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**Can Foreign Bank Presence and Financial
Freedom Drive Inclusive Growth?
An Empirical Study in Africa**

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Keywords: foreign bank presence, financial freedom, inclusive growth, Africa, GMM

JEL Classification: F21; E4; E44; F6

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An Empirical Study in Africa

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Abstract

This study explores the roles of foreign bank presence and financial freedom in inclusive growth across 27 African countries from 2000 to 2022. Despite growing attention to achieving shared prosperity, these roles are little considered. This study aims to bridge this gap by shedding light on the impact of FBP and financial freedom on inclusive growth. Using two-stage least squares, the study reveals that foreign bank presence can indeed foster inclusive growth in Africa. Financial freedom also enhances inclusive growth—but only when it interacts with foreign bank presence. Additionally, that presence has a greater impact on inclusive growth in the presence of financial freedom. These findings suggest the need to incentivize foreign banks to contribute to financial inclusion while supporting local economic growth and to implement nuanced regulations that foster collaboration between local and foreign financial institutions.

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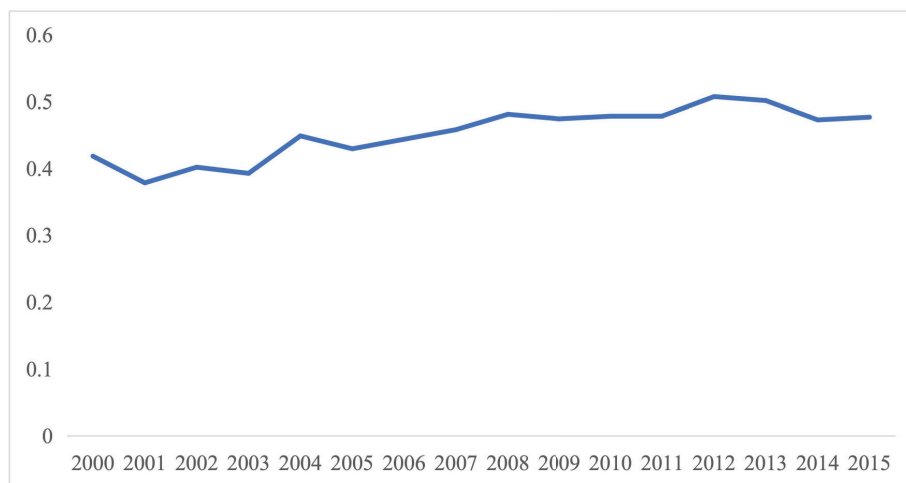
I. INTRODUCTION

In recent years, the focus on sustained development and inclusive growth has resurged, accompanied by a growing appeal for equal access to national and social benefits for all citizens (Bello et al. 2022; Gyamfi et al. 2022; Iddrisu, Ofoeda, and Abor 2023; Ofori and Asongu 2021a; 2022). The United Nations (UN) calls for the successful implementation of the Sustainable Development Goals (SDGs) to attain sustainable development (UN 2015). Furthermore, regional groups such as the African Union, the European Union, and others have launched policies to advance the SDGs (African Union 2015; Hrustel Majcen 2008). In particular, the implementation of goals 1 (poverty alleviation), 5 (inequality), 7 (access to clean energy), 8 (gender equality), and 10 (economic growth and employment) leads to inclusive growth, which makes economic progress available to all, especially the marginalized and impoverished (ADB 2013a).

Inclusive growth embodies economic expansion, enabling every person or group to equally engage and contribute, regardless of the circumstances (Ali and Son 2007). Despite significant efforts to implement global and regional goals, Africa lags in achieving the SDGs and Agenda 2063 (Bhorat et al. 2016; World Bank 2021). Although Sub-Saharan Africa has sustained an average annual economic growth of around 5%, it grapples with enduring issues such as poverty, inequality, and unemployment (World Bank 2020a). Poverty rates in Africa not only persist higher than in many other low- and middle-income nations but also reduce at a slower pace (Christiaensen and Hill 2019). Exclusionary growth has spurred various coup d'états in Burkina Faso, Chad, Gabon, Guinea, Mali, Niger, and Sudan (Anyoko-Shaba 2022; Mbara and Graham 2023). Therefore, it is crucial to explore pathways to foster inclusive growth more effectively in Africa. This study pinpoints two strategies—foreign bank presence (FBP) and financial freedom (FF)—yet with limited empirical support. FF refers to the ability of individuals, businesses, or a nation's economy to make financial decisions autonomously and without constraints.

Foreign bank presence, a form of foreign direct investment (FDI), has surged significantly in Africa post-1990 (Iddrisu et al. 2022; Kebede et al. 2021; Léon 2016). The proportion of foreign banks rose from 31% to 54% between 1995 and 2009, surpassing the average growth rate of developing economies (Claessens and Van Horen 2014). The analysis of the African sample indicates a rise in the presence of foreign banks from 42% in 2000 to 50% in 2012, stabilizing at 48% in 2015 as shown in Figure 1.

Figure 1: Trend of Foreign Bank Presence in 27 African Countries, 2000–2015



Source: STATA Output based on data from Bank Scope.

In Ghana, for example, only 6 foreign banks were in operation in 2000, while by 2015, 17 of 29 commercial banks were foreign-owned (Osei-Assibey et al. 2020). Today, 13 of 23 commercial banks are foreign owned.¹ In Mozambique, as of 2013, 85% of banks were foreign-owned. In 2022, only 1 of 15 banks was a domestic bank (Dionísio 2023). As of January 2024, 12 foreign-owned banks and 17 domestic banks were registered in South Africa.² The analysis herein of the African sample indicates a rise in FBP from 42% to 50% from 2000 to 2012, stabilizing at 48% in 2015 (21). Also, the implementation of the African Continental Free Trade Area has provided ready markets for FDI, including foreign-owned banks (World Bank 2020b).

This study addresses a critical question: Can the increase in FBP effectively foster inclusive growth in Africa? Foreign banks play an important role, bringing in more capital, directing funds to profitable users, exercising corporate control, and facilitating risk management, which directly enhances capital accumulation and long-term economic growth (Boamah et al. 2022; Iddrisu, Abor, and Banyen 2023). Despite the importance of FBP, there are some concerns in many developing nations. At the same time, increased FBP can increase the likelihood of banking sector crises and vulnerability in the host sector (Nanivazo et al. 2021). This risk can be countered by increased FF (Iddrisu, Abor, and Banyen 2023). Increasing both FF and FBP can enhance access to banking and financial services for underserved populations. Many foreign banks offer advanced technologies and expertise, complementing the regulatory improvements associated with increased FF. This synergy can significantly widen access to banking and credit facilities, especially in remote or marginalized areas.

Some empirical studies discuss the determinant of inclusive growth (Bello et al. 2022; Gyamfi et al. 2022; Iddrisu, Abor, and Banyen 2023; Iddrisu, Ofoeda, and Abor 2023; Ofori et al. 2022; Ofori and Asongu 2021a; 2022; 2021b); however, none of these studies have examined the impact of FF on inclusive growth. In fact, FF reduces regulatory barriers, interest rate controls, and state dominance in the financial sector (Sarpong-Kumankoma et al. 2020), enabling more private and microfinance institutions to operate, increasing competition, and expanding outreach (Sarpong-Kumankoma et al. 2020; Cromwell and Peprah 2025). It also fosters innovation in fintech and mobile banking by reducing regulatory red tape and promoting competition. Therefore, in the absence of empirical studies to guide policymakers and regulators, excessive state dominance and restrictive financial sector policies may hinder the achievement of inclusive growth. Additionally, none of these studies examine the joint effect of FBP and FF on inclusive growth.

The present study finds that FBP significantly contributes to inclusive growth by enhancing access to credit through capital inflows and liquidity, promoting innovation and technology transfer that improves service delivery, and fostering competition that reduces costs and expands financial outreach (Iddrisu et al. 2024). Financial freedom also contributes to inclusive growth. Many African countries have implemented financial sector reforms, yet access to finance remains limited, especially for women, youth, and rural populations (Iddrisu et al. 2025; Martins 2024). Studying FF helps assess whether regulatory and institutional frameworks are truly enabling inclusive access to financial resources. Jointly, FBP and FF influence inclusive growth in Africa and their synergy is critical. FBP contributes capital, innovation, global best practices, and advanced financial technologies, while FF fosters an enabling environment by removing regulatory barriers and expanding access to financial services. However, policymakers might underestimate their combined

¹ The Bank of Ghana maintains a list of registered banks at <https://www.bog.gov.gh/supervision-regulation/registered-institutions/banks/>.

² Statista reports the number at <https://www.statista.com/statistics/1348690/number-of-banks-south-africa-by-type/>.

effect, potentially resulting in fragmented or counterproductive regulations, such as liberalizing foreign bank entry without concurrently strengthening the regulatory framework.

This paper makes a meaningful contribution to Africa's continuous endeavour for inclusive growth by advocating for FF and endorsing the participation of foreign banks in the financial sector. Specifically, it provides a holistic understanding of financial sector dynamics and serves as a critical policy guide for balancing openness with regulation. Additionally, it offers context-specific evidence for Africa's financial inclusion and development agenda.

2. LITERATURE REVIEW

2.1 Theoretical Underpinnings

The theoretical framework underpinning this study is eclectic theory and finance-growth hypothesis. The eclectic theory indicates that multinational institutions including multinational banks aim to engage in foreign investment when there are ownership, location, and internalization advantages (Cantwell and Narula 2001; Gaffney et al. 2013). In other words, the entry and operation of foreign banks in a host country's financial sector are driven by ownership, location, and internalization advantages. This implies that these banks possess resources that confer market power even in foreign economies (Gaffney et al. 2013). As such, this theory is applicable to this paper as it reveals how FBP can influence local economic development by fostering competition and improving financial product/service quality. This is because foreign banks typically possess strong ownership advantages such as advanced technologies, managerial expertise, risk management systems, and financial innovation. When these banks enter local markets, they introduce better banking practices and innovative financial products, compelling domestic banks to improve their operations. This knowledge and technology transfer raises industry standards and efficiency across the local financial sector.

On the other hand, the finance-growth hypothesis provides two major arguments: the supply-leading hypothesis and demand-following hypothesis. The former states that enhancing financial sector development spikes the levels of economic growth as it attracts more FDI (McKinnon 1973; Schumpeter 1911; Shaw 1973). The latter argues that the financial sector's development is a consequence of economic growth (Robinson, 1952). The paper employs the latter, because it helps to ascertain the direction of finance and growth.

2.2 Determinant of Inclusive Growth

Inclusive growth encompasses various dimensions of economic progress, emphasizing the enhancement of prosperity, welfare, and engagement of underprivileged populations. Recent studies by Ofori and Asongu (2021a), Ofori and Asongu (2022), and Kusumawati (2018) highlight the multifaceted impact of FDI and financial development on inclusive growth. For instance, Ofori and Asongu (2021a), Ofori and Asongu (2022), and Kusumawati (2018) find that FDI promotes inclusive growth and the level of governance quality enhances the nexus between FDI and inclusive growth. On the other hand, Bello et al. (2022) and Ofori and Asongu (2021b) reveal that the positive effect of FDI on inclusive growth—especially in Sub-Saharan Africa—is subject to specific information and communication technology threshold levels. Iddrisu, Ofoeda, and Abor (2023) also reveal that although FDI promotes inclusive growth, its impact level on inclusive growth is much higher when it forms synergy with. Iddrisu, Abor, et al. (2023) then presented a new dimension

of the determinant of inclusive and revealed that FBP promotes inclusive growth, however a development financial sector can form synergy with FBP to promote inclusive growth in Africa. However, contrasting views exist, as Osabohien et al. (2021) found FDI to impede inclusive growth in West Africa from 2000 to 2019.

According to Berg and Ostry (2011), not only FDI promotes inclusive growth, but some relevant indicators such as globalization and trade openness also foster inclusive growth. Some empirical studies support this assertion (Bergh and Nilsson 2010; Herzer 2017; Owen and Wu 2007; Tsai 2007) who identified that inclusive growth (proxied with life expectancy) can be enhanced by globalisation. Gyamfi et al. (2022) reveal that financial development enhances inclusive growth, especially in the presence of quality institutions and governance. Ofori et al. (2022) emphasize the role of ICT diffusion in augmenting the positive impact of financial development on inclusive growth.

Other literature points some relevant factors that can promote inclusive growth. For instance, Anand et al. (2013), Estache et al. (2013), and Paramasivan et al. (2014) state that fostering shared prosperity requires investments in human capital, gender equality, and social safety nets. World Bank (2021) and Acemoglu and Robinson (2012) also reveal that quality institutions and good governance can ensure inclusiveness of growth. These findings are akin to some FDI studies such as Ofori and Asongu (2021a), Ofori and Asongu (2022), and Kusumawati (2018), who identified that quality institutions and good governance drive inclusive growth and play a moderation role in the relationship between FDI and inclusive growth. In most developing economies, inclusive growth can be promoted if there is an efficient resource allocation to build the private sector's productive capacity (ADB 2013b; World Bank 2023). Government spending on infrastructure and irrigation is also crucial in enhancing access to opportunities and productivity, particularly in education, health, and wider markets, which may be harder to access among rural and impoverished populations (Calderon and Servén, 2010; Gyamfi et al. 2022).

Iddrisu et al. (2024) study the nexus between FBP and inclusive growth. The joint effect is hard to find and remains largely unexplored. The current study fills this gap by examining the direct effect of FF on inclusive growth in Africa, as the region aim to promote financial freedom and inclusive growth but lacks empirical backing. Additionally, the present study adds to literature by proving the moderation role FF can play in the link between FBP and inclusive growth.

3. METHODS AND MATERIALS

3.1 Data

The paper employed a microdata for 23 years spanning 2000 to 2022 for 27 countries African countries³, based on data availability for key variables—FBP, financial freedom, and inclusive growth. The timeframe aligns with global financial crises and a heightened focus on inclusive growth in Africa. Data were sourced mainly from the World Development Indicators (WDI), International Financial Statistics (IFS) of IMF, Human Development Report Office (HDRO) of the UNDP, Heritage Foundation (HF), and Bank Scope (BS). The dependent variable is inclusive growth, which was measured with the Inclusive Growth Index (Table 1).

³ The countries include Algeria, Angola, Burkina Faso, Cameroon, Egypt, Gabon, Ghana, Kenya, Libya, Mali, Malawi, Mauritius, Mauritania, Mozambique, Morocco, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Tunisia, Togo, Uganda, and Zambia.

Table 1: Description of Variables

Variable	Measurement	Source
Dependent		
IG	Inclusive Growth Index	Author
Independent variables of interest		
FBP	Foreign bank asset as a ratio of total bank asset	Bankscope
FF	Index of Overall Financial Freedom	Heritage Foundation (2023)
MFD	Financial Development Index (Svirydzenka 2016)	IMF (2023)
Control variables		
INSQ	Average of six variables: control of corruption, rule of law, government effectiveness, regulatory quality, political stability, and voice and accountability	World Bank (2023)
CAP	Gross capital formation (% annual growth)	World Bank (2023)
POP	Population growth (% annual)	World Bank (2023)
CPI	Inflation, consumer prices (% annual)	World Bank (2023)
TO	Net trade (% GDP)	World Bank (2023)

Source: Author's Construct

Notes: Due to the confidentiality of Bankscope data, we couldn't provide the link, however we computed the ratio of foreign bank asset to total universal bank asset as a proxy for FBP. CAP: domestic capital; CIP: inflation; FBP: foreign bank presence; FF: financial freedom; IG: inclusive growth; INSQ: institutional quality; MFD: financial development index; POP: population growth; TO: trade openness.

Of the main independent variables, FBP is proxied with the share of banks' assets held by foreign banks, without subdivision into Western conventional, Islamic, or Chinese banks due to data limitations and varied country-specific bank preferences. A share of banks' assets held by foreign banks is used because it best captures foreign banks penetration and FBP can promote inclusive growth through credit allocation and spillover effect (Delis et al. 2020; Iddrisu, Abor, and Banyen 2023). A second key variable, FF (obtained from HF), creates an ecosystem conducive to economic participation, entrepreneurship, efficient capital allocation, reduced inequality, increased investment, and improved governance, all of which contribute to inclusive growth.

Table 1 controls for financial development, institutional quality, domestic capital, population growth, inflation, and trade openness based on existing literature (Bello et al. 2022; Gyamfi et al. 2022; Iddrisu et al. 2024; Iddrisu, Ofoeda, and Abor 2023; Ofori et al. 2022; Ofori and Asongu 2021b) and Africa characteristics. Svirydzenka's (2016) Financial Development Index is sourced from IFS as a proxy to account for financial development. A well-developed financial sector is known to bolster savings, reduce poverty, and elevate living standards (Gyamfi et al. 2022; Iddrisu,

Abor, and Banyen 2023; Ofori et al. 2022). Strong institutional quality and governance foster inclusive growth by effectively distributing resources, resulting in greater equality, diminished poverty, and improved access to essential social goods and services (Iddrisu, Ofoeda, and Abor 2023; Ofori and Asongu 2021a; 2022). Domestic capital measured with gross capital formation (% GDP) drives inclusive growth through infrastructure, entrepreneurship, human capital, financial inclusion, SME support, and sustainable investments (Gyamfi et al. 2022; Iddrisu, Abor, and Banyen 2023; Iddrisu, Ofoeda, and Abor 2023). African governments are firmly committed to employing trade liberalization to rejuvenate both rural and urban areas within the region (Iddrisu et al. 2023), hence the present work controls for this variable proxy with net trade (% GDP) to see how it will influence inclusive growth. Inflation is measured using the Consumer Price Index to assess macroeconomic stability. Africa is one of the continents having high population growth, hence it is relevant to check if population growth can contribute to inclusive growth.

Construction of Inclusive Growth Index

This paper generates the Inclusive Growth Index with the help of the principal component analysis. The individual variables (Table 2) used to generate the index were inspired by UNDP (2023) and ADB (2013a). These constructs capture important indicators such as poverty and inequality, economic growth and employment, infrastructure, education and health access, basic infrastructure utilities and services, gender equality, social safety nets, and governance.

Table 2: Variables Used to Construct Inclusive Growth Index

Variable	Measurement	Source
HDI	An index of a long and healthy life, being knowledgeable and having a decent standard of living	UNDP (2023)
Electricity	Access to electricity (% population)	World Bank (2023)
Mobile	Mobile cellular subscriptions	World Bank (2023)
Sanitation	People using at least basic sanitation (% population)	World Bank (2023)
Water	People using at least basic drinking water (% population)	World Bank (2023)
Employment	Employment to population ratio (15 years and above)	World Bank (2023)
No corruption	Control of corruption, estimate	World Bank (2023)
Governance	Government effectiveness, estimate	World Bank (2023)
Freedom of speech	Voice and accountability, estimate	World Bank (2023)

Source: Author's Construct

While additional variables were available for consideration, some exhibited missing data and others failed to meet the prerequisites for the principal component analysis. One of the primary requirements is avoiding excessive correlation, as it can lead to outliers and multicollinearity, skewing the index toward highly correlated variables. Furthermore, variables with a large proportion of missing data introduce significant gaps in the computed index and thus were excluded. To ensure consistency across various units of measurement, each variable was normalized within a range of 0 to 1.

The analysis uses the command “*factortest*” followed by the nine variables in STATA 17 to generate the results of the principal component analysis pre-tests.⁴ To construct the index, we used the “*pca*” command in STATA 17, followed by the 9 variables. Next, the “*rotate*” option is applied to conduct a varimax orthogonal rotation, which maximizes the variance of the squared loadings for each factor. Subsequently, the index is extracted from the components with an eigenvalue greater than one. The first three components meet this criterion (Table A2) and were selected to form the index, accounting for 85.91% of the variance across the nine variables. The Inclusive Growth Index has a range of 0 to 100 for easy interpretation.

3.2 Empirical Model

The study predominantly relies on the eclectic theory and finance-growth hypothesis, as they illustrate how a nation's potential influences its growth trajectory. The approach herein aligns with these theories and relevant empirical studies in Africa and Sub-Saharan Africa (Bello et al. 2022; Iddrisu et al. 2024; Iddrisu, Ofoeda, and Abor 2023; Ofori et al. 2022; Ofori and Asongu 2021a).

$$IG_{it} = \phi_0 + \phi_1 IG_{it-1} + \phi_2 fbp_{it} + \phi_3 mfd_{it} + \phi_4 insq_{it} + \phi_5 cap_{it} + \phi_6 pop_{it} + \phi_7 cpi_{it} + \phi_8 to_{it} + \varepsilon_{it} \quad (1)$$

$$IG_{it} = \forall_1 + \forall_2 ff_{it} + \forall_3 mfd_{it} + \forall_4 insq_{it} + \forall_5 cap_{it} + \forall_6 pop_{it} + \forall_7 cpi_{it} + \forall_8 to_{it} + \varepsilon_{it} \quad (2)$$

$$IG_{it} = \alpha_1 + \alpha_2 fbp_{it} + \alpha_3 ff_{it} + \alpha_4 (fbp \times ff)_{it} + \alpha_5 mfd_{it} + \alpha_6 insq_{it} + \alpha_7 cap_{it} + \alpha_8 pop_{it} + \alpha_9 cpi_{it} + \alpha_{10} to_{it} + \varepsilon_{it} \quad (3)$$

Equation (1) determines the direct effect of FBP on inclusive growth; equation (2) captures the direct effect of FF on inclusive growth; and equation (3) investigates the joint effect of FBP and FF on inclusive growth. IG_{it} denotes inclusive growth, whereas mfd , $insq$, cap , pop , cpi and to represent financial development, institutional quality, domestic capital, population growth, inflation, and trade openness respectively. ϕ_{0-8} , $\forall_{1-8}$, ϕ_{1-9} , and α_{1-10} are the parameters. fbp and ff denote foreign bank presence, financial freedom respectively and whilst the error structure (ε_{it}) includes both idiosyncratic and individual-specific components.

⁴ The Kaiser-Meyer-Olkin test is 0.752, exceeding the rule of thumb (0.5), suggesting that the variables used to generate the index are adequate (Table A.1). Bartlett's test chi-square (X2) statistic is 4803.345, which is significant at 1% and suggest that there is high correlation among the variables.

Equation (3) was partially differentiated with respect to FBP to capture its net effect, as detailed in equation (4).

$$\frac{dIG}{dfbp} = \alpha_2 + \alpha_4 \vec{f} f \quad (4)$$

Where $\vec{f} f$ is the average value of financial freedom, f is foreign bank presence, the rest of the variables are already defined. From equation (4), the analysis can determine the exact effect of FBP when interacted with FF. Therefore, when a coefficient is positive, it suggests that in the presence of FF, FBP dampens inclusive growth and vice versa.

The paper also re-estimates two additional models to enhance the robustness of the findings. The sample excludes Mauritius due to its notably high level of FF, which could disproportionately influence the results. It includes Mozambique and Rwanda, both characterized by high levels of FBP. These estimations serve two key purposes: (i) to determine whether countries with high FBP flows experience greater inclusive growth and (ii) to examine whether potential outliers significantly affect the overall results of the study.

3.3. Estimation Techniques

The study applies equations (1) to (3) using an instrumental variable estimator such as the 2SLS, which establishes a flexible link between the unobservable effects and instruments (Iddrisu et al. 2024; Agbloyor et al. 2013) and is robust to the presence of heteroskedasticity (Agbloyor et al. 2013; Mogstad, Torgovitsky, and Walters 2021). The analysis uses the `xtivreg2`, which is an upgraded estimator of 2SLS, incorporating relevant diagnostic measures (post-estimation test) such as the Hansen test, which tests for the validity of the instrument used to solve the problem of endogeneity and the Durbin-Wu-Hausman Chi-square test checks for endogeneity (Baum, Schaffer, and Stillman 2016; Iddrisu 2024; Iddrisu et al. 2024; Schaffer 2020; Schaffer and Stillman, 2016). Although this estimator does not report on heteroskedasticity and autocorrelation, it makes room for the “`r`” option in STATA that corrects heteroskedasticity and autocorrelation by using i.i.d standard errors (Baum et al. 2016; Schaffer 2020; Schaffer 2010). Although dynamic models such as System Generalized Method of Moments (System GMM) can address endogeneity concerns, this paper uses IV-GMM for its ability to test whether endogeneity persists within the model. Unlike dynamic models that rely exclusively on the validity of instruments to resolve endogeneity, 2SLS offers an additional mechanism to evaluate if endogeneity remains, even when the instruments are valid. This approach provides a more comprehensive assessment of potential endogeneity issues.

4. RESULTS AND DISCUSSION

The empirical analysis begins with preliminary results such as descriptive statistics (with particular attention to the variables of interest) and correlation matrix. Table 3 captures the descriptive statistics and Table 4 presents the results for the correlation matrix. The average inclusive growth is approximately 42%, with a minimum of 0 and a maximum of 100 (Table 3). At a country level, Mauritius (91%) exhibits the highest form of inclusive growth, while Libya (9.5%) displays the lowest inclusive growth (Figure 2). Moreover, the African sample shows an average FF of 44%, indicating a low level among the sample (Figure 3). Mauritius (68%) is again characterized by a high level of FF, whereas Libya (17%) exhibits a low level (Figure 3a). Regarding FBP, on average there are more domestic banks than foreign banks, as FBP has a mean of 47% (Table 3). However, the

variation is not substantial. Country-specific results suggest that Mozambique (93%) and Rwanda (93%) have more foreign banks, whereas Libya (8.6%) has fewer foreign banks (Figure 3b).

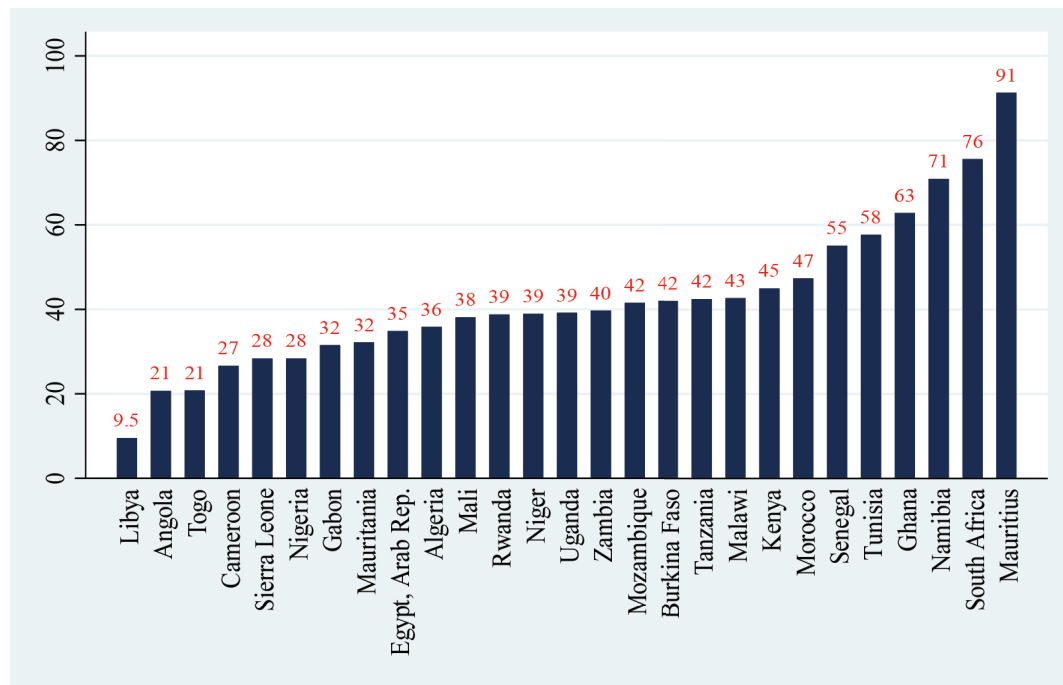
Table 3: Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Minimum	Maximum
IG	579	41.926	17.747	0.000	100
FF	607	44.152	12.739	10	70
FBP	432	46.67	31.548	0.000	100
MFD	594	0.17	0.12	0.035	0.593
IQ	594	-0.502	0.481	-1.91	0.87
CAP	562	15.011	5.647	4.568	50.836
POP	621	2.411	0.889	-2.617	5.906
CPI	606	7.771	16.619	-9.798	324.997
TO	573	64.775	24.756	22.973	164.284

Source: STATA output based on research data.

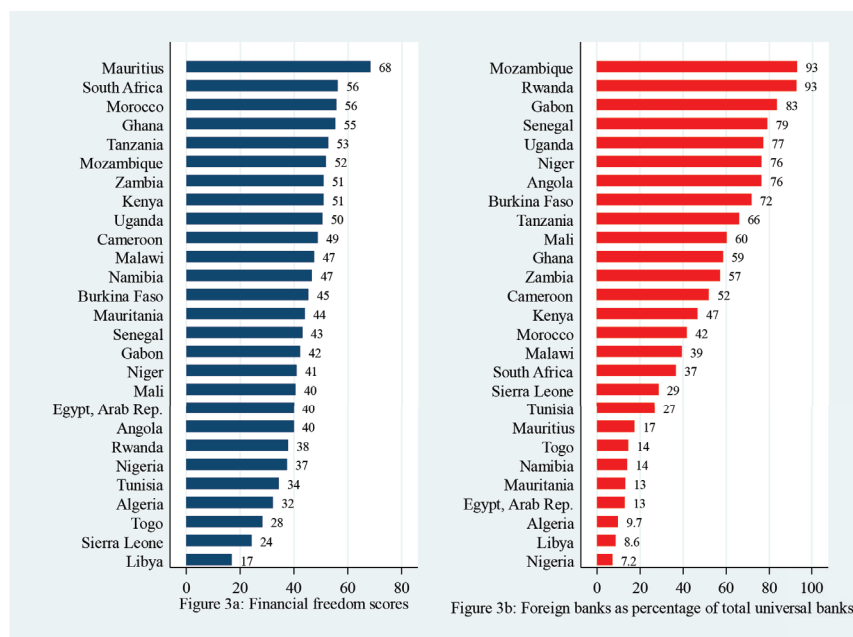
Notes: CAP: domestic capital; CIP: inflation; FBP: foreign bank presence; FF: financial freedom; IG: inclusive growth; INSQ: institutional quality; MFD: financial development index; POP: population growth; TO: trade openness.

Figure 2: In-Country Inclusive Growth Index, 2000–2022



Source: STATA 17 output based on data from the World Bank (2023) and UNDP (2023).

Figure 3: In-Country Financial Freedom and Foreign Bank Presence, 2000–2022



Source: STATA 17 output based on data from Heritage Foundation (2023) and Bankscope .

Table 4 presents the correlation matrix, revealing that while FBP, population growth, and inflation have a negative relationship with inclusive growth, the rest of the variables exhibit a positive one. There is less correlation between the independent variables, suggesting low multicollinearity. Proceeding further, the analysis tests for multicollinearity using the variance inflation factor (VIF). The results show that there is no multicollinearity, as individual VIF values are less than 5 and the mean VIF is less than 10, as suggested by the rule of thumb (Table 4).

Table 4: Correlation Matrix and Variance Inflation Factor

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	VIF
(1) IG	1.000									
(2) FF	0.521	1.000								2.720
(3) FBP	-0.024	0.224	1.000							2.530
(4) MFD	0.608	0.303	-0.371	1.000						1.920
(5) INSQ	0.940	0.509	0.030	0.561	1.000					1.730
(6) CAP	0.013	-0.029	-0.091	0.275	-0.085	1.000				1.610
(7) POP	-0.443	-0.145	0.393	-0.575	-0.409	-0.256	1.000			1.380
(8) CPI	-0.099	0.005	0.049	-0.055	-0.143	-0.028	0.115	1.000		1.300
(9) TO	0.212	0.129	-0.231	0.311	0.267	0.319	-0.310	0.130	1.000	1.090
Mean VIF										1.790

Source: STATA 17 output based on research data.

Notes: CAP: domestic capital; CIP: inflation; FBP: foreign bank presence; FF: financial freedom; IG: inclusive growth; INSQ: institutional quality; MFD: financial development index; POP: population growth; TO: trade openness.

4.1 2SLS Results of FBP, Financial Freedom and Inclusive Growth

Tables 5 and 6 displays the regression results for the full sample regarding the link between FBP, FF, and inclusive growth. As previously mentioned, the data exclude Mauritius due to its high FF and inclusive growth and later omit Mozambique and Rwanda for their substantial foreign bank flow. The analysis initiates by investigating how FBP influences inclusive growth. Subsequently, it delves into the relationship between FF and inclusive growth and discusses the results concerning the threshold effect of FF. Additionally, it explores the impact of FF on the connection between FBP and inclusive growth. Finally, it examines how control variables might have influenced inclusive growth.

Starting with the first objective, the results show that FBP promotes inclusive growth positively with a significant coefficient of 0.0306 unit (Table 5, column 1). The findings indicate that foreign banks tend to possess a wider global outlook and dedication to connecting with marginalized communities and remote regions, extending banking services to areas that previously lacked access. This widened reach of banking services has the potential to empower both individuals and businesses, nurturing their participation in the economy and facilitating overall economic growth.

Table 5: 2SLS Results for FBP and Financial Freedom on Inclusive Growth

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	Full sample		No Mauritius		No Mozambique and Rwanda	
FBP	0.0288**		0.0310***		0.0122	
	(0.0135)		(0.0118)		(0.0183)	
FF		0.0292		0.0325		0.00497
		(0.0255)		(0.0277)		(0.0183)
MFD	11.36	10.39*	5.882	2.979	13.71*	13.11**
	(7.195)	(5.456)	(7.292)	(5.197)	(7.200)	(5.487)
INSQ	24.29***	25.38***	23.95***	25.20***	24.76***	25.01***
	(1.257)	(1.022)	(1.177)	(0.900)	(1.335)	(1.280)
CAP	0.412***	0.403***	0.415***	0.409***	0.376***	0.375***
	(0.0395)	(0.0388)	(0.0359)	(0.0370)	(0.0442)	(0.0414)
POP	-0.940**	-0.807*	-0.745	-0.595	-1.561***	-1.479***
	(0.454)	(0.455)	(0.462)	(0.468)	(0.451)	(0.478)
CPI	-0.0833***	-0.0563**	-0.0691***	-0.0446**	-0.0956**	-0.0860**
	(0.0193)	(0.0240)	(0.0153)	(0.0219)	(0.0395)	(0.0340)
TO	-0.0310**	-0.0355***	-0.0231*	-0.0290**	-0.0234**	-0.0233*
	(0.0136)	(0.0128)	(0.0128)	(0.0117)	(0.0107)	(0.0129)
Observations	323	347	309	332	299	321
R-squared	0.622	0.641	0.619	0.640	0.562	0.567

Variables	(1)	(2)	(3)	(4)	(5)	(6)
Number of id	25	25	24	24	23	23
F-Statistic	1520***	960.3***	1686***	1676***	5047***	592.1***
Hansen P-Value	0.693	0.441	0.699	0.442	0.662	0.525
Endogeneity Test	0.1162	0.6610	0.1067	0.7036	0.3622	0.4880
K-P rk LM P value	0.391	0.282	0.494	0.271	0.439	0.284

Source: STATA 17 output based on research data.

Notes: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

CAP: domestic capital; CIP: inflation; FBP: foreign bank presence; FF: financial freedom; IG: inclusive growth; INSQ: institutional quality; MFD: financial development index; POP: population growth; TO: trade openness.

The empirical finding of this analysis is akin to income growth studies that indicate a spike in economic growth with FBP (El Menyari 2019; Iddrisu, Abor, and Banyen 2023; Wu et al. 2010). However, excluding Mozambique and Rwanda from the sample, FBP does not significantly and uniformly enhance inclusive growth in Africa (Table 6). While these two countries may benefit from FBP in terms of growth that reaches a broader section of the population, the same effect is not observed across Africa. This suggests that the impact of foreign banks on inclusive growth is context-specific and might depend on factors such as the local policies, financial environment, and nature of operations in each country.

Although FF holds potential for enhancing inclusive growth, Table 5 indicates that it does not have a statistically significant effect on inclusive growth. This could be attributed to unequal access to financial services, underdeveloped financial infrastructure, or regulatory gaps (Iddrisu et al. 2022; 2025). Additionally, FF may disproportionately benefit wealthier individuals, while low financial literacy and structural inequalities further restrict its impact on broader, inclusive growth. However, when it forms synergy with FBP, it has positive effect on inclusive growth (Table 6).

The empirical results reveal that FF plays a moderation role on the nexus between FBP and inclusive growth (Table 6). This is supported by the results of the joint significance test. However, to identify the exact effect of the moderation role, the net effect should be computed as shown in equation (4). The net effect can only be computed when both direct (coefficient of FBP) and indirect i.e., coefficient of the interaction term) effects (of FBP are statistically significant. It is computed following equation (4) as both effects are statistically significant (Table 6). The coefficient of this net effect, at 0.038, indicates that in the context of FF, FBP indeed promotes inclusive growth in Africa. These findings indicate that when foreign banks bring sufficient capital and more banking services (Beck and Brown 2015; Iddrisu, Abor, and Banyen 2023; Wu et al. 2010), enhanced FF increases access to this capital and services (Chortareas et al. 2013). This, in turn, fosters investment across diverse sectors, stimulates financial innovation, and encourages broader engagement in economic opportunities, ultimately driving more inclusive growth across the African continent. By implication, this interaction effect can reduce cream skinning behaviour of foreign banks⁵, since FF enables them to offer innovative financial services to the entire population, in particular the underserved communities.

⁵ Cream-skinning behaviour of foreign banks is the tendency of these banks to focus on serving the most profitable and least risky segments of the host country's market — rather than providing broad-based financial services across all customer groups.

Table 6: Moderation Role of Financial Freedom

Variables	(1)	(2)	(3)
	Full sample	No Mauritius	No Mozambique and Rwanda
FBP	0.208**	0.190**	0.195**
	(0.0878)	(0.0901)	(0.0802)
FF	0.205***	0.204**	0.192***
	(0.0762)	(0.0811)	(0.0662)
FBP x FF	-0.00386**	-0.00369**	-0.00379**
	(0.00173)	(0.00179)	(0.00150)
MFD	14.91**	8.311	18.33***
	(6.713)	(7.422)	(5.690)
INSQ	24.20***	23.90***	23.42***
	(1.628)	(1.518)	(1.493)
CAP	0.309***	0.322***	0.339***
	(0.0275)	(0.0233)	(0.0301)
POP	-0.529	-0.348	-0.973**
	(0.390)	(0.363)	(0.433)
CPI	-0.0735***	-0.0693***	-0.108**
	(0.0240)	(0.0236)	(0.0428)
TO	-0.0285*	-0.0237	-0.0249
	(0.0152)	(0.0148)	(0.0153)
Observations	323	309	299
R-squared	0.596	0.607	0.531
Number of id	25	24	23
F-Statistic	1.502e+06***	28685***	2.860e+08***
Hansen P-Value	0.500	0.437	0.546
Endogeneity test (P-value)	0.1067	0.7036	0.3622
Kleibergen-Paap rk LM statistic P value	0.619	0.581	0.593
Net effect	0.038	0.027	0.027

Source: STATA 17 output based on research data.

Notes: Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

CAP: domestic capital; CIP: inflation; FBP: foreign bank presence; FF: financial freedom; IG: inclusive growth; INSQ: institutional quality; MFD: financial development index; POP: population growth; TO: trade openness.

Turning attention to the control variables, financial development statistically promotes inclusive growth especially when FF is the variable of interest (Table 5, column 2). This suggests that a developed financial sector facilitates access to services, including microfinance and savings mechanisms, and in turn empowers low-income individuals and communities. By implication low-income and communities becomes more equipped to manage risks, accumulate assets, and invest in their future, reducing their chances of falling into poverty (Gyamfi et al. 2022; Iddrisu, Abor, and Banyen 2023; Ofori et al. 2022). Financial institutions can bolster inclusive growth by protecting property rights and fostering investment, entrepreneurship, and innovation, especially for marginalized groups (Table 5). At the same time, they can ensure transparency, accountability, and the rule of law, while helping to reduce corruption and build trust in public institutions (Iddrisu et al. 2023; Kusumawati 2018; Ofori and Asongu 2021a). Additionally, domestic capital enhances inclusive growth (Table 5). This can be attributed to the fact that it promotes inclusive growth in Africa by mobilizing local financial resources, strengthening economic resilience, and expanding opportunities for broad-based participation in economic development (Iddrisu 2024). Furthermore, population growth also promotes inclusive growth, which could be that Africa's sizable and growing working-class population can actively contribute to and drive this growth. As expected, inflation reduces inclusive growth. This reflects the current condition occurring in Africa as most countries' inflation keeps rising. Prices of basic goods (food, fuel, transport) rise faster than wages and transfers. The poor—whose consumption is mostly food—are hit hardest. Real incomes fall, widening inequality and pushing households below the poverty line. Table 5 indicates that increased trade openness may potentially decrease inclusivity, especially when examining the interaction between FBP and FF. These findings suggest that Africa's engagement in international trade might expose its economy to disruptions such as capital flight and heightened inequality.

5. CONCLUSIONS AND POLICY IMPLICATION

In Africa, achieving equal opportunities remains challenging despite ongoing economic growth. Poverty, inequality, and unemployment continue, leading to political instability in several nations. This paper investigates 27 African countries from 2000 to 2022 to determine whether FBP and FF could serve as avenues for inclusive growth. It finds that FBP has a direct effect on inclusive growth in Africa. FF enhances inclusive growth only when it interacts with FBP. Additionally, in the presence of FF, FBP has a greater impact on inclusive growth.

These results have policy implications. First, because the results support growth-enhancing FBP, policymakers (such as central banks) should offer a tax incentive to foreign banks that meet specific financial inclusion targets, such as number of first-time bank account holders or provision of services to unbanked regions. This approach encourages foreign banks to contribute to financial inclusion while supporting local economic growth. Policies should encourage foreign banks to dedicate a portion of their resources to co-developing financial products, such as low-interest microloans, SME financing packages, and digital banking services tailored to rural and underserved communities. Second, because FF enhances inclusive growth only when it interacts with FBP, policymakers should develop nuanced regulations that encourage collaboration between foreign and domestic financial institutions while ensuring an environment conducive to financial inclusion. For example, policies should incentivize foreign banks to partner with local banks on technology transfer initiatives, expand financial literacy programs, and develop financial products tailored to underserved populations.

Such policies can help improve access to credit for SMEs and rural communities while maintaining competitive standards in the banking sector.

Notes

This study has limitations. It excludes several African countries due to insufficient data, and it does not analyse how individual foreign banks' unique traits might impact the extent of inclusive growth. Exploration of that impact is a recommendation for future studies.

Conflict of Interest

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APPENDIX

Table A.1: Kaiser-Meyer-Olkin Measure and Bartlett Test

Test	Value
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.752
Bartlett test of sphericity: Chi-square	4803.345
p-value	0.000

Source: Author's elaboration.

Table A.2: Principal Components for Inclusive Growth

Component	Eigenvalue	Difference	Proportion	Cumulative
Comp1	4.535	2.406	0.504	0.504
Comp2	2.129	1.062	0.237	0.741
Comp3	1.067	0.637	0.119	0.859
Comp4	0.430	0.057	0.048	0.907
Comp5	0.374	0.205	0.042	0.948
Comp6	0.168	0.037	0.019	0.967
Comp7	0.132	0.030	0.015	0.982
Comp8	0.102	0.039	0.011	0.993
Comp9	0.062	.	0.007	1.000

Source: Author's elaboration.

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