



Regional Bank Establishment and Deposit Mobilization in Ethiopia

A thesis submitted to the Graduate program of Management and the College of Business and Economics of Addis Ababa University In partial fulfillment of the requirements for the Degree Master of Science in Management

By

Tadios Alemayehu (GSE/3643/09)

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Declaration

I, Tadios Alemayehu, declare that this paper entitled “Regional Bank Establishment and Deposit Mobilization in Ethiopia”, is the outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of my Advisor.

Tadios Alemayehu

Signature _____

Date _____

Approval Sheet

This thesis, by Tadios Alemayehu, is accepted in its present form by the board of examiners as fulfilling for Department of Master of science in Management: Regional Bank Establishment and Deposit Mobilization in Ethiopia”.

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Date

Acknowledgement

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List of Abbreviations and Acronyms

DM:	Deposit Mobilization
CD:	Certificate of Deposit
ROA:	Return on Assets
ROE:	Return on Equity
GDP:	Gross Domestic Product
WDI:	World development Indicator
FMOLS:	Fully Modified Ordinary Least Square
CPI:	Consumer Price Index
CSA:	Central Statistical Authority
NBE:	National Bank of Ethiopia

Abstract

The objective of the study was to assess Regional Bank Establishment and Deposit Mobilization in Ethiopia. More specifically, to find out the role of government policy on deposit mobilization in Ethiopian banking industry, to identify the effects of political instability, and ethnic based bank establishment on deposit mobilization in Ethiopian banking industry. Descriptive research design was employed. The sample size of this study was 370. This study used a statistical analysis program called Statistical Package for the Social Sciences (SPSS – Version 23). This study found that the government policy and financial system of Ethiopia is not facilitating deposit mobilization in the private bank of the country. Establishing, and naming of private banks in Ethiopia with the name of a specific ethnic group, the result showed that these kinds of trend have adverse consequences. This study recommended that when private banks are established, they should consider non ethnic based establishment to mobilize deposits as much as possible.

Key words: Regional Banks, Deposit Mobilization, Ethnicity Based Banks, Bank Establishment, Private Banks, Banking policies

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CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. Deposit mobilization is an indispensable factor to increase the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy. The Commercial Banks must tap deposits from urban and rural areas. This helps the banks to provide large amount of funds to priority sectors for development. The success of the banking greatly lies on the deposit mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund. Mobilization of rural savings is one of the important objectives of the Commercial Banks. It helps to expand banking operations (Rajeshwari, 2014).

The saving and investment process in an economy is organized around a financial framework which facilitates economic growth. A well designed financial system promotes growth through effective mobilization of savings and their allocation to the most productive uses by either following a centralized approach or a decentralized approach or a combination of both. Typically, economies with underdeveloped capital markets adopt a centralized approach whereby financial intermediaries mobilize resources from savers and allocate them to borrowers. Traditionally, banks have played a curtail role in the financial intermediation process as they are able to deal more appropriately with transaction costs and information asymmetries in a financial system. As financial markets develop, transaction costs and information asymmetries reduce, the decentralized approach for guiding the saving-investment process also gains significance and household with surplus resources increasingly invest in capital market instruments. According to Katherine (2004) financial sector is broad which consists of the banking sector and other financial institution (such as insurance corporations and pension funds, brokers, public exchange and securities markets etc.), however in the context of African continent the banking industry carries the greater share of the financial system. Banks have historically been viewed as playing role in financial markets for two reasons. One is that they perform a critical role in facilitating

payments. Commercial banks, as well as other intermediaries, provide services in screening and monitoring borrowers; and by developing expertise as well as diversifying across many borrowers, banks reduce the costs of supplying credit.

In their role as lenders, banks are often not merely buying someone's debt, rather they are providing noteworthy financial services associated with extending credit to their customers and to the extent that investors want to hold banks liabilities, banks can fund borrowers directly. The main providers of additional financing are domestic commercial banks (Herald and Heiko, 2009).

Commercial banks are moneymaking financial institutions that give financial service to those in need of the service. They accept money from the depositors and lend it to the borrowers. Thus for commercial banks to lend, there have to be deposits in their treasury. According to Mohammad and Mahdi (2010), monetary resources of banking systems are naturally provided from people's deposit. Therefore, we can say that deposits are the most important resource of commercial banks. Thus the amount of deposit a commercial bank should have at hand should be enough to make the bank involve in the market and to satisfy the financial needs of its customers. Now a day, commercial banks are managing their deposit to fulfill the need of their customers. However, their managing systems for the deposits are being affected by some exogenous and endogenous factors (Desinga, 1975).

Mobilizing deposits is one of the essential issues in developing countries as domestic funds provide cheap and reliable source of funds for development, which is of great value to these countries, especially when the economy has difficulty raising capital from international donors, investors and markets. Yet, in many developing countries, there is a considerable amount of savings that are not intermediated through the formal sector particularly there exist significant savings potential in the rural (and/or semi-urban) sector of many developing countries.

This study has tried to investigate the government policy, political instability, ethnic based bank establishment, institutional capacity on deposit mobilization of banking industry in Ethiopia.

1.2.Statement of the problem

So far, some Ethiopian studies have investigated the major determinates of deposit mobilization in Ethiopian Banking industries. For instance; Kibebe (2016) assessed determinants of commercial banks deposit mobilization evidence from private commercial banks in Ethiopia. The research tried to determine factors that affect deposit mobilization, the associated costs of deposit mobilization in private banks. Similarly, Sisay (2013) factors affecting deposit mobilization in private commercial banks in Ethiopia.

Even though the determinants of commercial banking in Ethiopia studied frequently, factor such as ethnic based establishment are not studied. Based on the pre assessment interviews conducted by the researcher, ethnic based establishment and other variables of this can impact the deposit mobilization of private commercial banks in Ethiopia. However, to the best knowledge of the researcher, factors like government policy, political instability, ethnic based bank establishment, institutional capacity on private commercial banks have not been investigated in the banking industry of our county. Therefore, this study would fill this research gap through conducting a study on these selected factors on the deposit mobilization.

1.3.Research Questions

This research has tried to answer the following research questions:

- What is the role of government policy on deposit mobilization in Ethiopian private banking industry?
- What is the effect of political instability on deposit mobilization in Ethiopian banking private industry?
- Does ethnic based bank establishment affect deposit mobilization in Ethiopian private banking industry?
- To what extent Institutional capacity affect deposit mobilization in Ethiopian private banking industry?

1.4.Objectives of the study

1.4.1. General Objective

The general objective of the study is to assess the influence of selected factors on deposit mobilization in Ethiopian banking industry.

1.4.2. Specific Objectives

More specifically, this research has tried to:-

- Find out the role of government policy on deposit mobilization in Ethiopian banking industry.
- identify the effects of political instability on deposit mobilization in Ethiopian banking industry
- assess the effect of ethnic based bank establishment on deposit mobilization in Ethiopian banking industry
- investigate the influence of Institutional capacity on deposit mobilization in Ethiopian banking industry

1.5.Scope of the study

This study assessed the influence of regional bank establishment on deposit mobilization in Ethiopian banking industry. However, the study was delimited on private banks. Geographically, the study is delimited on head offices of these banks in Addis Ababa.

Conceptually, the study was only focused on assessing only the impact of selected factors. Therefore, it excluded other factors.

1.6.Significance of the Study

Since this study assesses the impact of ethnicity based establishments of private banks on deposit mobilization, these banks will be benefited in terms of identifying the factors affecting the deposit mobilization process of the bank and enables them take proper adjustments to alleviate such problems and other private banks to be established can also be benefited to adjust their conditions and establishment bases.

Additionally, the findings of this study can be used as an input for various scholars, who are want to make further studies on similar issues or area.

1.7.Organization of the Thesis

The thesis has five chapters. The first chapter is the introduction part which introduces the background, problem statement, objective, research question, significance, scope and organization of the thesis. Chapter two will be dedicated to review of related literatures which cover issues related to deposit mobilization and factor affecting it. Chapter three is dedicated to research methodology which will present the approach (design), data type and sources, methods and instruments of data collection and analysis. Chapter four will thematically presents the data results of the study. It also includes discussion of the key findings of the research. The Fifth Chapter will address the conclusion and recommendations.

CHAPTER TWO

2. RELATED LITERATURE

This chapter presents literature review which is prepared in two parts, the first section presents the theoretical literature, and the second part presents empirical literature and the last part presents conceptual frameworks. In the theoretical review part the theories that states about the bank's deposits and the other variables that are claimed to affect it will be discussed. The empirical literature part discusses past studies that were conducted on the area of factors determining banks deposits.

2.1.Theoretical Literature Review

2.1.1. An overview

Deposit mobilization is at the heart of banking sector. Financial sector mainly constitute financial markets and financial institutions. A financial market is a market in which financial assets (securities) such as stocks and bonds can be purchased or sold. Financial markets, thus, facilitate the flow of funds and thereby allow financing and investing by households, firms and government agencies (Madura, 2011). Examples include commodity markets, money markets and capital markets. Financial institutions (intermediaries) are institutions that provide financial services for their customers. They play an important role in the economy because they provide liquidity services, promote risk sharing and also solve information problems thereby allowing small savers and borrowers to benefit from the existence of financial markets.

Based on their nature, financial institutions can be separated into: the first one is depository institutions (e.g. commercial banks, savings institutions, credit unions) that obtain funds mainly through deposits from the public; and, the second is non-depository institutions (e.g. finance companies, mutual funds, securities firms, insurance companies, pension funds) that finance their investment activities from the sale of securities or insurances. Commercial banks are the most dominant depository institution. They serve investors by offering a wide variety of deposit accounts, and they transfer deposited funds to deficit units by providing direct loans or purchasing debt securities. Commercial banks serve both the private and public sectors, as their deposit and lending services are utilized by households, businesses, and government agencies.

2.1.2. Commercial Bank Deposits

Kelvin (2001) argued that deposits of commercial banks account for about 75% of commercial banks liabilities. Commercial banks keep lending as long as they possess adequate deposit. Therefore, banks will be better off if they are mobilizing more deposits. However, as (Desinga, 1975) indicates deposit mobilization is a very difficult task. The cost of intermediation for mobilizing deposits is also very important part of overall intermediation cost of the banking system as (Shaw 1995) indicates. In spite of the difficulties, deposits play an important role not only to the banking sector but also the overall economy.

Financial performance of most of the commercial banks in one way or the other related to the deposit it managed to be mobilized. Deposits provide limits to the working capital of the bank. The higher the deposit, the higher will be the funds at the disposal of a bank to lend and earn profits. Therefore, to maximize its profit the bank should increase its deposit. Deposits is a foundation up on which banks thrive and grow and deposit is unique items on a bank's balance sheet that distinguish them from other type of business organizations(Mahendra, 2005).

According to Meenakshi (1975) commercial banking is a service industry with a high degree of built in profit potential commercial banks mainly depend on the funds deposited with them by the public to lend it out to others in order to earn interest income. However, banks attract deposits by paying a risk free return to the savers. Interest expense is number one expense on the income statement of most commercial banks. If banks lose their deposit bases they rely on non-deposit based funding that is very expensive and consequently minimize the profit margin.

2.1.3. Types of Deposits Products

There are different types of deposit product. Deposit account is a savings account, current account or any other type of bank account that allows money to be deposited and withdrawn by the account holder. These transactions are recorded on the bank's books, and the resulting balance is recorded as a liability for the bank and represents the amount owed by the bank to the customer. Some banks may charge a fee for this service, while others may pay the customer interest on the funds deposited. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The following are most common type of bank deposit.

Demand Deposit: it consists of funds held in an account from which deposited funds can be withdrawn at any time without any advance notice to the depository institution. Demand deposits can be "demanded" by an account holder at any time. Many checking accounts today are demand deposits and are accessible by the account holder through a variety of banking options, including teller, ATM and online banking. Savings Account: is a deposit account held at a bank or other financial institution that provides principal security and a modest interest rate. Depending on the specific type of savings account, the account holder may not be able to write checks from the account (without incurring extra fees or expenses) and the account is likely to have a limited number of free transfers/transactions.

Time Deposit: time deposit or certificate of deposit (CD) held for a fixed-term, with the understanding that the depositor can make a withdrawal only by giving notice. A time deposit is an interest-bearing bank deposit that has a specified date of maturity.

2.1.4. Importance of Deposit mobilization

2.1.4.1. Source of investment

There are several sources of investment. Deposit is one source of capital for investment in an effort to allocate resources. Based on Ongore and Kusa, (2013), deposit mobilization intermediation function of banks play a dynamic role in the efficient allocation of resources of countries by mobilizing resources for productive activities. They transfer funds from those who don't have productive use of it to those with productive venture. States that, savings are resources which one decides to put aside for investment purposes and not for luxury. What people save, avoiding consuming all their income, is called personal savings. These savings can remain on the bank accounts for future use or be actively invested in houses, real estate, bonds, shares and other financial instruments.

2.1.4.2. Less cost

Since deposits have relatively low cost, it is the less risky source for investment. Shettar and Sheshgiri (2014) the success of the banking greatly lies on the deposit mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund. Savings are a source of funds with low financial costs i.e., interest costs, Compared to other commercial funds. With regard to financial costs, most of the

institutions apply a differentiated interest rate schedule, compensating for the higher administrative costs with no or low interest rates on small savings and increasing them according to the size of the deposit.

2.1.4.3. Source of profit

According to (Varman, 2005) the ability of a bank's management and staff to attract checking and saving accounts from business and individuals is an important measure of the bank's acceptance by the public. Deposits provide most of the raw materials for bank loans and thus represent the ultimate source of bank profits and growth. Deposits are an indispensable tool commercial banks use to enhance its profitability through advancing deposits mobilized to its customers in form of loans which make in return interest to commercial banks.

2.1.4.4. Economic Growth and Development

According to Ongore and Kusa (2013), in addition to resource allocation good bank performance rewards the shareholders with sufficient return for their investment. When there is return there shall be an investment which, in turn, brings about economic growth. On the other hand, poor banking performance has a negative repercussion on the economic growth and development. Poor performance can lead to runs, failures and crises. Banking crisis could entail financial crisis which in turn brings the economic meltdown.

2.1.5. The Effects of Poor Deposit Mobilization

According to Varman (2005) there are a number of effects that are brought about as a result of the poor deposit mobilization. these include; inability to disburse loans to qualifying members on demand, inability to meet operation costs, inability to service debts, unstable board of directors due to frequent reshuffle as disgruntled members vote officials out, quitting of members to competitors, and falsification of financial reports.

These can cause the voting out of elected officials on accusations of fraud, financial mismanagement practices. In addition, dissatisfied members can quit in large numbers to join alternative and emerging financial institutions for fear of losing their savings if the situation deteriorates.

2.1.6. The Determinants of Commercial Banks Deposits

Kelvin (2001) discussed the determinants of commercial bank deposit is classified as macroeconomic factors and micro economic factors that can affect the growth of commercial banks deposits. These factors are presented as follows:-

2.1.7. Macroeconomic Factors

The external or macro determinants are variables that are not related to bank management but reflect the economic and legal environment that affects the operation and deposit positions of Banks. The macroeconomic factors that can affect bank's deposit include factors such as; Deposit Rate, Exchange Rate, Inflation and Government Expenditure among others.

2.1.7.1. Deposit Rate

The main focus of every financial system is financial intermediary that is, mobilizing financial resources from the surplus sector and lend to the deficit outlets to facilitate business transactions and economic development based on the monetary and fiscal policy of the nation. The attraction for getting the deposit from the surplus sector is interest payment, which must be reasonable and acceptable to the owner of the money.

The classical theory of interest otherwise called the demand and supply theory of interest, maintains that the rate of interest is determined by the demand for and the supply of funds by businessmen and households respectively. The supply of funds is governed by the time preference and the demand for capital by the expected productivity of capital.

McKinnon (1973) argue that for the typical developing country, the net impact of a change in real interest rate on saving is likely to be positive. This is because, in the typical developing economy where there is no robust market for stocks and bonds, cash balances and quasi-monetary assets usually account for a greater proportion of household saving compared to that in developed countries.

2.1.7.2. Government Expenditure

Government expenditure refers to all monetary expenditure on goods and services made by the government on behalf of the community. It includes both recurrent and capital expenditure on

items like health, education, administration and so on. The recurrent expenditure refers to the expenditures that occur at regular intervals in the annual budget of the government. These expenses include expenditure on defense, administration and debt servicing particularly payment of interest on loans, road maintenance, and cost of health and education services.

Sahoo et al (2001) in the Indian case “accepts that “saving is the engine of growth. Expenditure that creates jobs ensures regular income and savings, hence, bank deposits increase. On the other hand, expenditure on investment such as importation of capital goods, development of institutional and infrastructure facilities which aid private sector investments may generate employment and multiplier on savings and output in the long run. Where the latter situation holds, all things being equal, deposit mobilization will increase”.

Generally, an Increase in government expenditure injects more money into the hands of the people and assuming no change in inflation and tax rates as well as demand for more goods and services, more income will be available for savings and deposits will increase accordingly. Also, where expansionary government expenditure leads to increase in domestic borrowing, interest rates on loans increase and all other things being equal, more deposits would be attracted.

2.1.7.3. Inflation

Commercial banks in their quest to boost deposits and increase self-sufficiency must analyze the behavior of depositors in a period of inflation. The latter is the persistent increase in the general price level for a specified period of time. Thus, it is a fall in the market value of money (purchasing power) as a result of persistent rise in prices. Real value of money declines resulting in benefit to debtors and loss to creditors”; from the monetarist point of view inflation is demand pull and an exogenous rise in money supply is the causality. In the short run an increase in money supply induces demand above supply of goods and services which causes prices to rise until the market adjusts to the equilibrium.

The structuralism, however, argues from the effect of changes in the socio-political, economic and institutional structures with the view to increasing growth in the economy of market failures”. Expresses the most popular view held by economists by characterizing on inflationary period as the period of uncertainty. Investors with surplus funds hold on to assets which can appreciate in value rather than money whose value are frequently eroded away. Empirical

evidence from Latin American countries as stated in the World Development Reports indicates that inflation is an implicit tax on depositors and has the capacity to reduce profits through low deposit rates. A strong correlation exists between real interest rates and inflation as both can impact on deposits and savings(Myers 2003).

2.1.7.4. Monetary Policy

Monetary policy to be a policy used by a government or central bank to influence the supply of money and credit in private hands, used for controlling inflation. In Ethiopia the government controls money supply through the central bank unlike in the United Kingdom where the Bank of England is independent of the government in pursuing monetary policies. The central bank being the main actor in this respect uses monetary tools such as reserve ratios, discount rates, and open market operations to control money supply and inflation in the economy. Control of money supply has a direct relationship with deposit mobilization and inflation control.

2.1.7.5. Exchange Rate

Exchange rates are quoted as foreign currency per unit of domestic currency or domestic currency per unit of foreign currency. Exchange rate allows denominating the cost or price of a good or service in a common currency. As Thomas's explanation, the term depreciation and appreciation is used to show the decrease and increase in the value of currency. Depreciations a decrease in the value of currency relative to another currency. Appreciations an increase in the value of a currency relative to another currency. The main factors that influence exchange rate are: inflation, interest rate, speculation, and change in competitiveness, balance of payment, government debt, government intervention and Economic growth / recession (Bishop, 2006).

According to (Nugel 2012) as currencies depreciated in one country deposit will be reduced since investors tend to withdraw deposit and exchanged to keep it by appreciating currency (Hard currency) or invest in another form of investment rather than bank deposit. For developing country in general saving is negatively correlated with unstable exchange rate.

2.1.7.6. Bank Specific Factors

The Bank specific factors are factors that are related to internal efficiencies and managerial decisions. Such factors include determinants such as Bank Profitability, Bank Liquidity, Bank Credit Risk and the like.

2.1.7.7. Bank Profitability

Various researchers have found return on asset to be significantly related to commercial banks deposit mobilization. The known measures of banks deposit performance over the years have been either based on return on assets or return on equity. However, in the measuring these performance, many researchers have argued for the return on assets (ROA) as against return on equity (ROE). According to (Hassan & Bashir 2003), “ROA shows the profit earned per dollar of assets and most importantly, it reflects the management's ability to utilize the bank's financial and real investment resources to generate profits. For any bank, ROA depends on the bank's policy decisions as well as on uncontrollable factors relating to the economy and government regulations.

Rivardand Thomas (1997) suggest that bank deposit performance is best measured by ROA in that ROA is not distorted by high equity multipliers and ROA represents a better measure of the ability of a firm to generate returns on its portfolio of assets”. ROE on the other hand, “reflects how effectively a bank management is in utilizing its shareholders funds. Since ROA tend to be lower for financial intermediaries, most banks heavily utilized financial leverage heavily to increase their ROE to competitive levels”.

Bank's Liquidity

Liquidity can be defined as a measure of the relative amount of asset in cash or which can be quickly converted into cash without any loss in value available to meet short term liabilities. The liquidity measure provides suggestions about the level of liquidity on which the commercial banks are operating.

Liquidity involves three elements or characteristics namely Marketability, Stability and Conservatism. Liquid assets should be more marketable or transferable. That means, they are expected to be converted to cash easily and promptly, and are redeemed prior to maturity. All

assets that cannot be redeemed at maturity are said to be illiquid. the fact that the prices of the former are fixed and have lesser variability than the prices and value of the later that experience considerable fluctuation.

Conservatism quality of liquidity refers to the ability of the holders of liquid assets to recover the cost of the asset on the time of resale. On the basis, common stocks are not considered highly liquid asset despite its ready marketability. This can be attributed to the fact that on certain periods, the current prices are lower than their initial or original prices. In consideration of these qualities, people and firms decide to hold cash which is the only perfectly liquid asset. Another quality of liquid asset is price stability. Based on this characteristic, bank deposits and short term securities are more liquid than equity investments such as common stocks and real estate's due to banking liquidity is the ability to meet obligations when they come due without incurring unacceptable losses.

2.1.7.8. Credit Risk

According to (Osie, 2015) institutional governance, ownership and reputation of the financial institutions is key factors for successful deposit mobilization. Prior to offering voluntary deposit services, Financial Institutions must ensure that they have the institutional structures that allow them to mobilize savings legally. "Institutional capacity requires that adequate governance, management, staff and operational structures are in place to provide savings services".

2.2. Empirical Literature Review

This section presents previous empirical studies on the determinants of commercial banks deposit mobilization and related studies in developed and developing countries like Ethiopia as well.

Zeynu (2007) has studied the identity based bank establishment affect banks' deposit mobilization and growth rate. This research has revealed that banks should not be established based on specific group characteristics such as; religion, ethnic identity, and etc.

Azmi and Haron (2006) this study investigates the structural determinants of deposits level of commercial banks in Malaysia, using counteraction techniques. The results suggest that determinants such as rates of profit of Islamic bank, rates of interest on deposits, Base Lending

Rate, Kuala Lumpur Composite Index, Consumer Price Index, Money Supply and Gross Domestic Product have significant impact on deposits. We also find that in most cases, customers of conventional system behave in conformity with the savings behavior theories.

This is a seminal work, which attempts to identify factors that influence depositors' behavior in Malaysia. Both financial and economic variables are introduced and their long- and short-run relationships examined using counteraction techniques. We consider in our analysis a number of factors that have been identified in the economic literature as potential determinants of savings.

The past models for banks deposit have been further developed in recent times and empirically tested worldwide. Many empirical studies have estimated the effects of various economic and demographic variables on bank deposit in cross-country, using time series and panel data samples. The literature suggests that there are a number of factors that crucially determine the commercial banks deposit including Interest Rate, Inflation, Gross Domestic Product(GDP), Equity to Asset ratio, Liquidity ratio or Liquidity risk, Loan to Asset ratio or Credit risk, Return on Asset or ROA and Bank size. The significance of each factor, however, differs across group of countries, countries, and time period.

This includes rates of return, inflation, money supply and GDP. New variables, namely base lending rate and composite index were introduced as a factor believed to have an influence on the level of deposits in Malaysia. In most cases, the behavioral patterns of Malaysian depositors are in conformity with the existing saving theories. However, there are also deviations from these theories. For example, both inflation and returns on deposit are supposed to have a positive relationship but this study found otherwise. Similarly, instead of an inverse relationship, both composite index and money supply have positive sign with savings account. For each of the deviation found, an explanation has been put forward. Finally, this study does not differentiate the behavioral pattern of different classes of depositors. It is interesting to examine whether different types of depositors have the same long-run influencing factors. In view of this, we will focus this subject matter in our future research agenda.

Siaw &Lawer (2015) the study investigates the influence of selected macroeconomic and financial level variables on bank deposits in Ghana. It specifically examines the dynamic effect of deposit interest rate, inflation, monetary policy rate, growth of money supply and stock prices

on the level of bank deposits. The dataset for the study consisted of quarterly data spanning the years of 2000 to 2013 gathered from the Bank of Ghana monetary time series database and the World development Indicator (WDI) database. Employing a Co-integration analysis and Fully Modified Ordinary Least Square (FMOLS), both short and long run elasticity's of the model are estimated. The short run effects of a change in the independent variables on bank deposit were found to have the expected influence on bank deposits. However, only inflation and growth of money supply variables were found to be significant in explaining the short run dynamics of bank deposit.

A change in the growth of money supply produced a negative sign as expected by the model and a change in CPI also produced a negative impact on bank deposit, which conforms to theory. The study results also reported a significant speed of adjustment (error correction term) with the sign of the error correction factor indicating that the variables share a common trend in the long run, and that approximately 15 per cent of any disturbances in the model is corrected every year.

The results also revealed that the saving pattern of the Ghanaian depositor conforms to existing theories, although there were some deviations. The study found that inflation as a measure of consumer price index (CPI) negatively impacts on bank deposits in both the short run and long run. This means that in periods of high inflation, economic agents, both households and firms are forced to supplement their expenses by drawing from the bank accounts, hence a reduction in bank deposits.

It is therefore imperative for banks to adopt some promotional campaigns and other prudent measures to curb the adverse effects of inflation on deposits. In anticipation of inflation, banks could adjust their deposit interest rate in some high volume deposits in order to minimize the level of leakages (withdrawals) from the bank's vaults. Again, the growth of money supply was found to have both negative and positive impacts on the level of bank deposits in the short and long run.

However the long run positive effect of growth of money supply on bank deposits was found to far outweigh the negative effect in the short run. It is however also important that the bank curbs the level of withdrawals in the short run when there is an increase in money supply. On the macroeconomic level also, this result serves as a tool to the policy makers, especially the Central

Bank in its monetary policy. Thus, if the bank of Ghana wants to reduce the level of loan advancement by commercial banks in the short-run, it could achieve this by implementing a contractionary policy through decreases in money supply. This results in excess demand for money which increases the cost of loanable fund, hence a reduction in people's willingness to acquire or take bank loans all things being equal.

Osei, (2015) Panel least regression with fixed effects has been used for analysis. The equity to asset ratio also known as the capitalization of the rural banks was found to negatively insignificantly influence rural banks deposit accumulation meaning a rise in capital requirements might lead to lower levels of deposit and vice versa. Again, the results indicated that liquidity ratio thus cash and due balances held at other financial institutions to total assets is positively correlated with rural banks deposit growth rate. This suggests that as liquid assets of rural banks increases deposit mobilization also increases and vice versa.

The coefficient of loan to asset ratio is positively and significantly related to rural banks deposit mobilization. A rise in the loan portfolio of the bank has a significant impact on the banks' ability to attract deposit from the general public and in the same vein a reduction in loan portfolio can reduce a banks deposit growth rate. Most deposit customers of rural banks have the desire to contract loans from the bank they save with after a certain point in time. The banks failure to meet this expectation will cause a sense of disappointment in the customers and hence may stop contributing or saving with the bank. However, the banks ability to deliver on its promises of providing loans to the clients has the potency of attracting several deposit customers.

Return on asset, representing profit before interest and tax, was found to have a negative relationship with bank deposit mobilization but the relationship is however insignificant. An increase in profit leads to a decrease in rural deposit mobilization while a decrease in deposit mobilization can be attributed to fallen profitability. The insignificant nature of this fact could be due to the fact that in Ghana, the customers of rural banks are not ways better informed about the financial performance of a rural bank. Besides rural depositors do not see any motivation in rural banks profit since they are not the ultimate beneficiaries of the profits.

The coefficient of size (log of assets) is positive and significant, suggesting size is important in explaining deposit performance of rural banks, with this finding being consistent with most

studies of Western banks, where size has a positive influence on performance, which is often attributed to benefits achieved through economies of scale. But it is inconsistent with the results of (Shih et al. 2007) and (Lin and Zhang 2008). This result also agrees with (Sufien et al., 2008) that “log of total assets is a variable that measures bank size and is generally used to capture potential economies or diseconomies of scale in the banking sector”. Bigger banks are able to open branches at the convenience of depositors. As the rural bank gets closer to the people, more people are able to save.

Andinet (2016) the aim of this study is to examine factors influencing deposit mobilization in private commercial banks in Ethiopia. In doing so, the study adopted quantitative methods research approach using secondary data. The study had found variables that can affect the total deposits of the banks. Seven variables are regressed with the dependent variable i.e. total deposit. The explanatory variables are number of bank branches, deposit interest rate, liquid asset to deposit ratio, lagged value of bank deposits, net interest margin, inflation rate and economic growth (GDP). The data for these variables were collected from the respective private commercial banks’ financial statements, national bank of Ethiopia, central statistical authority and MOFEC of the sample year 2005 up to 2015. Different diagnostic test were performed to know whether the model is valid or not. All the tests were valid and eventually regression analysis was performed using E view statistical package. The result from regression analysis showed that number of bank branches, deposit interest rate, net interest margin and GDP were significantly and positively correlated with the explained variable. Lagged value of bank deposit was significantly and negatively correlated with total deposit. However, liquid asset to deposit ratio and inflation rate were insignificantly negatively correlated with bank deposit. Finally the study had recommended what should be done to mobilize more deposits.

Kibebe (2016) the research tried to determine factors that affect deposit mobilization, the associated costs of deposit mobilization in private banks. Therefore, the study adopts mixed approach to gather the data. The primary data is gathered using questionnaire. Sampling method of the primary data is purposive sampling technique. While the secondary sources of data were extracted from annual reports of all private commercial banks of Ethiopia, data from National Bank of Ethiopia (NBE) and from Central Statistical Authority (CSA). Regarding the secondary data, the study used time series data from 2000-2014 for analysis made using Classical linear

regression method. The study shows that, Age dependency ratio, Investment and money supply, are the most significant factors of deposit mobilization activity. The other variable such as Per capita income has insignificant power to influence the dependent variable. As a result, the study recommended that, Government should increase investment so as to promote economic growth to mobilize deposits since there exists a positive relationship between Deposit and Investment. And private banks ought to increase number of branches to mobilize more resources.

Shemsu (2015) this study aimed to identify and evaluate those factors affecting bank deposit in general by taking Commercial Bank of Ethiopia as evidence. Accordingly, the researcher adopts mixed research approach. Regarding to the qualitative data; questionnaire is used to gather information from the employees of commercial bank of Ethiopia particularly for those employees who actively participated in deposit mobilization tasks in CBE city branches. Regarding to the secondary data; time series data covering 1998 -2014 was analyzed. First, the time series data were assessed using descriptive statistics for the variables as well as the test for heteroskedasticity, autocorrelation and normality testing to know if the assumptions of CLRM violated or not.

Second, estimated model was a single regression equation with deposit as the dependent variable and explanatory variables as deposit interest rate, overall inflation rate, number of branch opening, gross domestic product, individual foreign remittance and dummy variable.

Dereje (2017) the purpose of this study is to investigate determinants of deposit mobilization in private commercial banks of Ethiopia using panel data of six private commercial banks from year 2002 to 2012. The study used both quantitative and qualitative research approach. Secondary financial data are analyzed using multiple linear regressions models for the six bank's deposit. Fixed or random effect regression model was applied to investigate the impact of bank branches, exchange rate, Real Gross domestic product, Capital Adequacy and Liquidity on private commercial banks deposits. Besides, the study used primary data analysis to solicit managers' perception towards the determinants of private commercial banks deposit mobilization. The empirical results from regression analysis showed that bank branches, exchange rate, and real gross domestic product affects deposit of the bank positively whereas, capital adequacy and liquidity affects the deposit of the private banks negatively. This implication show that better capitalized banks tend to create less liquidity that leads to mobilize

little deposit amount. On the other hand the feedback of respondents depicted that managerial efficiency, government policy, convenience of bank office, technology, bank size and awareness of savings by society affected deposit level of the banks significantly. Thus, management bodies of private commercial banks should strive to strengthen the identified significant factors and government bodies should also see the adverse effect of tight polices imposed on the existing private commercial banks as well as for the new entrant banks.

Giragn (2015) this paper then explores the theoretical as well as empirical analysis of those factors having an impact on deposit volume in banks and even assesses which ones are more significant or less significant. To do the practical investigation in terms of commercial banks in Ethiopia, the researcher collected the relevant data from annual reports of twelve years (2001/2-2012/13) and from questionnaires and interviews made to senior bank officers of seven banks. The data is analyzed through the econometric analysis using SPSS software.

The study reveals that the branch expansion, the money supply, the exchange rate of Birr to USD and general inflation are the most significant factors of deposit mobilization activity. The other variables-deposit rate and real per capita GDP growth rate have insignificant power to influence the dependent variable. In this research, as opposed to the conventional economic theory, the deposit rate is found to have negative relation against the deposit volume for the period under study. The study also exposes that the deposit mobilization activity is becoming challenging, its associated costs are escalating and the competition is also becoming stiff-the outcome of the competition favoring the big size state banks. Beyond that the government policies are also favoring the latter in an effort to mobilize huge fund for a national development activities. The research recommends that banks have to do much in branch expansion studying potential deposit areas.

Seyte et al (2018) studied to identify the determinants of commercial banks deposit in Ethiopia. The data covered the period from 2002-2016 for the sample of seven commercial banks in Ethiopia since the data is secondary in nature, the quantitative approach to research was used. Besides Hausman test was employed. Under this study, both internal and external factors were included. The internal factors used in this study include loan to deposit ratio, loan loss provision, capital adequacy, profitability, and branch expansion whereas inflation rate was from the

external factor. This study runs an unneeded random effects test using Hausman specification test. Hence based on the result fixed effect model was adopted.

The data were collected from the commercial banks' financial statements and national bank of Ethiopia, Both internal and external variables were analyzed by employing the balanced panel fixed effect regression model and the result of the study revealed that loan loss provision and loan to deposit ratio have negative and statistically significant impacts on deposit of Ethiopian commercial banks while profitability, capital adequacy ratio and branch expansion have positive and statistically significant impact on deposit.

2.3. Conceptual Framework

The following chart visually present dependent variable (Private Banks deposit mobilization) and independent (Government Policy, political Instability, ethnic based establishment and institutional capacity).

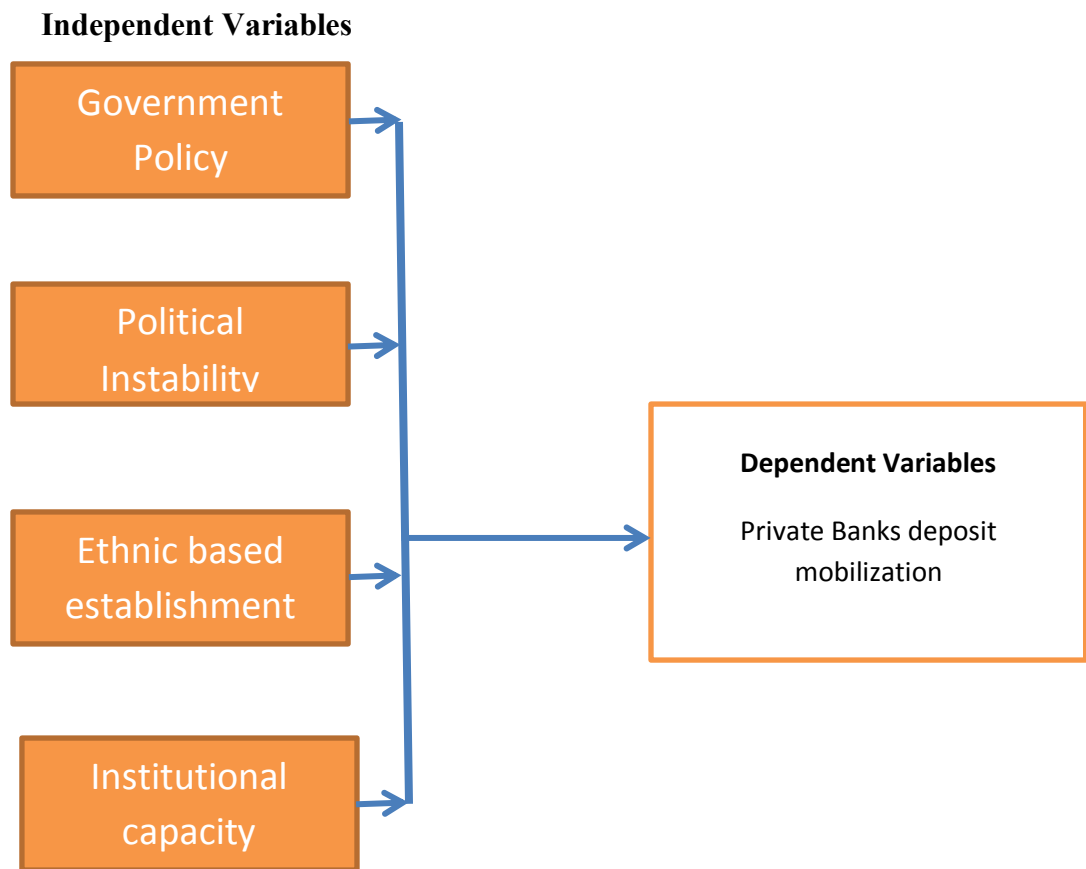


Fig 1: Conceptual Framework of the model developed for the study.

CHAPTER THREE

3. RESEARCH METHODOLOGY

This section presents research design used for this research, the type and source of data and the research design. It explains the type of data used for the study and the techniques employed in assessment of the factors that influence the mobilization of deposits, identifies the challenges facing commercial banks in deposit mobilization and offers recommendation.

3.1. Research Approach and Research Design

The study has assessed the influence of selected factors on deposit mobilization in Ethiopian private banking industry; therefore, descriptive research design was employed to assess qualitative dimensions of the study. Using descriptive quantitative and qualitative analysis, the researcher has hoped to address the research questions stated in chapter one.

3.2. Population of the study

The population for this study was private commercial banks in Ethiopia. From these banks the research focused on their head offices in Addis Ababa.

3.3. Sampling and sample size

The sampling method used in this study was purposive sampling technique. Purposive sampling was used to select the specific individuals from private banks who have access and knowledge about the issue being investigated.

The sample size was determined by Yamane (1967) is used. Based on the assumption of 95% confidence level and $P = .05$.

$$\text{sample size} = \frac{\text{Population size}}{1 + \text{Population size}(e)^2}$$

From the total number of above 5000 target population (staffs of private banks in Addis Ababa), a sample of 370 selected for disseminating questionnaire and conducting interview sessions.

3.4.Types of Data and Data Collection Mechanisms

Both primary and secondary data sources were used for this study to obtain relevant information and due to the presence of opinion issues, use of interviews, questionnaires and secondary sources (triangulation method) was applied to make the interpretations argumentative.

The primary data was collected from the staffs of private bank of Ethiopia (Managerial/Administrative and Non-Managerial employees) through questionnaire and interviews for triangulation purpose. The secondary data collection was conducted from newspapers, magazines, books, and scholarly journals, different published and unpublished documents from different sources.

3.5.Methods of Data Analysis

The gathered data through primary and secondary methods was summarized using tables, frequency distributions and percentage to get a summarized outcome. In addition both the open and close ended questions were separately analyzed by using a statistical analysis program called Statistical Package for the Social Sciences (SPSS – Version 23). The summarized data were also analyzed based on the theoretical frame work of the study to arrive in a meaningful conclusion and to give valuable recommendation.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

This chapter presents the data analysis of questionnaire and interview data and the interpretation of these analysis using various methods and statistical tools. These results are presented according to their order of appearance on the objective of the study.

Before the results are presented, it is good to present the reliability of the questionnaire in order to determine the consistency of the items in each scale. These item are presented below which consists of measuring government policy, political instability, ethnic based establishment, and institutional capacity on deposit mobilization. The results are presented below.

4.1. Reliability of the questionnaire

Table 4.1 Reliability of the questionnaire

No	Scale	Number of items	Chrombach's Alpha
1	Government policy	5	.784
2	Political instability	5	.861
3	Ethnic based bank establishment of banks	4	.820
4	Institutional Capacity	4	.809
Entire Scale		18	.831

As it is indicated on table 4.1 above Cronbach's coefficient alpha was calculated for each field of the questionnaire and the entire questionnaire. The values of Cronbach's Alpha show that all of the results are more than acceptable, which fall in the range between 0.7 and 0.95. The resulting range is considered high as the result ensures the reliability of each field of the questionnaire. More over Cronbach's Alpha for the entire questionnaire shows the value of 0.83 which falls in an excellent rage and it indicates reliability of the entire questionnaire. Therefore, based on the test, the results for the items are reliable and acceptable.

4.2. Demographic Characteristics of respondents

Table 4.2 Demographic characteristics of respondents

Characteristics		Frequency	Percentage (%)
Sex	Male	305	86.4%
	Female	48	13.6%
Age group	Less than 29 years	73	20.7%
	30 - 39 years	170	48.2%
	40 - 49 years	81	22.9%
	Above 50 years	29	8.2%
Marital Status	Married	227	64.3%
	Widowed	8	2.3%
	Divorced	29	8.2%
	Single	89	25.2%
Educational background	Certificate	0	0.0%
	Diploma	8	2.3%
	Degree	302	85.6%
	Master's degree and above	43	12.2%
Experience	less than 5 years	50	14.2%
	5 – 10 years	252	71.4%
	11- 15 years	36	10.2%
	Above 15 years	15	4.2%

Regarding the demographic characteristics of respondents, sex, age group, marital status, educational background and experience were used to describe the respondents' demography. Regarding the sex of these study respondents, 305(86.4%) of them were male while 48(13.6%) were female. This shows that male employees dominate the private banking sector in Ethiopia.

Concerning the age group of respondents, 170(48.2%) of them were in the age group 30 - 39 years, followed by 81(22.9%) of the respondents in the age group 40 - 49 years, and the remaining 73(20.7%) and 29(8.2%) of respondents were in the age group less than 29 and above 50 years respectively.

Regarding the marital status of respondents, more than half of the respondents 227(64.3%) were married and the remaining 89 (25.2%), 29(8.2%) and 8(2.3%) were single, divorced and widowed respectively.

The great majority of this study participants 302(85.6%) were degree holders while the remaining 43(12.2%) and 8(2.3%) were master's degree and above as well as diploma holders respectively. The majority of the respondents 252(71.4%) have an experience of 5 – 10 years.

4.3. Results of the questionnaire and interview

In this part descriptive statistics in the form of mean and standard deviation were presented to illustrate the level of agreement of the respondents with their implications of the company. The responses of the respondents for the variables indicated below were measured on five point Likert scale with: 1= strongly disagree, 2= disagree, 3 = neutral, 4= agree and 5= strongly agree. However, while making interpretation of the results of mean the scales were reassigned as follows to make the interpretation easy and clear.

This formula is adapted from (Vichea, 2005), with 5 point scales, the interval for breaking the range in measuring each variable is calculated by $5-1/5= 0.8$. It means items with scores fall between the ranges of: 4.20 – 5.00 are considered as strongly agreed; 3.40 – 4.09 as agreed; 2.60 – 3.39 as Neutral; 1.08 – 2.59 as disagree and 1.00 – 1.79 strongly disagree.

Interview results are also presented along with the results of the questionnaire. Data from questionnaires were processed by SPSS program in terms of frequency, mean, and standard deviation (Descriptive statistics).

4.3.1. Government policy on deposit mobilization

Table 4.3. Government policy on deposit mobilization

	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
Our county has banking policy which enable banks to mobilize deposits	1.9688	.90557	1.170	.130
The existing policy is pro deposit mobilization	2.0453	.76736	1.592	.130
The government facilitate fiscal policy and social spending	1.9972	.91235	.660	.130
The financial system in the county is well functioning and competitive	2.1218	.74955	.937	.130
Generally, the government has played its role in facilitating, encouraging, and monitoring deposit mobilization	1.9292	.84482	1.130	.130

Regarding the government policy and deposit mobilization, the above table shows that most of all of the statement fall in the disagreement range. This include; whether our county has banking policy which enable banks to mobilize deposits (mean 1.9688 and SD .90557), whether the existing government policy is pro deposit mobilization (mean 2.0453 and SD .76736), whether the government facilitate fiscal policy and social spending (mean 1.9972 and SD .91235), whether the financial system in the county is well functioning and competitive (mean 2.1218 and SD .74955) and lastly whether generally the government has played its role in facilitating, encouraging, and monitoring deposit mobilization (mean 1.9292 and SD .84482).

The interview results also show that most of the interviewed bank informants reported that the policy and bureaucracy of the government is hindering deposit mobilization of private banks. They have also added that government weakness to create good condition where private banks deposit mobilization thrives creates the greatest challenge.

These results imply that currently, the government policy and financial system of Ethiopia is not facilitating deposit mobilization in the private bank of the country.

Based on Ongore andKusa, (2013), deposit mobilization intermediation function of banks play a dynamic role in the efficient allocation of resources of countries by mobilizing resources for productive activities. They transfer funds from those who don't have productive use of it to those with productive venture. States that, savings are resources which one decides to put aside for investment purposes and not for luxury. McKinnon (1973) argue that for the typical developing country, the net impact of a change in real interest rate on saving is likely to be positive. This is because, in the typical developing economy where there is no robust market for stocks and bonds, cash balances and quasi-monetary assets usually account for a greater proportion of household saving compared to that in developed countries.

A financial market is a market in which financial assets (securities) such as stocks and bonds can be purchased or sold. Financial markets, thus, facilitate the flow of funds and thereby allow financing and investing by households, firms and government agencies (Madura, 2011).

4.3.2. Political instability on deposit mobilization

Table 4.4. Political instability on deposit mobilization

	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
There is a political stability in the country which facilitate deposit mobilization	1.9093	1.10923	.984	.130
The political instability of the county has negative consequences on deposit mobilization	3.9320	.91758	1.555	.130
The political stability of the county has direct relation with deposit mobilization of banks	3.9887	.99138	1.272	.130
Deposit mobilization is a direct product of political stability	4.0085	1.08577	.653	.130
Political stability has a strong role in deposit mobilization of banks	3.9972	.70509	1.422	.130

Regarding the political stability of the country and its impact on the deposit mobilization of private banking industry, all the items the result fall in the agreement level except the first item which states whether there is a political stability in the country which facilitate deposit mobilization (mean 1.9093 and SD 1.10923). the other items fall in the agreement level for instance; whether the political instability of the county has negative consequences on deposit mobilization (mean 3.9320 and SD .91758), whether the political stability of the county has direct relation with deposit mobilization of banks (mean 3.9887 and SD .99138), whether deposit mobilization is a direct product of political stability (mean 4.0085 and SD 1.08577) and political stability has a strong role in deposit mobilization of banks (mean 3.9972 and SD .7050).

The interview result also showed that political stability in the country can both facilitate and hinder the deposit mobilization of private banks in Ethiopia. When there is stable political situation, there will be higher deposit mobilization and vice versa.

These results imply that the political stability of the country has direct relationship with the deposit mobilization of private banks. Political stability can boost deposit mobilization efforts of the banks.

4.3.3. Ethnic based bank establishment of banks and deposit mobilization

Table 4.5.Ethnic based bank establishment

	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
Ethnic based establishment can negatively affect the deposit mobilization of banks	4.0085	.78149	-1.272	.130
Customers attitude about the ethnic based establishment can severely affect the bank	4.3428	.88793	-1.586	.130
Ethnically established banks can have lower deposit mobilization than those who don't	4.1360	.87170	-1.354	.130
Ethnic can affect the deposit mobilization of banks negatively	4.4844	.69936	-1.698	.130

Table 4.5 showed that the results for whether ethnic based establishment can negatively affect the deposit mobilization of banks (mean 4.0085 and SD .78149), whether customers attitude about the ethnic based establishment can severely affect the bank (mean 4.3428 and SD .88793), whether ethnically established banks can have lower deposit mobilization than those who don't (mean 4.1360 and SD .87170) and lastly whether ethnic based establishment can affect deposited mobilization of banks (mean 4.4844 and SD .69936).

The interview result also showed as the country is composed of many ethnic groups; ethnically established banks have little potential to mobilize deposit in the country. Even though there are many banks within Ethiopia which are ethnically established.

Therefore, this study has found that establishing, and naming of private banks in Ethiopia with the name of a specific ethnic group, the result showed that these kinds of trend have adverse consequences. These result showed that the best way to achieve highest deposit mobilization is through having ethnic free naming and service.

4.3.4. Institutional Capacity and Deposit Mobilization

Table 4.6. Institutional capacity

	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
The resources of banks has a positive impact on their deposit mobilization	4.1190	.83768	-.898	.130
The technical capacity of banks also play a significant role in banks' deposit mobilization	4.5269	.60770	-.905	.130
The capital of banks have influence on deposit mobilization	4.5552	.92191	-1.935	.130
Adequate governance and management of the bank can affect it's deposited mobilization	4.3513	1.12619	-1.816	.130

The above clearly showed that whether the resources of banks has a positive impact on their deposit mobilization (mean 4.1190, and SD .83768), whether the technical capacity of banks also play a significant role in banks' deposit mobilization (mean 4.5269 and SD .60770), the capital of banks have influence on deposit mobilization (mean 4.5552 and SD .92191), and adequate governance and management of the bank can affect it's deposited mobilization (mean 4.3513 and SD 1.12619).

These questionnaire results and interview results clearly shows that institutional capacity has a strong positive influence on the deposit mobilization of banks. In other words, banks with better institutional capacity have higher level deposit mobilization.

The structuralism, however, argues from the effect of changes in the socio-political, economic and institutional structures with the view to increasing growth in the economy of market failures". Expresses the most popular view held by economists by characterizing on inflationary period as the period of uncertainty. Investors with surplus funds hold on to assets which can appreciate in value rather than money whose value are frequently eroded away. Empirical evidence from Latin American countries as stated in the World Development Reports indicates that inflation is an implicit tax on depositors and has the capacity to reduce profits through low deposit rates. A strong correlation exists between real interest rates and inflation as both can impact on deposits and savings(Myers 2003).

Rivardand Thomas (1997) suggest that bank deposit performance is best measured by ROA in that ROA is not distorted by high equity multipliers and ROA represents a better measure of the ability of a firm to generate returns on its portfolio of assets". ROE on the other hand, "reflects how effectively a bank management is in utilizing its shareholders funds. Since ROA tend to be lower for financial intermediaries, most banks heavily utilized financial leverage heavily to increase their ROE to competitive levels".

4.3.5. Correlational results

Table 4.7. Correlational results

			Government policy	Political stability	Ethnic Based	Institutional capacity
Spearman's rho	Government policy	Correlation Coefficient	1.000			
		Sig. (2-tailed)	.			
		N	353			
	Political stability	Correlation Coefficient	.852**	1.000		
		Sig. (2-tailed)	.000	.		
		N	353	353		
	Ethnic Based establishment	Correlation Coefficient	.332**	.316**	1.000	
		Sig. (2-tailed)	.000	.000	.	
		N	353	353	353	
	Institutional Capacity	Correlation Coefficient	-.351**	-.178**	.219**	1.000
		Sig. (2-tailed)	.000	.001	.000	.
		N	353	353	353	353

** . Correlation is significant at the 0.01 level (2-tailed).

The Pearson correlation result showed that political stability and government policy has been found to be significantly correlated with $r = .852$ and sig ($p= 0.000$). Ethnic based establishment also found to have strong positive relation with government policy $r = .332^{**}$ and $p= 0.000$. The last category of institutional capacity has been found to be correlated negatively with government policy and political stability.

In conclusion, deposit mobilization is a very difficult task. The cost of intermediation for mobilizing deposits is also very important part of overall intermediation cost of the banking system as (Shaw 1995) indicates. In spite of the difficulties, deposits play an important role not only to the banking sector but also the overall economy.

Shettar and Sheshgiri (2014) the success of the banking greatly lies on the deposit mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost

effective source of working fund. Savings are a source of funds with low financial costs i.e., interest costs, Compared to other commercial funds.

According to Varman (2005) there are a number of effects that are brought about as a result of the poor deposit mobilization. these include; inability to disburse loans to qualifying members on demand, inability to meet operation costs, inability to service debts, unstable board of directors due to frequent reshuffle as disgruntled members vote officials out, quitting of members to competitors, and falsification of financial reports.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

This research has found the following conclusions

- The private banking industry in Ethiopia is dominated by male employee as compared to the female counterparts.
- This study has found that the government policy and financial system of Ethiopia is not facilitating deposit mobilization in the private bank of the country. Additionally, failure of government to create good condition where private banks deposit mobilization thrives creates the greatest challenge.
- This study found that political stability in the country can both facilitate and hinder the deposit mobilization of private banks in Ethiopia. When there is stable political situation, there will be higher deposit mobilization and vice versa. Therefore, political stability of the country has direct relationship with the deposit mobilization of private banks. Political stability can boost deposit mobilization efforts of the banks.
- This study has found that establishing, and naming of private banks in Ethiopia with the name of a specific ethnic group, the result showed that these kinds of trend have adverse consequences. These result showed that the best way to achieve highest deposit mobilization is through having ethnic free naming and service.
- This study has showed that institutional capacity has a strong positive influence on the deposit mobilization of banks. In other words, banks with better institutional capacity have higher level deposit mobilization.

5.2. Recommendations

Based on the results of this study, the following recommendations are forwarded

- The government should facilitate non ethnic bank establishment through designing and implementing policies and system to increase deposit mobilization of private banks.
- The country has to insure its political stability to increase the activities of its private banks as well as to boost its deposit mobilization effort
- When private banks established, they should consider non ethnic based establishment to mobilize deposits as much as possible.

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Appendix: Questionnaire

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS

The objective of this instrument is to gather the necessary data for assessing regional bank establishment and deposit mobilization in Ethiopian banking industry. Your genuine responses will help my research greatly. The data collected through this research will be solely used for academic purpose and it will not be disclosed for any third party for other purposes.

Thank You for your kind cooperation in advance!

General instruction: Please put a tick mark in the appropriate box.

Part 1: Socio- Demographic Information

1. Sex

Male

Female

2. Age group

Less than 29 years

30 – 39 years

40 – 49 years

Above 50 years

3. Marital Status

Married

Widowed

Divorced

Single

4. Educational background

Certificate

Diploma

Degree

Master's degree and above

5. How long have you been working in the organization

Less than 5 years

5 – 10 years

11- 15 years

Above 15 years

6. Position in the bank _____

Part 2: Questions Related to the Factors Affecting Deposit Mobilizing

A. Government policy on deposit mobilization

No.	Statements	Responses					
		1	2	3	4	5	6
1	Our county has banking policy which enable banks to mobilize deposits						
2	The existing policy is pro deposit mobilization						
3	The government facilitate fiscal policy and social spending						
4	The financial system in the county is well functioning and competitive						
5	Generally, the government has played its role in facilitating, encouraging, and monitoring deposit mobilization						

1. In your opinion, what is the role of government in facilitating deposite mobilization?

2. In your perspective, what should be the role of the government in relation to deposit mobilization?

B. political instability on deposit mobilization

No.	Statements	Responses					
		1	2	3	4	5	6
1	There is a political stability in the country which facilitate deposit mobilization						
2	The political instability of the county has negative consequences on deposit mobilization						
3	The political stability of the county has direct relation with deposit mobilization of banks						
4	Deposit mobilization is a direct product of political stability						
5	Political stability has a strong role in deposit mobilization of banks						

1. In your opinion, what is the role of political stability for deposit mobilization?

C. Ethnic based bank establishment of banks and deposit mobilization

No.	Statements	Responses					
		1	2	3	4	5	6
1	Ethnic based establishment can negatively affect the deposit mobilization of banks						
2	Customers attitude about the ethnic based establishment can severely affect the bank						
3	Ethnically established banks can have lower deposit mobilization than those who don't						
4	Ethnic can affect the deposit mobilization of banks negatively						

1. In your opinion, what is the relationship between ethnic based establishment of banks and their deposit mobilization?

D. Institutional Capacity and Deposit Mobilization

No.	Statements	Responses					
		1	2	3	4	5	6
1	The resources of banks has a positive impact on their deposit mobilization						
2	The technical capacity of banks also play a significant role in banks' deposit mobilization						
3	The capital of banks have influence on deposit mobilization						
4	Adequate governance and management of the bank can affect it's deposit mobilization						

1. In your perspective, what are the major roles of institutional capacity of banks in deposit mobilization?

Thank You for Your Kind Cooperation!