruments as well as the legal and regulatory framework that permits deposit-taking and credit extension. A proactive contribution to economic growth or a reactive response to the escalating demands of the economy are both possible with banking sector development (BSD). The study of Schumpeter (1911), who emphasised the significance of financial intermediaries' services for innovation and development, is the source of this association between the banking industry and economic growth. According to academics like Kenourgios and Samitas (2007), the financial services provided by the banking industry are essential to the development and prosperity of an economy. Investment, insurance, bank loans, equity, and savings are just a few of the services that enable people and organisations to save, protect against unforeseen financial events, start enterprises, increase productivity, and compete on both local and international markets. Financial services also assist the underprivileged to manage resources for revenue production, reducing their vulnerability and promoting general economic progress. Studies by Aghion, Howitt, and Mayer-Foulkes (2005) provide credence to the idea that expanding the financial sector stimulates economic development, which has been proposed by a number of theoretical and empirical assessments. They contend that a strong financial system encourages

investment, aids in commerce and technology dissemination, and mobilises funds for profitable ventures, all of which support economic development. But according to researchers like Odhiambo (2008), Waqabaca (2004), and Agbetsiafa (2003), economic expansion comes before financial development since a growing economy need more financial services. On the other hand, as claimed by Patrick (1996) and Frey and Ulrich (2011), there is also empirical evidence in favour of a link between financial development and economic growth. In the case of South Sudan, the banking sector had severe difficulties in its early years, leading to the bankruptcy and liquidation of a number of commercial banks, including Liberty Commercial Bank. Political unrest again had a significant impact on the industry in 2013 and 2016, which led to the closure of numerous commercial bank branches and the suspension of some local money transfer services like Bumat Limited Money Transfer, despite the fact that it had started to recover during the transitional years from 2005 to 2010.

Problem of the Research

Particularly in countries in sub-Saharan Africa, the banking sector significantly contributes to economic growth by serving as an important catalyst for development in other industries. The goal of this exploratory, experimental research is to determine how South Sudan's economic performance is impacted by the expansion of the banking industry. The investment climate in South Sudan is, however, hampered by a number of issues, including poor corporate governance in both the public and private sectors, insecurity, inadequate infrastructure, limited access to affordable long-term financing for businesses, and a relative lack of skilled labour. South Sudan was placed 185th out of 190 economies in the World Bank's Doing Business Report for 2019, which highlights the country's very difficult business climate. Levine (1997) emphasised the need for more study to fully comprehend the manifestations, evolution, and economic impacts of various financial structures while highlighting the theoretical link between the functioning of financial systems and economic growth. He also emphasised the need of developing models that can assess different financial systems and their justification of transaction costs and information. Patrick (1966), Greenwood and Jovanovich (1990), and Devereux and Smith (1994) also covered the effect of economic expansion on the financial banking system and made recommendations for more study to further understanding in this area. Prior research on the development of the banking sector and economic growth has mostly concentrated on certain aspects, such capital markets or foreign direct investment, which may not accurately reflect the whole banking segment, particularly in a developing nation like South Sudan. In order to close this research gap and resolve inconsistencies in previous results, it is necessary to analyse the link between the assets, deposits, and liquid liabilities of financial institutions and economic growth. This research intends to close this knowledge gap and provide insights into the relationship between the critical elements of financial institutions and South Sudan's economic development.

Objectives of the Research

These studies' main goal is to investigate the connection between South Sudan's banking sector development and economic expansion, with a particular emphasis on Stanbic Bank as a case study. The goal of the study is to ascertain the importance of the banking sector's expansion for South Sudan's overall economic growth and to comprehend the effects of that growth on the national economy.

Significance of the study

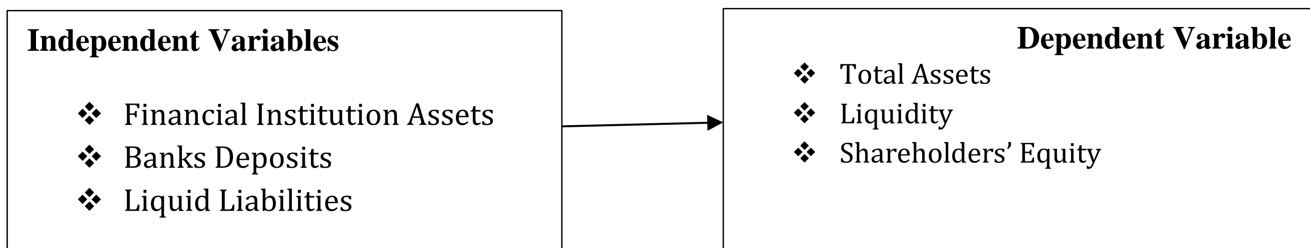
Several stakeholders in several sectors will find value in the research results of this study. The subject of this research is very important given the present relevance and desire for banking sector advancements to improve the financial industry. Understanding the link between the development of the banking sector and the growth of the national economy will help banking

industry executives plan for strong and positive economic growth. The South Sudanese Government and the Central Bank of South Sudan (CBSS), among other important decision-makers, will find this report indispensable in pursuing a number of economic development goals. The study's findings will help in the creation of efficient macroeconomic policies to promote stability in the banking and financial sector as the nation works to realise its goal for 2023–2025, which aspires for double-digit economic growth. For policymakers to develop measures that promote economic development via financial markets, access to exact data is essential. The study's conclusions may be used to address significant financial market concerns in a way that will maximise the effects of these policies on overall development and economic growth. The study's findings may also deepen our knowledge of how the development of the banking sector affects the expansion of the economy as a whole, offering important new information to both scholars and policymakers.

Conceptual Framework

The conceptual framework serves as a succinct description of the phenomenon being studied, complemented by a graphical or visual representation of the primary variables involved (Mugenda & Mugenda, 2008). Within this framework, independent variables are those that can be intentionally manipulated to examine their impact on another variable.

Fig 1: Conceptual Framework



Definition of Terms:

Gross Domestic Product (GDP): GDP is the total market value of all finished products produced in a nation over the course of a given year. It is determined by adding together government, investment, and consumer spending and then deducting the value of imports (Harward, 2014).

Economic Performance: The success or failure in achieving economic goals is known as economic performance. It may be measured by both long-term results, like sustained growth and development, and short-term results, like an economy's capacity to stabilise following unanticipated catastrophes. To gauge economic success, economists look at a variety of economic indicators, such as national income, expenditure, and production, as well as wider indices of human development, such as infant mortality rates and access to healthcare.

Liquidity: The capacity of a bank to quickly meet its short-term financial and commercial commitments with cash and other assets is referred to as liquidity. Government bonds and reserve funds are examples of liquid assets that may be quickly changed into cash to satisfy financial obligations (James Chen, 2021).

Bank Deposits: Money deposited in financial institutions for storage constitutes a bank deposit. These deposits may be placed into money market, checking, and savings accounts, among other types of accounts. According to the terms and conditions of the account agreement, account holders have the ability to withdraw these deposited money (Julia Kagan, 2020).

Shareholders' Equity: The difference between a company's total assets and total liabilities is its shareholders' equity. Additionally, it is equal to the sum of share capital and retained profits less treasury shares.

Financial Institutions Assets: Financial assets are liquid assets with value generated from contractual rights or ownership claims. This number represents the percentage of a company's funding sourced through common and preferred shares (Bello, 2015). Cash, equities, bonds, mutual funds, and bank deposits are a few examples. Financial assets may not always have intrinsic physical value or form, unlike physical assets like land or property (James Chen, 2021).

Retained Earnings: Retained earnings are the part of a company's net profits that are not paid out as dividends but are instead retained for debt repayment or reinvestment in the company's core operations. On the balance sheet, it is shown as shareholders' equity (Harward, 2014).

Loans and Advances: Loans and advances make up the majority of a bank's revenue. A loan is defined as an amount borrowed from another person that must be paid back with the principle amount plus interest (Harward, 2014).

Total assets: The whole worth of an individual's or an organization's assets is shown by the term "total assets." Assets are things having monetary worth that provide their owner advantages over time (Bello, 2015).

Profitability: Since it secures a company's long-term existence, profitability is every company's main goal. The total financial health of a firm is assessed by looking at revenue and spending (Odufu, 2013).

Financial industry: Organisations and organisations that provide financial services to both commercial and retail clients are included in the financial industry. It consists of a variety of businesses, including banks, financial firms, insurance providers, and real estate organisations (Will Kenton, 2021).

LITERATURE REVIEW

Banking Sector Development and Economics growth

Commercial banks, the fundamental support structure of the financial system, and non-bank financial institutions make up the majority of the financial industry. According to Levine (2005), the development of the financial sector can stimulate economic growth in a number of ways, including by enabling payment transactions that facilitate the exchange of goods and services, by attracting savings from multiple investors, by processing data for business and investment decisions, and by efficiently allocating savings to productive uses. Additionally, it entails managing intertemporal risks, corporate governance, diversification, increased liquidity, and monitoring investments. Economic development and the elimination of poverty are impacted by these functions, which have a considerable impact on investment and savings choices.

Financial progress has many facets, making it difficult to measure. Studies that are practical depend on quantitative data that has been collected over a long period of time in different nations. In slow-growing countries, the banking sector's growth is measured, for instance, by the ratios of financial sector assets to GDP, liquid liabilities to GDP, and bank deposits to GDP. More precise values that highlight resource deficiencies must be established in order to address the collapse of financial markets. The development of positive real interest rates is a critical step in the correct direction, according to scholars like Shaw (1973) and McKinnon (1973). This serves as the framework for the creation of a more sophisticated financial system. Credit intermediation, liquidity management, and risk mitigation should all be considered as various measures of banking sector growth because they are fundamental components of the financial system.

Economic growth is the rise in an economy's production over a certain period of time, which is often expressed as a percentage increase in real GDP. Economic growth, on the other hand, emphasises the wellbeing of people within society. Economic growth isn't exactly defined, although it's sometimes thought of as a rise in per capita income inside a nation. The process of increasing an economy's size may be characterised as economic growth using macroeconomic measures, notably GDP per capita, which need not always proceed linearly. There might be zero, negative, or positive economic growth. When the population growth rate and the average yearly growth rates of macroeconomic indicators are identical, there is no economic growth. Positive economic growth comes when the average annual rates of macroeconomic determinants exceed the average rates of population growth, but negative economic development happens when the speed of population increase exceeds the growth rates of macroeconomic indicators (Gurley & Shaw, 1960). The most successful economies have well-developed financial systems from the start, according to studies by Solow (1956) and Patrick (1966). A nation's financial industry may expand in response to its economy. Therefore, a rise in the demand for financial services may encourage the expansion of the banking industry as a result of economic expansion. In other words, the banking industry reacts to the triggers of economic expansion.

In industrialised countries, the banking industry effectively transfers money between surplus and deficit actors, thus promoting economic expansion. However, historically, the banking industries in poorer nations have shown lower levels of financial efficiency and intermediation. The efficacy of financial markets has been improved in developing nations since the 1980s, although the relationship between the expansion of the banking sector and economic growth in these nations is still debated (Kar, 2011). An efficient and functional banking system, according to Schumpeter (1934) and Levine (1997), may promote economic development by facilitating positive externalities in numerous sectors that end poverty and raise living standards. By funding sound investments, financial markets, particularly the banking industry, contribute significantly to the development of the real economy. A strong banking industry may stimulate economic development by boosting investment, lowering transaction costs, and eliminating lending restrictions. On the other hand, a weak banking industry may stifle expansion and economic activity. The growth process is accelerated by properly operating financial markets, which allow for the optimal deployment of limited resources. Numerous studies show the beneficial effects of a banking financial system on resource allocation and economic growth.

South Sudan Banking Sector

The adoption of the Bank of South Sudan Act in 2011 formalised the formation of the banking industry in South Sudan. This Act grants the Central Bank of South Sudan the legal power to oversee all financial organisations, including commercial banks, functioning in the nation. By publishing prudential recommendations and regulations in accordance with the Act, the Central Bank carries out its regulatory duty. Although licenced commercial banks are in theory required to follow these rules and regulations, there have been questions regarding how well they really do so. The Bank of Sudan, based in Khartoum, oversaw the region's financial activities until South Sudan gained its independence on July 9, 2011. The official currency of South Sudan was the Sudanese Pound, and there were branches of the Sudanese central bank there, notably in the towns of Juba, Wau, and Malakal. However, when the Comprehensive Peace Agreement (CPA) was signed in 2005, the majority of Sudanese banks that had been functioning in South Sudan began to wind down. The three South Sudanese central bank offices were rebranded as the Bank of Southern Sudan as part of the CPA from January 2005 to July

2011. The Bank of Southern Sudan was renamed the Central Bank of South Sudan when South Sudan gained independence, taking over as the nation's central bank and national banking regulator. The Central Bank of South Sudan released new currency notes for the South Sudanese pound shortly after Independence Day, which were supposed to be exchanged at par with the Sudanese pound for around sixty days. Later, the time frame for exchanging the old Sudanese currency notes was cut down to around six weeks, with the final day of the exchange scheduled for August 31, 2011. The country's commercial banking was afterwards governed and supervised by the South Sudanese Central Bank, which has its headquarters in Juba, the nation's capital and biggest city. The central bank is responsible for maintaining a stable exchange rate, overseeing monetary policy, and assuring price stability.

The list of all the licensed commercial banks in the Republic of South Sudan

S/NO	Name of Commercial Bank	Start of Operations	Status
1	African National Bank	2012	National
2	Afriland First Bank	2012	Joint Venture
3	Buffalo Commercial Bank	2008	National
4	Charter One Bank	2011	International
5	Commercial Bank of Ethiopia	2009	International
6	Cooperative Bank of South Sudan	2013	Joint Venture
7	Eco bank South Sudan Ltd.	2013	Foreign
8	Eden Commercial Bank	2012	National
9	Equity Bank South Sudan Limited	2009	Foreign
10	International Commercial Bank	2012	Joint Venture
11	Ivory Bank	2006	National
12	KCB Bank South Sudan Limited	2006	Foreign
13	Kush Bank PLC	2013	National
15	Mountains Trade and Development Bank	2011	National
16	National Credit Bank	2013	Joint Venture
17	Nile Commercial Bank	2006	National
18	Opportunity Bank	2013	Joint Venture
19	Southern Rock Bank	2013	Joint Venture
20	People’s Bank	2013	Joint Venture
21	Phoenix Commercial Bank	2013	Joint Venture
22	Qatar National Bank	2011	Foreign
23	Regent African Bank	2013	Joint Venture
24	Royal Express Bank	2013	National
25	South Sudan Commercial Bank	2011	Joint Venture
26	Stanbic Bank Kenya Limited	2012	Foreign
27	Alpha Commercial Bank	2015	Joint Venture
28	Ebony National Bank	2015	National

Source: Author’s compilations.

Capital Markets and Portfolio Investment: There is no functioning stock market or other organised framework for trading financial assets in South Sudan right now. Due to a number of circumstances, this presents difficulties for foreign investors looking for finance on the domestic market. First, investors have trouble accessing capital due to a lack of hard cash. Additionally, a prospective investor's confidence is hampered by the absence of trustworthy financial data or audited accounts. Furthermore, the lack of a credit reporting agency and appropriate evidence of property ownership makes it much harder for foreign investors to get credit. South Sudan's banking industry has its own set of challenges. Due to worries about insufficient legal protection for lenders, banks often hesitate to provide loans. The majority of borrowers seem to be high-risk borrowers to banks since the nation lacks state or national

personal identity systems that can be verified. The hesitation of depositors to put their money in banks is a key concern as well. Since the Bank of South Sudan took deposits from commercial banks and gave them to the government in 2015, there is little confidence in the institution, which makes it difficult or even impossible for businesses and people to access their money. The Bank of South Sudan temporarily issued treasury notes between 2016 and 2017, with intentions to reissue them in 2020, in an effort to alleviate some of these issues. But as of yet, nothing like that has happened.

Money and Banking System: With little assets, the Bank of South Sudan mainly performs the function of a commercial bank for federal government business. However, the Bank of South Sudan's continuing reforms of public financial management resulted in a shift in monetary policy in 2021. Despite these improvements, South Sudan's banking industry still faces many difficulties, mostly because of U.S. and UN sanctions placed on certain South Sudanese organisations and people. South Sudan's presence on the Financial Action Task Force's (FATF) "grey list" denotes greater surveillance by the FATF owing to the nation's shortcomings in combating money laundering and terrorism financing. Demand deposits are not widely used in South Sudan's undeveloped banking industry, which also has few international banks operating there. The issues facing the industry are exacerbated by the perception that many local banks are undercapitalized. Sudan is also one of the nations with the worst standard of financial services. In South Sudan, most individuals would rather store their savings in cash than use banking services. Banks often lend money to companies who have contracts with foreign organisations that are well-documented. The two largest mobile payment companies in the nation are mGurush and Nilepay. However, users must have a bank account in order to utilise these sites, which is uncommon given that more than 90% of South Sudanese do not have such accounts. However, there are no known barriers that prevent a foreigner from opening a bank account in South Sudan.

Theoretical Reviews

The link between the expansion of the financial sector and economic growth, both in South Sudan and globally, is the subject of several hypotheses. Three important hypotheses, which are further discussed below, stand out as being especially pertinent for emerging nations like South Sudan.

Banking Theories

Early banking ideas were illogical and fell short of understanding how banks really contribute to economic growth and how they create money. However, the financial crisis of 2007 to 2009 rekindled academics' interest in the economic roles played by banks and their contribution to money creation. The enormous influence banks play in the production of money has come under the attention of many scholars. Professor Richard A. Werner of Southampton University in the United Kingdom, a renowned authority on international banking and sustainable development, emphasised the critical significance of money creation by banks as a major causative element impacting economic performance. He noted that the study of finance and economics had mostly ignored this issue. Professor Werner suggested three banking theories in his 2016 research to clarify the real money-related activities of banks. These ideas, which seek to illuminate how banks really interact with money, are as follows:

Financial Intermediation Theory of Banking

By transferring money from one industry to another, financial intermediation helps to close the gap between savers and borrowers. It entails combining depositors' excess money and directing them into deficit industries for investment and other productive uses. Banks are important players in this process because they raise money from savers and lenders at lower

rates of interest and then lend it to borrowers or deficit groups at higher rates through loans and overdrafts, project support, investment plans and various business-related activities. Banks have a crucial role as intermediaries, but they are also subject to risks. To avoid possible instability and crises, proper risk management is crucial. According to the financial intermediation hypothesis, banks essentially work as middlemen, facilitating transactions between organisations and people who have extra cash and those who need loans. In this perspective, banks are seen as intermediaries in the financial system that are not remarkably different from other non-financial entities. According to Werner (2016), referenced in Ravn (2019), banks mobilise deposits and lend to borrowers, depending on short-term deposits from consumers to deliver longer-term loans. This argument backs up the notion that saving must come before investing. As a result, some contend that the banking industry may not directly affect economic development in a significant way, implying a limited involvement in the entire economy.

Fractional Reserve Theory of Banking

According to the fractional reserve theory, banks must reserve a certain amount of the money they receive from depositors rather than lending out the whole sum. This mandate prevents banks from using all of the deposits and forces them to hold a portion of them in cash on hand. Regulators set a cap on the reserve that must be kept depending on the volume of deposits in order to give wiggle room for emergency depositor withdrawals. The central government also use fractional reserves as a tool to carry out monetary policy. Werner (2014a, pp. 4-6, quoted in Ravn, 2019) claims that several authors have refuted this theory, claiming that banks do more than just recycle leftover cash. Instead, banks may generate fresh currency by lending and re-lending savers' deposits, while merely holding a small amount in reserves. The "miracle of the fractional reserve system" is commonly referred to as what happens when deposits are added to the banking system, according to the fractional reserve banking theory. It is vital to remember that when there are several banks, no one bank can produce multiple deposits, and individual banks may not completely understand their contribution to the development of multiple deposit processes. They mostly understand that greater deposits allow them to make more loans. In contrast to a system where banks charge interest for their services, the fractional reserve banking system creates a unique connection with depositors by paying interest on their savings. With the help of this method, banks may generate income by making good use of depositors' funds and compensating them for their deposits with interest.

Credit Creation Banking Theory

The fractional reserve and financial intermediation theories are opposed by the credit creation hypothesis. In accordance with this view, banks are more than just financial middlemen; when they issue loans or buy assets, they have the power to generate money and credit out of thin air. This theory contends that banks do not necessarily need to mobilise deposits or set aside a reserve portion of their deposits in order to lend, in contrast to the other ideas. They instead make loans to generate deposits. This idea sheds light on how money is created, arguing that individual banks may generate credit and money independently of depositors' deposits. Banks generate fresh deposits while also making loans. However, banks' power to create new money is constrained by their need to maintain an acceptable margin between the interest on loans and the price of bank capital. To achieve this equilibrium, they could change their lending rates and profitability. Additionally, as part of their routine business operations, banks must retain

sufficient provisions or reserves to be ready for unforeseen losses caused by bad and dubious loans.

The Modern Economics Theory

This hypothesis, first put out by Solow (1956) and subsequently reinforced by Swan (1956), contends that the influence on economic development is limited and transient since there are declining returns as capital accumulates. It becomes essential to concentrate on advancing technology and labour productivity to generate sustainable economic development. Numerous approaches have been developed in the study of economics to comprehend the vast array of choices and anticipations made by people. These choices influence the creation of numerous society and local characteristics, including levels of national income, inflation rates, productivity increases, cultural values, stock prices, and diverse social norms and capital. Economic theory, according to Sohail and Shanmugham (2003), confronts two fundamental difficulties. First, individual actions at any one moment affect these emerging characteristics, which are impacted by customs, previous choices, routines, and expectations for the future. Second, economic theory addresses emerging characteristics and policy issues associated with quickly changing variables.

The Financial Intermediation Theory

The idea that financial expansion promotes economic development was first put out by Joseph Schumpeter in 1911, and it has since been backed by a number of academics, including Shaw (1973), McKinnon (1973), Gupta (1984), Fry (1988), Jovanovich and Greenwood (1990), Smith and Bencivenga (1991), and others. Financial intermediaries may not be required in a situation where information, transactions, and monitoring expenses are frictionless. However, financial markets and institutions developed to lower these costs and allow trades in the real world, where information and monitoring costs are considerable. In order to improve intermediation, finance worthwhile commercial endeavours, mobilise savings, ease trade and risk diversification, encourage the interchange of products and services, and track management performance, a financial sector that is well-developed is necessary. A sustained economic expansion is the outcome of this effective resource allocation, which also increases human and physical capital and speeds up technical innovation (Schumpeter, 1911). Financial institutions receive surplus cash in exchange for loans to the deficit component, a process known as financial intermediation. Based on their liabilities, intermediaries may be divided into groups such as those with predefined amounts, short-term deposits, highly liquid liabilities, and non-convertible assets and liabilities. The necessity for financial intermediaries is caused by market imperfections, when there are discrepancies in knowledge between buyers and sellers. The dissemination of correct information is essential for supporting higher-quality projects since market participants often have skewed information. Moral hazard, however, may obstruct the exchange of knowledge. The ability of banks to convert illiquid assets into liquid liabilities so that customers may make future purchasing choices is another important element. These ideas provide potential explanations for how the expansion of the financial sector affects general economic development, which makes them pertinent to the present research. For the main purpose of this research, it is crucial to comprehend these linkages.

The Bi-directional Theory

A number of academics have backed the bi-directional model that Jovanovic and Greenwood (1990) first presented, including Saint Paul (1992), Berthelemy and Varoudakis (1996), Harrison, Sussman, and Zeira (1999), and Cojocaru, Hoffman, and Miller (2011). This theory holds that financial development and economic growth are linked and have a mutually reinforcing effect. This is also known as the feedback hypothesis in certain research. In this

case, financial sector expansion affects the actual rate of economic growth as well as being a cause of economic growth. In addition, Schumpeter (1934) notes that the creation of new technologies, services, and goods may lead to rapid economic expansion in a country with a sound financial system. Therefore, financial institutions adjust to these product changes and innovations, which boosts economic performance.

Economic Growth Determinants in South Sudan

It is critical to understand that the growth process is intricate and interconnected in development economics. Economic theories are useful in assisting with the analysis, identification, and interpretation of growth indicators; nevertheless, empirical research is ultimately the best way to determine if these processes have been successful or unsuccessful in various nations. Cross-country regression analysis is often used in empirical investigations to find important variables that repeatedly show up as significant. Such cross-country research, however, may only provide broad patterns and averages. Analysing country-specific case studies is crucial to get a greater knowledge of the development process and the most important components in certain nations. In this research, we will concentrate on the assets, deposits, and liquid liabilities of financial institutions in the banking sector as important indicators of economic development in Kenya, a developing nation. We want to acquire insight into Kenya's distinctive growth patterns by analysing these particular indicators in the context of the nation.

Financial Institutions' Assets

According to Bondie, Kane, and Marcus (2009), financial assets include a variety of claims on actual assets, such as current assets, credit portfolios, fixed assets, and other investments. By giving access to capital for funding corporate projects, these financial assets contribute significantly to economic growth both directly and indirectly. Financial assets are used by business finance and investment managers to evaluate the feasibility of various investment possibilities. Furthermore, depending on their own judgement, risk assessment, and market efficiency, investors are drawn to and ready to invest in financial assets. According to the strong hypothesis, an efficient market in finance is one where security prices properly represent all available information.

Bank Deposits

Deposits, which include savings, checking, and money market accounts, are sums of money that people and corporations deposit in banks for protection. By offering a safe place for individuals and companies to store or invest their money, which the banks can subsequently use for lending purposes, banks play a critical role in economic development. Customers of banks are able to make purchases and investments that advance the economy thanks to their access to loans. Deposits, which initially serve as the bank's liabilities, may be converted by banks into assets like long-term loans. Bank deposits and credit, which are often used to evaluate credit intermediation, are two parameters that may be used to estimate the extent of financial intermediation in an economy. Customer deposits were used in this research as a proxy for the degree of financial intermediation in the economy.

Liquid Liabilities

In the financial industry, short-term deposits are referred to as liquid liabilities, or M3. M3 is made up of central bank deposits and cash (M0), transferable electronic money and deposits (M1), and transferable foreign currency deposits (M2), together with time and savings deposits, securities repurchase agreements, and certificates of deposit. Commercial paper, travellers' checks, market funds owned by residents or shares of mutual funds, as well as

foreign currency time deposits, are also included in M3. An important metric for determining the full scope of the formal financial system is the size of the M3 market. Strong relationships between M3, the exchange rate, and the amount of real per capita GDP have been identified by researchers like Levine and King (1993), underscoring their importance in understanding the dynamics of the financial sector and how it affects the economy.

Empirical Review

The debate has historically focused on two issues: whether enhancing the financial system accelerates economic growth and how financial development influences it. These concerns have been addressed in a number of theoretical and empirical research. Empirical research studying the relationship between financial strength and economic development have shown mixed results, nevertheless. For instance, a research on Sudan from 1970 to 2012 by Ahmed Khater (2014) revealed a negligible effect of financial development on the nation's economic growth. For the years 1970–2007, Sufian (2012) also discovered a tenuous connection between financial development and economic growth in Sudan. However, other research, like that of Loayza and Ranciere (2006) and Bong and Premaratne (2019), discovered a statistically significant and favourable long-term association between the expansion of financial depth and economic growth.

Using the banking industry and stock market developments as indicators of financial development, Cave et al. (2020) discovered a strong inverse relationship between banking sector development and economic growth, while the impact of stock market development was initially positive before turning negative. Other research looked at the connections between the strength of the banking sector, trade openness, and regional economic development. In their study of ASEAN nations, Pradhan et al. (2017) discovered a long-run equilibrium connection between these factors. Al-Moulani and Constantinos (2017) contrasted countries dependent on natural resources with those not dependent on them and discovered a non-linear and uplifting link between the depth of the banking sector and economic development in both categories. The relationship between financial development indicators and economic growth In Nigeria between 1970 and 2010 was reexamined by Abubakar and Gani (2013), who discovered a significant positive influence from commercial banks' liquid liabilities and trade openness, but a negative influence from government spending, interest rate spreads, and credit to the private sector. The rise of the banking sector had a detrimental influence on the development of the agricultural sector but had no impact on the development of the industrial sector, according to Tongurai and Vithessonthi's (2018) study of the relationship between changes in economic structure and growth. Hou and Cheng (2017) offered proof that private lending restrains economic development, whereas the stock market's and life insurance industry's contributions to growth were weak. In general, the link between financial development and economic growth is still complicated and varies depending on the circumstances, economic makeup, and degree of development of a given nation.

Summary of Review and Gap

The theoretical foundations of the study, the features of economic development in the banking sector, and the body of empirical research will all be covered in this part. The theoretical premise is supported by actual research, which demonstrates both positive and negative effects of the banking sector's expansion on economic development. Over the last 20 years, the global economy has experienced tremendous transformation, with many emerging nations transitioning from primary economies to service-oriented ones. This has made it necessary for a stronger financial sector to allocate resources. Reviews of the literature also show that the connection between the development of the banking industry and economic growth is not always clear-cut. Studies with few variables, especially in underdeveloped nations like South

Sudan, have produced a variety of results. Furthermore, it is yet unknown how various South Sudanese elements interact with one another. This study intends to fill these knowledge gaps and provide perspectives for the years 2005 through 2023.

Research Design

The research design is the carefully planned structure used to address research questions and obtain empirical evidence (Cooper and Schindler, 2006). For this study, a descriptive research approach was employed, which is particularly suitable for investigating cause-and-effect relationships between variables. The population of interest in this study comprises employees from Stanbic Bank and other financial organizations/enterprises in Juba, South Sudan (Cooper and Schindler, 2006). The target population size for the study was set at fifty (50) employees. To ensure a representative sample, stratified random sampling was utilized, a method in which identified subgroups in the population are proportionally represented in the sample (Patton, 2002; Janet, 2006). The study considered three strata: manufacturing, service, and trade sectors, to ensure a comprehensive representation of the population. From the pool of eligible participants working in South Sudanese financial institutions, fifty (50) respondents were selected for the study. The use of a simple random sampling approach ensured that each financial entity or firm had an equal and known chance of being chosen for the study, making the selection process fair (Cooper and Schindler, 2006). The sample size was determined using the formula developed by Yamane (1967), which calculates the appropriate number of items to be selected from the entire population to form a representative sample (Kothari, 2004).

$$n = \frac{N}{1 + \mathrm{N(e)2}}$$

Where n = Sample Size.
e = standard error with level of confident is 10%.
N = Total number of respondents.

As a result, the sample size for this research will be 50. According to Sekaran's recommendation from 2003, the optimal sample size for social science research is one that represents more than 30 but less than 500 persons. In general, each stratum was allocated evenly based on its proportionate size, or allocation.

DATA ANALYSIS, RESULTS AND DISCUSSION

Rate of Respondents

A set of 50 questionnaires were distributed to the staff of Stanbic Bank in Juba, South Sudan, and 44 completed questionnaires were collected, resulting in a response rate of 96%. Babbie (2014) suggests that return rates of 50% are considered acceptable for analysis and publication, 60% are considered good, and 70% are considered very good.

Finding on the rate of the respondents

Sample size	Responses	Rate of responses
Correctly filled and returned	44	80%
Not correctly filled and misplaced	6	20%
Total	50	100%

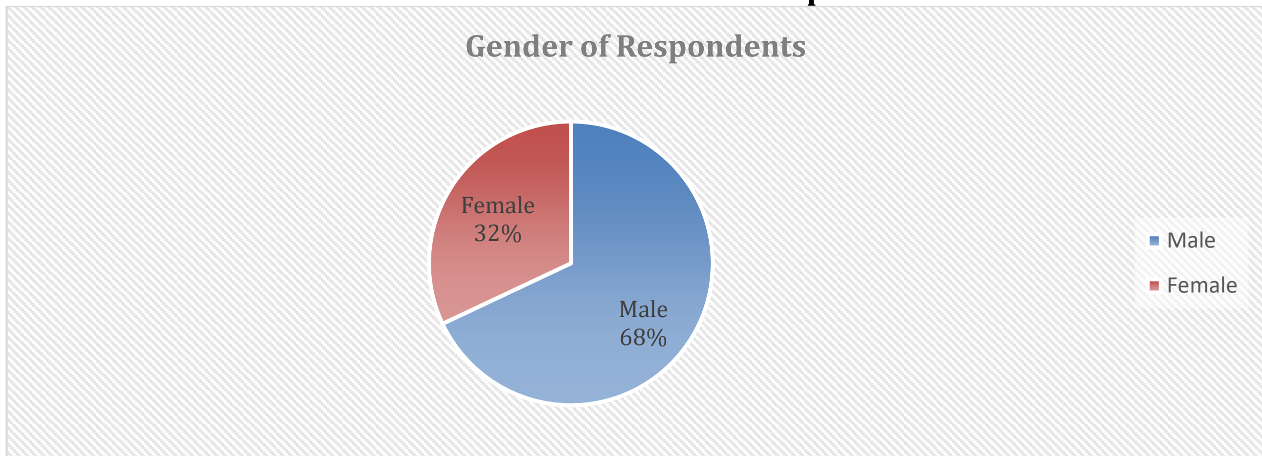
Source: Primary data (2023)

Demographic Analysis

To evaluate the demographic characteristics of the participants, the study considered factors such as respondents' age, gender, education, work experience, department, and type of business in South Sudan. The results of these findings were presented in tabular form as follows:

Gender of the Respondents

Pie chart 4.1: Gender of the Respondents



Source: Primary data (2023)

According to the data presented in Pie Chart 4.1, 68% of the total respondents are male, while 32% are female. This gender distribution shows that the study considered both male and female perspectives, ensuring gender sensitivity in the research. The balanced representation of respondents from both genders strengthens the reliability of the findings for decision-making purposes.

Marital status of respondents

Age group	Frequency	Valid Percent	Cumulative percent
Single	11	25	25
Married	28	63.6	88.6
Separated	3	6.8	95.4
Divorce	2	4.6	100
Total	**44**	**100**	

Source: Primary data (2023)

As presented in Table 4.2, the majority of respondents, accounting for 63.6% of the total, were married. Single respondents constituted 25% (11 individuals), followed by separated respondents with 6.8% (3 individuals) and divorced respondents with 4.6% (2 individuals). This distribution indicates that the majority of the respondents are married, suggesting that the information gathered from them can be considered reliable and a good representation of the data sought by the researcher.

Ages of Respondents

Age group	Frequency	Valid Percent	Cumulative percent
Under 30 years	3	6.8	6.8
31-40 years	10	22.7	29.5
41-50 years	19	43.2	72.7
51-60 years	8	18.2	90.9
61 and above	4	9.1	100
Total	44	100	

Source: Primary data

Based on the data in Table 4.3, it can be observed that 6.8% of the respondents were under 30 years of age, 22.7% were between 31 to 40 years, 43.2% were between 41 to 50 years, 18.2% were aged 51 to 60 years, and 9.1% were above 61 years. These findings indicate that

a significant proportion of the respondents were in the mature age groups, which suggests that they were well-suited to provide informed answers to the questionnaire.

Level of Education

The goal of this research was to look at respondents' educational backgrounds and how they could have an impact on South Sudan's banking industry's performance. Table 4.4 following provides information on education levels.

Age group	Frequency	Valid Percent	Cumulative percent
Primary Education	2	4.6	4.6
Secondary Education	6	13.6	18.2
College/diploma	8	18.2	36.4
University Level	28	63.6	100
Total	**44**	**100**	

Source: Primary data

Table 4.4 above indicates that the majority of respondents (63.6%) had attained a degree, 18.2% had a professional certificate or diploma, 13.6% had a certificate in secondary education, and 4.6% had other forms of educational qualifications, such as primary education. This distribution of respondents across various educational levels is likely to provide balanced and informed opinions that encompass a wide range of educational backgrounds.

Duration and experience with the Bank

Durations	Frequency	Valid Percent	Cumulative percent
Below 1 year	6	13.6	13.6
1-5 years	14	31.8	45.4
6-10 years	20	45.5	90.9
11 and above years	4	9.1	100
Total	**44**	**100**	

Source: Primary data

Based on the data presented in Table 4.5, it is evident that the majority of respondents (45.5%) have worked with Stanbic Bank for more than 5 years. The second largest group consists of 20 respondents (31.8%) who have worked for 6 to 10 years, followed by 14 respondents (13.6%) with 1-5 years of work experience. The smallest groups are those with 1 year or below (13.6%) and 11 years and above (9.1%) of work experience. This analysis indicates that a significant portion of the respondents have been employed at Stanbic Bank for more than 5 years.

Position of the respondent/staff category

Positions	Frequency	Valid Percent	Cumulative percent
Management Level	**10**	**22.7**	**22.7**
Senior Level	**12**	**27.3**	**50**
Junior Level	**22**	**50**	**100**
Total	**44**	**100**	

Source: Primary data

The data presented in Table 4.6 reveals that the majority of respondents who participated in the questionnaire were junior staff, comprising 50% of the total. Senior staff constituted 27.3%, while high-level management staff represented 22.7%. This distribution indicates a well-balanced representation across various levels of employment, ensuring that opinions and perspectives from different levels within the organization were considered.

The relationship between dependent and independent

Statements	1	2	3	4	5
Banking/financial developments contribute to economic growth in South Sudan	43%	32%	4%	11%	10%
Financial institution assets have a greater contribution to economic growth and development in South Sudan	47%	41%	0%	10%	2%
All banks deposit contribute to economic growth and development.	31%	48%	3%	8%	10%
The liquid liabilities contribute to economic growth and development	42%	33%	8%	6%	11%

Source: Primary data

The information in the table above relates to the analysis of the link between financial institution assets, bank deposits, and liquid liabilities, which are independent variables, and the dependent variable, economic growth. 41 percent of respondents strongly agreed, 32 percent agreed, 11 percent strongly disagreed, 10 percent disagreed, and 4 percent were neutral when asked if banking and financial innovations help South Sudan's economy flourish. 47 percent of respondents highly agreed, 41 percent agreed, 10 percent strongly disagreed, 2 percent disagreed, and 0 percent stayed neutral about the importance of financial institution assets to economic growth and development in South Sudan. 31 percent of respondents highly agreed, 48 percent agreed, 8 percent strongly disagreed, 10 percent disagreed, and 3 percent stayed neutral about the effect of deposits from all banks on South Sudan's economic development. 42 percent of respondents highly agreed, 33 percent agreed, 6 percent strongly disagreed, 11 percent disagreed, and 8 percent were neutral about the significance of liquid liabilities in promoting economic growth and development.

Drivers of banking drivers in the economy of South Sudan

Statements	1	2	3	4	5
A little influence (contribution) has been made to accelerate economic growth in this nation via financial development.	20%	16%	11%	32%	21%
Trade openness, the size of the banking sector, and economic expansion are all related.	43%	26%	0%	14%	17%
Relationship between the size of the banking industry and long-term economic development in countries depending on natural resources as opposed to economies not dependent on such resources.	24%	53%	0%	17%	6%
Long-term, economies with substantial natural resources expand less rapidly than those without resources thanks to the banking industry.	38%	30%	2%	13%	17%
Growth in the banking sector affects industrial sector growth differently than it does for agriculture sector development.	32%	28%	8%	12%	20%

Source: Primary data

Based on the information in Table 4.8, the research sought to examine the factors in banking that affect South Sudan's economy using Stanbic Bank as a case study. The results showed that the country's financial development only had a little effect on (contribute to) accelerating economic expansion. In particular, 32% of respondents strongly disagreed, as did 21% of respondents, whereas 20% of respondents strongly agreed, as did 16% of respondents, and 4% of respondents stayed neutral. In terms of the connection between the depth of the banking sector, trade openness, and economic development, 43% of respondents highly agreed, 26% agreed, 14% strongly disagreed, 17% disagreed, and 0% were neutral. In addition, compared to economies not dependent on natural resources, natural resource-based economies have deeper banking sectors, which is associated with longer-term economic growth. Of the respondents, 24 percent strongly agreed, 53 percent agreed, while 17 percent strongly disagreed, 6 percent disagreed, and 0 percent were neutral. The results also suggested that, compared to nations without natural resources, those with an extensive banking sector had a reduced long-term influence on economic development. In particular, 38% of respondents highly agreed, 30% of respondents agreed, 13% strongly disagreed, 17% disagreed, and 2%

stayed neutral. The research also discovered that the growth of the banking sector affects industrial and agricultural sector development differently. With regard to the question, 32% of respondents highly agreed, 28% agreed, 12% strongly disagreed, 20% disagreed, and 8% stayed neutral.

Challenges facing Banking Sector in South Sudan and possible solutions

The banking sector in South Sudan has faced numerous challenges over the years, and it is crucial to identify and address these issues to overcome them. The dynamic nature of the banking sector requires adaptive strategies rather than static approaches. Digital solutions have become essential for financial institutions to thrive in the current environment. Based on the responses from the respondents, several challenges have been identified that, if addressed, could greatly benefit the banking sector in South Sudan. These challenges include inflation, insecurity caused by political instability, inadequate knowledge of the financial and banking sector, excessive collateral requirements for loans, liquidity problems, high operational costs incurred by the banking sector, underutilization of technology, disparities in population earning ability, lack of comprehensive financial guidelines for implementing financial programs, and inter-bank competition and conflicts that hinder the smooth functioning of the banking system. By tackling these challenges, the banking sector can work towards a more stable and prosperous future in South Sudan.

Possible Solutions

Raising citizen awareness on financial knowledge and the benefits of banking sector. Improve financial policies and regulations to fight against corruption and crimes that are preventing banking sector from growing the national economy. Implementation of peace agreement so that the country shifts the focus to growing financial. Institutions and the entire economy. Encourage domestic production of raw materials through agriculture to reduce the high importation of goods and services. Review the credit policy, Adopt the digitalization banking and innovation, Capacity building through training on financial literacy and improve the loan accessibility through shrinking of collateral to citizens to strengthen their financial abilities.

Summary

A thorough description of the inquiry, study results, and analysis is provided in this section. The purpose of the study is to determine how closely related South Sudan's banking industry is to its economic growth. This study focuses on the close relationship between banking sector expansion and economic growth, despite the fact that other sectors also make a considerable contribution to the nation's economic growth. The study discovered that financial institution assets contribute up to 88% to economic development, while bank deposits and liquid liabilities contribute up to 79% and 75%, respectively. This was done through various analyses of banking sector indicators, including assets, deposits, and liquid liabilities as a percentage of GDP. Respondents responded that financial development has had a little effect on accelerating economic growth when asked about the factors in the banking sector that affect the growth of South Sudan's economy, with 53% strongly disagreeing. However, 69% of respondents strongly agreed that there is a connection between a robust banking sector, trade openness, and national economic development. In addition, 77% of respondents strongly agreed, according to the study, that there is a connection between the depth of the banking sector and long-term economic development, particularly in resource-based nations as opposed to non-resource-based ones. Furthermore, 68% of respondents firmly believed that nations with plenty of natural resources see a reduced influence on economic development as a result of the banking sector's expansion. Finally, 61% of respondents believed that the expansion of the banking sector had differing consequences on the industrial and agricultural sectors. Overall,

the study shows a considerable link between South Sudan's banking sector development and economic expansion, offering useful insights into the dynamics of the nation's economy.

Conclusions

However, a well-established and adaptive financial sector should be able to function even under such circumstances. A poor link between the financial sector and economic development might have a variety of ramifications. This study demonstrates the significance of more research in this field by showing how the banking industry in South Sudan contributes to economic development via its link with the economy. The low contribution of client deposits to the growth of the nation's economy reveals how the banking sector in South Sudan reflects the widespread poverty in the region. This implies that a sizeable part of South Sudanese individuals do not deposit their money in banks, which causes the country's economy to expand slowly. It's important to keep in mind, though, that this may not necessarily mean that people have nothing to deposit; rather, it could be explained by the fact that many South Sudanese people live paycheck to paycheck and have little money saved for deposits, which has an impact on the country's overall economic growth.

Recommendations

The following are the measures to improve the performance of the banking industry and support the expansion of the national economy: Findings are significant, and policymakers should prioritise banking sector changes and pay attention to the elements that affect the growth of the banking sector as a way to promote economic development. The South Sudan Vision claims that the financial sector will be crucial to attaining the purpose of the vision by ensuring excellent intermediation on the surplus and deficit sectors of the South Sudanese economy.

Because there are so many poor people in South Sudan, the financial sector should support the underprivileged by limiting how much of a gap can be bridged between the affluent and the poor over the course of decades. By ensuring higher savings rates, which lead to greater customer deposits at banks, this encourages economic growth. The study's conclusions show that there is only a shaky correlation between economic expansion and consumer deposits in the banking sector. The banking industry functions quietly in the background, but when anything goes wrong, such during the war in South Sudan from 2013 to 2016, the sector's flaws are exposed, which leads to the worst economic development. As a consequence, the government must guarantee that the banking industry has an effective information infrastructure, a stringent financial management system, and steady political leadership.

The South Sudanese government has to take action to improve the profitability of the banking industry. Additionally, it has been emphasised that tax avoidance and evasion have a considerable impact on the economy; as a result, governments should take these issues very seriously. Last but not least, different bank sector investments that result in assets should be encouraged to attain their full potential in order to guarantee that the banking industry contributes as much economic development as feasible. The findings of this analysis suggest a shaky positive relationship between South Sudan's banking sector assets and economic development.

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Cite this article:

AKECH DAVID AKUIEN (2023). The importance of Banking sector in the growth of Nation economy: A case study of Stanbic bank in South Sudan. *International Journal of Science and Business,* 28(1), 1-20. doi: https://doi.org/10.58970/IJSB.2201

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