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Impact of Internal Determinants on the Financial Performance of Commercial Banks in Burundi: A Panel Data Analysis (2018–2023)

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Abstract: *This study investigates how internal determinants influence the financial performance of commercial banks in Burundi, an area with limited empirical data. It aims to understand the role that bank-specific factors—such as capitalization, asset quality, operational efficiency, bank size, and liquidity—play in shaping bank profitability, which is measured using Return on Assets (ROA). The study adopts a panel data econometric approach, analyzing secondary data collected from seven commercial banks in Burundi over the period 2018 to 2023. Using SPSS statistical software, the findings demonstrate that four internal factors—capitalization, operational efficiency, bank size, and liquidity—have a statistically significant effect on bank performance. While asset quality showed a positive relationship, its effect was not statistically significant. These findings highlight the critical importance of sound internal management in driving the financial success and resilience of commercial banks in emerging economies such as Burundi.*

Keywords: *Financial Performance, Internal Determinants, Commercial Banks, Return on Assets (ROA), Capitalization, Operational Efficiency*

1.1 Background of the Study

The financial sector remains a cornerstone of any modern economy, serving as a bridge between savers and investors and playing a pivotal role in economic stability and growth. Within this sector, commercial banks are not only financial intermediaries but also central agents of economic transformation, facilitating the allocation of resources, enhancing capital formation, and supporting productive investment. Their performance is thus critical not only for shareholders but also for broader societal outcomes such as employment, trade, and development.

In the global financial landscape, banks play a fundamental role in supporting economic stability and development. This is particularly evident in developing countries like Burundi, where commercial banks are among the few structured institutions capable of mobilizing savings and financing productive investments (Gahungu & Muhari, 2012). The financial health of banks not only determines their survival but also impacts the country's economic resilience by influencing credit availability, capital formation, and public confidence in the financial system (Athanasoglou, Brissimis, & Delis, 2008). International studies underscore that internal determinants—factors under managerial control—can play a decisive role in shaping bank profitability. These include capitalization, operational efficiency, liquidity, and asset quality (Elouali & Oubdi, 2020; Muda, Shaharuddin, & Embaya, 2013).

In the context of developing countries like Burundi, the banking sector faces several structural and operational challenges, including undercapitalization, low financial inclusion, weak regulatory environments, and macroeconomic volatility. Despite these obstacles, commercial banks must strive for sound financial performance if they are to remain viable and support national development objectives. While many studies across Africa and other regions have investigated the determinants of financial performance in banks, most focus on external factors such as interest rates, inflation, and economic growth. However, there remains a critical need to examine internal determinants—those factors that are directly influenced by bank management decisions.

Burundi's financial sector is characterized by a relatively small but evolving banking system. It faces structural limitations such as inadequate capital buffers, low levels of financial literacy, and limited penetration of financial services, especially in rural areas (Faida & Nizigiyimana, 2022). Additionally, the country remains vulnerable to external shocks, including political instability and global economic fluctuations. These constraints create an urgent need for internal efficiency and prudent management within banks to ensure sustainable performance and institutional resilience. While similar research has been conducted in other Sub-Saharan African nations, empirical studies focusing on the Burundian banking context remain limited. Understanding how these variables perform within local institutions could provide crucial insights into best practices for internal governance and financial strategy.

Internal factors such as capitalization, liquidity, asset quality, bank size, and operational efficiency are increasingly recognized for their influence on profitability and institutional stability. These are variables that management can actively monitor, control, and optimize. However, empirical studies specifically investigating their effects on bank performance in the Burundian context remain sparse. This study seeks to fill that gap by examining how these internal determinants influence the financial performance of commercial banks operating in Burundi between 2018 and 2023. The research employs a panel data econometric approach, using ROA as a proxy for financial performance, and builds upon global literature to contextualize the Burundian banking environment. Furthermore, in an environment where commercial banks are increasingly expected to support inclusive economic growth, striking a balance between profitability and accessibility becomes a major challenge. Thus, identifying the internal levers that significantly influence bank performance is vital not only for individual banks but for the economic well-being of the nation.

In doing so, this research contributes to both academic knowledge and practical policymaking by identifying which internal levers most significantly impact financial outcomes in Burundian commercial banks. The findings are expected to inform strategies for improving internal management and strengthening the financial health of banks in Burundi and similar emerging economies.

1.2 Statement of the Problem

Commercial banks in Burundi face an ongoing challenge in achieving robust and sustainable financial performance. Despite regulatory reforms and institutional changes, many banks continue to report fluctuating profitability, driven by both macroeconomic uncertainties and internal inefficiencies (Niyuhire & Mureha, 2024). Although external factors such as inflation, interest rates, and market volatility have been extensively analyzed, internal bank-specific variables—those which managers and policymakers can directly influence—remain under-explored. Existing literature highlights the importance of internal determinants in shaping financial outcomes. For example, sound capitalization enhances a bank's capacity to absorb losses and extend credit (Dietrich & Wanzenried, 2011), while operational efficiency strengthens cost management and competitive advantage (Sufian & Zulkhibri, 2015). Liquidity management, asset quality, and bank size also influence risk exposure, loan performance, and strategic flexibility (Alharbi, 2017; Eljelly, 2013). Despite these global insights, it remains unclear how these variables function within the specific context of Burundi. The scarcity of local empirical research leaves a knowledge gap that undermines evidence-based management and regulatory decision-making. Without robust data on internal performance drivers, banks risk making uninformed policy choices that could exacerbate rather than solve financial inefficiencies. This study, therefore, seeks to address the following question: To what extent do internal bank-specific factors significantly influence the financial performance of commercial banks in Burundi between 2018 and 2023? By answering this question, the research aims to provide a comprehensive empirical analysis that strengthens institutional performance and informs national financial strategy.

1.3 Study Objective

To examine the impact of internal determinants on the financial performance of commercial banks in Burundi during the period 2018 to 2023.

1.4 Literature Review

In this section, theoretical and empirical literature reviews will be presented.

1.4.1 Theoretical Framework

This study is grounded in classical and contemporary banking theories that explain how internal institutional factors influence financial performance. Among the most relevant is the Resource-Based Theory of the Firm (RBT), which posits that an organization's internal resources and capabilities are the primary sources of its competitive advantage and performance outcomes (Barney, 1991). Applied to commercial banks, this theory underscores the importance of internal factors—such as managerial skills, capital adequacy, operational systems, and asset management—in shaping financial success. According to this perspective, banks that strategically manage their internal resources are better positioned to achieve sustained profitability and stability.

A key strength of the resource-based approach is its focus on firm-specific factors, which makes it particularly suitable for evaluating internal determinants such as capitalization, asset quality, and efficiency. However, the theory tends to downplay external influences, including macroeconomic volatility and regulatory interventions, which are significant in developing countries like Burundi (Athanasoglou, Brissimis, & Delis, 2008). In addition to RBT, the X-Efficiency Theory introduced by Leibenstein (1966) is particularly useful in analyzing operational efficiency within banks. X-efficiency refers to the degree to which firms maximize output from a given set of inputs. In banking, this means minimizing costs while maintaining service quality. When banks fail to operate efficiently—due to bureaucratic delays, resource misallocation, or managerial slack—their financial performance suffers. This theory reinforces the relevance of evaluating cost-income ratios and operating efficiency when examining profitability (Sufian & Zulkhibri, 2015).

Another important theoretical lens is the Liquidity Preference Theory developed by Keynes (1936), which suggests that banks must hold a portion of their assets in liquid form to meet obligations and respond to market changes. While high liquidity enhances safety and depositor confidence, it may limit profitability by reducing interest-earning opportunities. This trade-off is especially relevant in markets like Burundi, where liquidity risk and customer trust are central concerns (Faida & Nizigiyimana, 2022).

Finally, the Bank Capital Channel Theory highlights the impact of capital strength on lending behavior and financial resilience. According to this theory, banks with strong capital buffers are more likely to absorb losses, lend during downturns, and inspire stakeholder confidence (Van den Heuvel, 2002). This supports the inclusion of capitalization as a determinant in this study, especially given regulatory reforms in the East African banking sector aimed at strengthening capital adequacy. In summary, these interrelated theoretical perspectives provide a multi-dimensional understanding of how internal variables—including capitalization, liquidity, operational efficiency, and asset management—affect the financial performance of banks. By anchoring this study in these theories, we aim to contribute meaningfully to the body of knowledge on bank performance in low-income, high-risk economies.

1.4.2 Empirical Review

Empirical research on bank performance has identified a diverse set of internal determinants that influence profitability across different economic contexts. While most of this literature has been concentrated in developed or middle-income economies, recent studies have begun to address knowledge gaps in African markets. Capitalization, commonly measured by the equity-to-assets ratio, is widely recognized as a crucial predictor of bank performance. According to Elouali and Oubdi (2020), well-capitalized banks are better positioned to absorb shocks, extend credit, and build investor confidence. Similarly, Dietrich and Wanzenried (2011) found that in Switzerland, strong capital adequacy enhances return on assets, especially during economic crises. However, studies in Sub-Saharan Africa show mixed results. For example, Naceur (2023) reports that while high capital levels reduce risk, they may also limit profitability by diverting resources away from lending.

Asset quality is another important variable, often evaluated using the ratio of non-performing loans (NPLs) to total loans. Poor asset quality increases provisioning costs, reduces net interest margins, and signals inefficiencies in credit risk management (BRB, 2020). In the Burundian context, the central bank's 2019 report emphasized the growing burden of NPLs on bank balance sheets. However, Faida and Nizigiyimana (2022) argue that prudent risk management practices across major banks have limited variations in asset quality, potentially diminishing its explanatory power in performance models.

Operational efficiency, typically measured through cost-to-income ratios, directly affects profit margins. Asma Rashidah Idris et al. (2011) found a positive correlation between efficiency and performance in Malaysian Islamic banks. Similarly, Muda et al. (2013) highlight the importance of administrative cost control in driving profitability. In contrast, some scholars argue that overly aggressive cost-cutting can compromise service quality and innovation, ultimately reducing long-term performance (Ben Khediri & Khedhiri, 2009).

Bank size also influences financial outcomes. Larger institutions often benefit from economies of scale, better access to capital markets, and diversified income streams (Masood & Ashraf, 2012). In their study of African banks, Belkhaoui, Zouari, and Khemakhem (2020) found that size positively correlates with profitability, but only up to a certain threshold. Beyond that, the benefits of scale may be offset by bureaucratic inefficiencies and governance challenges.

Liquidity, as measured by the loan-to-deposit ratio, presents another complex determinant. While liquidity ensures operational flexibility and boosts depositor confidence, excessive liquidity may imply idle funds and opportunity costs (Chayoua & Moussaten, 2020). Studies from countries like Côte d'Ivoire and Morocco confirm that moderate liquidity levels are optimal for profitability (Assienin & Ouattara, 2020; Dembélé & Machrafi, 2021).

Despite these global findings, few studies have examined how these determinants function specifically in Burundi. The limited literature that exists—such as the works by Gahungu and Muhari (2012) and Niyuhire and Mureha (2024)—acknowledges the influence of internal factors but calls for updated, data-driven research that reflects changes in the financial environment and banking regulation.
This study seeks to contribute to this gap by offering a comprehensive empirical analysis of internal determinants using current data from Burundian commercial banks. By doing so, it provides a localized perspective that complements international findings and supports evidence-based banking reforms.

1.5 Study Methods and Design

This study employed a quantitative research design, guided by an explanatory approach to evaluate the relationship between internal bank-specific variables and financial performance. The purpose of this methodological choice was to uncover causal relationships using numerical data and statistical analysis, in line with best practices in empirical financial research (Mutai, 2000; Dubois, 1992). Given the study's focus on measurable performance indicators and internal determinants, quantitative analysis was most appropriate to generate objective, replicable, and policy-relevant insights.
Study Area and Scope: The research focused on commercial banks operating within the Republic of Burundi, covering a six-year period from 2018 to 2023. This time frame was chosen to ensure the inclusion of recent financial developments and trends while providing sufficient temporal variation for robust panel data analysis. The study examined how five internal determinants—capitalization, asset quality, operational efficiency, bank size, and liquidity—influenced the financial performance of these institutions, measured through the widely accepted Return on Assets (ROA) ratio.
Population and Sampling Procedure: The target population consisted of seven commercial banks operating consistently during the 2018–2023 period. These included major institutions such as BANCOBU, BGF, KCB, BBCI, CRDB, and IBB. The banks were selected based on their consistent publication of annual financial reports, accessibility of performance data, and relevance to the national financial system. The sampling approach was purposive and non-probabilistic, aimed at ensuring data completeness and reliability over the study period (Kabwa, 2019).
Given the manageable size of the banking sector in Burundi and the study's focus on performance trends rather than general population characteristics, a census of the accessible banks was used instead

of a sample. This allowed for a comprehensive analysis of available institutional data without the risk of sampling error.

Data Sources and Collection: The study relied exclusively on secondary data sourced from: Annual financial statements published by each bank; Performance reports and regulatory bulletins from the Bank of the Republic of Burundi (BRB); and Official websites and archival documents. To ensure the reliability and comparability of the data, only audited financial reports and BRB-verified statistics were used. Data was entered into SPSS (Statistical Package for the Social Sciences), version 2022, for consistency and ease of statistical analysis.

Definition and Measurement of Variables: The dependent variable, financial performance, was measured using Return on Assets (ROA), defined as the ratio of net income to total assets. This indicator was selected due to its widespread acceptance as a reliable measure of how efficiently a bank uses its assets to generate profit (Kosmidou, 2008; Athanasoglou et al., 2008). For the independent variables and their operational definitions, see table 1 below.

Table 1: The independent variables and their operational definitions

Variable	Acronym	Measurement Formula	Expected Sign
Bank Capitalization	CAP	Equity / Total Assets	Positive (+)
Asset Quality	AQL	Non-Performing Loans / Total Loans	Negative (-)
Operational Efficiency	EOF	Operating Expenses / Banking Income	Negative (-)
Bank Size	SIZE	Natural Logarithm of Total Assets	Positive (+)
Liquidity	LIQ	Total Loans / Total Deposits	Positive (+)

These variables were selected based on a thorough review of both global and regional literature, as well as their practical relevance in the management of Burundian commercial banks (Elouali & Oubdi, 2020; BRB, 2022; Faida & Nizigiyimana, 2022).

Analytical Framework and Techniques: To analyze the data, the study employed **panel data regression techniques**, which allow for the evaluation of both cross-sectional (between banks) and time-series (over years) dimensions. This method improves estimation accuracy by controlling for unobserved heterogeneity and increasing degrees of freedom (Baltagi, 2008).

The general econometric model was specified as:

ROAit=α+β1CAPit+β2AQLit+β3EOFit+β4SIZEit+β5LIQit+εitROA_{it} = \alpha + \beta_1 CAP_{it} + \beta_2 AQL_{it} + \beta_3 EOF_{it} + \beta_4 SIZE_{it} + \beta_5 LIQ_{it} + \varepsilon_{it}ROAit =α+β1 CAPit +β2 AQLit +β3 EOFit +β4 SIZEit +β5 LIQit +εit

Where:

- ROAitROA_{it}ROAit = Return on Assets of bank *i* at time *t*,
- α\alphaα = constant term,
- β1\beta_1β1 to β5\beta_5β5 = coefficients for independent variables,
- εit\varepsilon_{it}εit = error term.

Before conducting the regression, descriptive statistics and correlation analyses were performed to check for normality, multicollinearity, and model assumptions. The regression output included coefficients, t-statistics, and p-values to assess the statistical significance of each internal determinant.

The choice of SPSS software facilitated robust data handling, enabled real-time visualization of output, and ensured compatibility with international standards for financial econometrics.

1.6 Results and Discussion

This section presents the findings derived from the panel data regression analysis and interprets the implications of each internal determinant on the financial performance of commercial banks in Burundi. The analysis was conducted using data from seven commercial banks over the six-year period from 2018 to 2023. The primary performance metric used was Return on Assets (ROA), with five internal variables examined for their explanatory power: capitalization, asset quality, operational efficiency, bank size, and liquidity.

Table 2: Linear Regression coefficients

Modèle	Coefficients	T-statistic	Significance
Intercept	6.218766	3.205427	0.0038
CAPI	0.00670	0.157020	0.0006
AQL	0.03562	0.002349	0.1010
EOF	-50.00519	-6.883472	0.0000
SIZE	0.00721	0.471647	0.0319
LIQ	0.012461	0.005272	0.0009

Table 3 : Model Summary

Model	R	R-squared	Adjusted R-squared	Standard Error of estimate
1	,977[a]	,954	,931	4054039,970

Overall Model Significance

The multiple linear regression model returned an R-squared value of 0.954, indicating that approximately 95.4% of the variation in financial performance (ROA) could be explained by the five internal determinants included in the model. This high explanatory power underscores the robustness of the chosen variables and confirms that internal factors play a substantial role in shaping profitability outcomes for banks in Burundi.

Influence of Capitalization on Financial Performance

The results show that bank capitalization had a positive and statistically significant effect on ROA at the 1% level of significance ($p < 0.01$). This implies that higher levels of equity relative to total assets enhance a bank's ability to absorb risks, safeguard depositor funds, and improve profitability. These findings are consistent with those of Elouali and Oubdi (2020), who observed a similar trend in Islamic banks operating in North Africa. Moreover, Dietrich and Wanzenried (2011) established that well-capitalized banks in developed economies tend to outperform undercapitalized institutions, particularly during economic downturns. In Burundi's context—where financial shocks are not uncommon—capital adequacy serves as a financial cushion and a signal of strength to both investors and regulators.

Effect of Asset Quality on Bank Performance: Contrary to theoretical expectations, asset quality showed a positive but statistically insignificant relationship with ROA. While the coefficient was in the expected direction, its lack of significance suggests that differences in non-performing loan (NPL) ratios among Burundian banks may not be large enough to account for differences in profitability. One possible explanation is that most banks have adopted similar risk mitigation policies and provisioning practices in compliance with regulatory standards set by the Bank of the Republic of Burundi (BRB). These results echo the findings of Faida and Nizigiyimana (2022), who argue that asset quality's marginal effect on performance may be diluted in more homogeneous banking environments. It may also reflect effective loan recovery mechanisms, or simply that provisioning is not yet a critical factor in explaining profit differences across institutions in Burundi.

Operational Efficiency and Its Impact: The findings reveal a strong negative and statistically significant relationship between operational efficiency (as measured by the cost-to-income ratio) and ROA. Specifically, banks with higher operational costs relative to income exhibited reduced profitability. This relationship was significant at the 1% level, reinforcing the idea that cost management is a fundamental driver of financial health. These results align closely with the work of Asma Rashidah Idris et al. (2011), who concluded that poor cost control significantly undermines bank performance in Malaysian institutions. In Burundi, where operational costs can be inflated by infrastructure gaps, staff training needs, and currency fluctuations, banks must place greater emphasis on reducing administrative overhead while maintaining service quality.

Effect of Bank Size on Profitability: The variable for bank size, operationalized through the natural logarithm of total assets, returned a positive and statistically significant relationship with financial performance ($p < 0.05$). This indicates that larger banks—benefiting from greater resource bases, economies of scale, and market leverage—tend to be more profitable than their smaller counterparts. The findings are consistent with global literature. For example, Belkhaoui, Zouari, and Khemakhem (2020) found that size enhances profitability up to a point, beyond which bureaucratic complexity may set in. In the Burundian banking environment, it appears that scale continues to offer net benefits in terms of both resource mobilization and client reach. The data suggest that strategic growth may still be a viable path to improved profitability in this emerging market.

***Liquidity and Its Infl*uence on Performance:** Lastly, the liquidity ratio, measured by the total loan-to-deposit ratio, showed a positive and statistically significant impact on ROA at the 1% level. This implies that banks which actively convert deposits into loans—without compromising stability—can earn higher profits. This finding supports the Liquidity Preference Theory (Keynes, 1936), which emphasizes the need for a balance between liquidity and earnings. In developing countries, excess liquidity often reflects risk aversion or limited lending opportunities. However, in this study, banks that utilized deposits effectively to issue performing loans saw improved returns. This aligns with empirical studies conducted in West Africa by Ouedraogo (2022), who emphasized that controlled liquidity expansion is a source of sustainable profit for well-managed banks.

Summary of Key Findings

Capitalization, operational efficiency, bank size, and liquidity all exert statistically significant effects on bank profitability in Burundi; Asset quality, although positively associated with ROA, was not statistically significant, possibly due to uniformity in provisioning and risk policies; Internal determinants explain more than 95% of the variance in financial performance, affirming their strategic importance in bank management. These results contribute significantly to the literature by providing localized, data-driven evidence from a low-income country's banking system. They not only affirm trends observed globally but also reveal the unique operational dynamics of Burundian banks, thereby offering practical insights for policymakers, bank managers, and financial regulators.

1.7 Conclusion

This study set out to examine the impact of internal determinants on the financial performance of commercial banks in Burundi over the period from 2018 to 2023. Using panel data from seven commercial banks and employing multiple regression analysis through SPSS software, the research established that four out of the five internal variables—capitalization, operational efficiency, bank size, and liquidity - have a statistically significant influence on bank profitability, measured through Return on Assets (ROA). Among these, capitalization emerged as a critical predictor of financial performance, affirming that well-capitalized banks are better equipped to manage financial shocks, sustain credit operations, and maintain market confidence. Likewise, liquidity was found to play a vital role in profitability, highlighting the importance of a bank's ability to balance short-term solvency with long-term earnings. Bank size, as anticipated, exhibited a positive correlation with performance, indicating that economies of scale continue to benefit larger institutions operating in Burundi. Perhaps the most striking result was the negative and significant impact of operational inefficiency, which reaffirmed the need for cost discipline in the pursuit of financial sustainability. On the other hand, asset quality, though theoretically relevant, did not exhibit a statistically significant effect. This suggests a potential uniformity in credit management practices among Burundian banks or the existence of other latent variables not captured in the model. It also opens the door for future research to explore alternative measures of asset risk or to disaggregate loan portfolios for a more nuanced analysis. Overall, this study confirms that internal, management-controlled factors are powerful drivers of bank profitability, and that improving internal practices is essential for strengthening institutional resilience, particularly in a developing country context such as Burundi. The findings contribute to the growing body of empirical literature on bank performance while offering localized insights to guide institutional reforms and strategic decision-making within the financial sector.

1.8 Recommendations

Based on the findings, the following recommendations are proposed to enhance the financial performance of commercial banks in Burundi:

a. **Strengthen Capital Structures**: Banks should prioritize building strong equity reserves through retained earnings and strategic recapitalization. This will improve their risk-absorbing capacity and align with evolving regulatory requirements under Basel III frameworks.

b. **Enhance Operational Efficiency**: Bank managers must adopt robust cost control strategies, including the integration of digital technologies to reduce overhead, streamline service delivery, and improve transaction processing. Operational audits and performance benchmarking can also identify inefficiencies and promote corrective action.

c. **Leverage Scale for Growth**: As size positively influences performance, banks should explore sustainable expansion strategies, including mergers, branch expansion, and diversified product offerings, while avoiding the inefficiencies that can arise from over-expansion.
d. **Optimize Liquidity Management**: While liquidity enhances stability, idle funds reduce profitability. Banks should deploy strategic asset-liability management tools to balance liquidity needs with income-generating investments, especially in creditworthy loan products.
e. **Review Credit Risk Metrics**: Given the non-significant role of asset quality in this study, banks and regulators should revisit how credit risk is measured and managed. There may be value in adopting dynamic risk-scoring models and segmenting loan types for closer monitoring.
f. **Policy and Regulatory Support**: The Central Bank (BRB) should support banks through training on best practices in internal governance, while also encouraging transparency and competition that incentivizes sound financial management.
g. **Future Research Directions**: Further studies should incorporate external macroeconomic variables such as interest rates, inflation, and GDP growth, which could provide a more holistic view of bank performance dynamics in Burundi. Additionally, comparative regional studies could position Burundi within the broader East African financial landscape.

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