



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

DETERMINANTS OF COMMERCIAL BANKS DEPOSIT MOBILIZATION
EVIDENCE FROM PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY

KIBEBE GERAWORK JEMBERE

A thesis submitted to Addis Ababa University in Partial
Fulfillment of the Requirement for the Degree In
Msc. Program in Accounting and Finance

February 2016

Addis Ababa, Ethiopia

Declaration

I, the undersigned, declare that this thesis is my own and original work and has not been presented for a degree in any other university, and that all sources of material used for the thesis have been duly acknowledged, following the scientific guidelines of the institute.

Student's name: **KIBEBE GERAWORK JEMBERE**

Date _____

Signature _____

Confirmation

The thesis can be submitted for examination with my approval as an institute's advisors.

Advisor's name: Asmare Emerie (PhD)

Date _____

Signature _____

Statement of Certification

This is to certify that I, Kibebe Gerawork Jembere, have carried out this research work on the topic entitled “DETERMINANTS OF COMMERCIAL BANKS DEPOSIT MOBILIZATION EVIDENCE FROM PRIVATE COMMERCIAL BANKS IN ETHIOPIA” and that the work is original in nature and is suitable for submission for the reward of the Degree in Accounting and Finance.

Asmare Emerie (PhD)

.....	-----
Advisor	Signature	Date
.....
External examiner	Signature	Date
.....	-----
Internal examiner	Signature	Date

February 2016

Addis Ababa, Ethiopia

Acknowledgements

At the very onset, I need to praise Almighty God who has been helping me to complete my work as an achievement of my career.

My genuine gratitude goes to my advisor Dr. Asmare Emerie, for his constant and unlimited encouragement from the very beginning of this work and for his continued guidance and support in the course of this thesis work.

Further, I am deeply grateful to National Bank of Ethiopia staffs and officials for their invaluable help during data collection processes.

Finally, I would like to thank all respondents and informants for providing me the required information in the process of data collection, and I never forget all those who were sharing their brotherly advice and materials.

Table of content

Contents	pages
Acknowledgements	i
Table of content	ii
Acronyms	iv
List of tables	v
List of figures	vi
Abstract	vii
1. Introduction	1
1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objective of the Study	5
1.4 Research questions	6
1.5 Significance of the Study	6
1.6 Scope of the Study	6
1.7 Research Methodology	6
1.8 Organization of the study	7
Chapter Two	8
2. Literature Review	8
2.1. Theoretical Review	8
2.1.1 Major Types of Deposit products	8
2.1.2 The cost of Deposit mobilization	9
2.1.3 Importance of Deposit mobilization	9
2.1.4 The Effects of Poor Deposit Mobilization	10
2.1.5 Factors that affect deposit mobilization	11
2.1.5.1 External Factors	12
2.1.5.2. Internal Factors	15
2.1.6 Saving Mobilization strategy	20
2.2 Empirical Review	22
2.3 Conceptual Framework	24

Chapter Three	26
3. Research Methodology	26
3.1 Research Design	26
3.2 Data Collection Method	27
3.3 Sampling Techniques	27
3.4. Multiple Regression Model	28
3.5 Diagnostic test methods	29
3.5.1 The average value of error is Zero	29
3.5.2 Test for Heteroscedasticity	29
3.5.3 Test for Autocorrelation	30
4. Data Analysis and Discussion	32
4.1 Analysis of Quantitative Data	32
4.1.1. Test results for the classical linear regression model assumptions	33
4.1.1.1. Test for Heteroskedasticity	33
4.1.1.2 Test for Normality	33
4.1.2 Interpretations of the Regression Analysis	38
4.2. Analysis of Qualitative data	40
4.2.1 General information of Respondents	41
Chapter Five	52
5. Conclusions and Recommendations	52
5.1. Conclusions	53
5.2. Recommendations	53
References	Error! Bookmark not defined.

Acronyms

- DBE -Development Bank of Ethiopia
- SACCOs -Saving and Credit Cooperatives
- NGO-Non-governmental organization
- CBE- Commercial bank of Ethiopia
- NBE-National Bank of Ethiopia
- TB-Treasury Bill
- USD-United States Dollar
- G.C- Gregorian calendar
- GDP-Gross domestic product
- M2- Money supply
- IT -Information technology
- ACH -Bank's Automatic Clearing House
- ATMs -Automated Teller Machines.
- CLRM- Classical linear regression model
- NCBs -Nationalized Commercial Banks
- CSA -Central Statistical Authority
- ADR -Age Dependency Ratio
- PCI -Per Capita Income
- INV- investment
- DEPT - Total deposit of private banks
- OLS - Ordinary least squares

List of tables

Table 1. The expected signs of the variables	31
Table 2. Heteroskedasticity Test.....	33
Table 4. ARDL (1, 1, 1, 1, and 1) Co-Integration and long run Result (Dependent variable: TD)	38
Table 5. The most significant depositors of banks in terms of the size of deposits	43
Table 6. The type of deposit which has the most significant deposit volume.....	43
Table 7. Number of branches.....	44
Table 8. Incremental Bank branches.....	44
Table 9. The main reason of branch expansion.....	45
Table 10. The amount of deposit differ from branch to branch	45
Table 11. The difference in deposit mobilization among branches	46
Table 12. The volume of deposit mobilized grow year to year.....	46
Table 13. The reason for consistent growth of deposit	47
Table 14. Transaction costs affect the volume of deposit.....	47
Table 15. The cost of mobilizing deposits increasing year to year	48
Table 16. Factors that affect the volume of deposit mobilization.....	48
Table 17. Competition among local banks for deposit mobilization	49
Table 18. Reasons for stiff competition	49
Table 19. The competition with other private and government owned banks	50
Table 20. Highly competing your banks.....	50
Table 21. The main challenges of your bank	51

List of figures

Figure 1. Conceptual framework of the research	25
Figure 2. Rejection and non-rejection regions for Durbin-Watson Test.....	30
Figure 3. Normality test for residuals	34
Figure 4. Plot of CUSUM and CUSUM of square (stability taste).....	36
Figure 5. Akaike information criteria	37
Figure 6. Types and Total deposits of public and private banks for the fiscal year 2013/14.....	40
Figure 7. Total deposit growth tendencies of both public and private banks.....	41
Figure 8. Gender of the respondents	42
Figure 9. Experience of the respondents.....	42

Abstract

Deposit mobilization is a fundamental part of banking activity. (Banson, et al, 2012), well-defined that “mobilization of deposit for a bank is as essential as oxygen for human being” and “Deposits are the life blood of banking companies”. Hence, deposit mobilization is critical to Banks. 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.

Chapter One

1. Introduction

1.1 Background of the Study

Deposit mobilization is a fundamental part of banking activity. Mobilization of saving through intensive deposit collection has been regarded as the major tasks of banks.

According to (Banson, et al, 2012), *“Mobilization of deposit for a bank is as essential as oxygen for human being”*. Deposit mobilization is one of the main functions of banking business and so an important source of working fund for the bank. Deposit mobilization is the collection of cash or funds by a financial institution from the public through its current, savings, fixed, recurring accounts and other banks specialized schemes.

(Selvaraj & Kumar, 2015) State that, 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. The successful functioning of commercial banks depends on the extent of funds mobilized. Deposits are the life blood of banking companies. Deposits constitute a vital source of funds required for banking business. There are different types of deposits, with different maturity pattern carrying different rates of interests. Deposit mobilization is depending on the cost of deposits. Mobilization of deposits for a bank is as essential as oxygen for human being.

(Tuyishime, et al , 2015) ,also stated that, the role of banks in a financial market is that of a financial intermediary, which makes use of loan and deposit services to effectively channel the idle funds of the general public into valuable production and other investment projects helping people to reach their goals. It enables people to save for the future, invest in profitable business opportunities and to protect themselves against unpredictable shocks.

(Selvaraj & Kumar, 2015), also State that, Banks borrow and lend. They borrow money by accepting deposits from the public including members of the bank. Deposits are the life blood of a banking institution. For Banks, the amount of deposits is very important and therefore all banks

compete among themselves for mopping up deposits. The banks should introduce various deposit schemes so that these can attract a variety of people to suit their taste. The banks offer a number of deposit schemes to the public which include fixed deposit, saving deposit, current deposit and the like. The mobilization of resources through deposits helps the bank to meet the growing demands from various sectors of the economy namely, agriculture, small scale industry, weaker sections of the community and the like. “The quantum of deposits and growth rate in deposit figures shows the extent of public confidence that a bank enjoys”. It is the size of the deposits that largely decides the lending potential of a bank.

According to (Varman, 2005) Deposits are foundations upon which thrive and grow. They are unique items on a bank's balance sheet that distinguish them from other types of business organizations. The ability of a bank's management and staff to attract checking and savings 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 generate cash reserves, and it is out of the excess cash reserves a bank holds, that new loans are created. Important indicators of management effectiveness in any bank are whether or not deposited funds have been raised at the lowest possible cost and whether enough deposits are available to fund those loans the bank wishes to make.

According to (Nwanko, et al, 2013) savings mobilization and subsequent investment is the key to economic growth and development. According to (Laura E. et.al, 1999) At the level of the national economy, high levels of savings increase the amount of national resources and decrease the need to resort to foreign indebtedness in order to cover domestic investment and consumption demand. Numerous countries with low internal savings rates must borrow from abroad, which results in a debt service burden. This clearly underlines the importance of savings mobilization to sustain economic growth with national financial resources.

(Tareq, 2015) , stated that *“What is the use of savings when it is kept under the bed or in a pot underground?”* Probably this was reason behind the introduction of savings with financial institutions. In low income communities, most people prefer to save in undisclosed places; in the roof, pot, walls, underground or under a bed. Savings cannot be converted to investment when it

is kept under a bed. People need savings because of emergencies, opportunities (which are often unexpected), to pay for lifecycle events associated with death or marriage, and to smooth payments of their consumption needs. People mostly mobilize resources to develop their enterprises and well-being slowly over time. Financial services enable them to leverage their initiatives, to accelerate the process of building incomes as well as to provide asset and economic security. For the economy, institutionalized savings increase the amount of national resources and decrease foreign indebtedness needed for domestic investment and consumption demand. Countries with low internal savings rates borrow from abroad and create a debt service burden. This underlines the importance of savings mobilization to sustain economic growth with national financial resources.

According to (Zeidy, 1996) the low level of domestic saving is a typical feature of low income economies such as Ethiopia. It represents a key impediment to development as it limits investment and thereby growth. Domestic investment can be financed from both national and foreign savings. Low or stagnant national savings usually spurs external borrowing which through the debt service burden constrains future investment. But, since the international debt crisis of the early 1980s. Access to external borrowing has been sharply curtailed for a majority of developing countries. Without the alternative of domestic savings, this situation forces developing countries like Ethiopia to rely on donors' aid to finance a large part of domestic investment, a process fraught with enormous constraints. A number of causes are generally cited to explain the low domestic saving level of countries like Ethiopia.

According to (Zewdu, 2014) Currently, the Ethiopian financial sector consists of 3 public banks including the Development Bank of Ethiopia (DBE), 16 private banks, 14 private insurance companies, 1 public insurance company, 31 microfinance institutions and over 8200 Saving and Credit Cooperatives (SACCOs) in both rural and urban areas. The ownership structure of microfinance institution is mixed, with the big microfinance institutions partially owned by regional states, some by NGO's and some by private owners. The government-owned Commercial Bank of Ethiopia (CBE) is the dominant commercial bank and accounts for 70% of total assets of banks as of May 2013. The balance, 30%, is accounted by the other 15 banks. Unlike many government-owned commercial banks, CBE is relatively well run and profitable.

1.2 Statement of the Problem

One of the main objectives of financial institutions is mobilizing resources (in particular domestic saving) and channeling these to would-be investors.

Banks, the world over, thrive on their ability to generate income through their lending activities. The lending activity is made possible only if the banks can mobilize enough funds from their customers. Since commercial banks depend on depositor's money as a source of funds, it means that there are some relationships between the ability of the banks to mobilize deposits and the amount of credit granted to the customers. Thus, the main function of financial institutions of mobilizing funds from the surplus economic agents to the deficit economic agents is put to test in order to generate economic growth. However, the efficiency of performing this function depends on the level of development of the financial system. The finance literature provides support for the argument that countries with better/efficient financial systems grow faster, while inefficient financial systems bear the risk of bank failure. The efficiency of a financial system is gauged by how speedily and cheaply the financial system is able to channel funds from the surplus economic agents to the deficit agents for productive investments, while ensuring reasonable returns for the financial intermediaries. (Obamuyi, 2013)

According To (Zewdu, 2014), despite those encouraging changes in its structure, the Ethiopian financial sector is not diversified in terms of the type of institutions delivering the service and the type of financial products being delivered. The financial service is dominated by a cash based system. Moreover, there is no stock market and the financial market comprising the interbank money and foreign exchange markets as well as the bond and TBs market is at an infant stage accommodating limited amount of transactions.

Now a days, the Ethiopian Banks are developing strategies that enables them to mobilize deposit. But, the Commercial Bank of Ethiopia is aggressively increasing accessibility to far remote areas, increasing operational efficiency, and the government also making favors by giving some way of deposit mobilization such as issuance of bonds to mobilize funds that would be used for huge development projects such as Great Renaissance Dam, Condominium housing projects (Government plans to make every non-home owner citizens to have shelter). On top of this, every civil servant also Get his/her salary only from CBE. However, those who save to be

home owners and civil servant citizens are medium and low income groups. therefore, they cannot save in any other private banks because additional saving is beyond their capacity.

(Ruediger , 2011) , also stated that, highly negative real interest rates are fostering a decline in real growth in deposits in the banking system.

(Dagne, 2015), also affirmed that ,the government always is talking about non-inclusive services of private banks because of their small capacity and their profit motive .This pushes the government to become an active participant in the banking industry. In one way, the government is correct, but discouraging the private banks with rules and regulations is not the way to make them competitive.

On top of this, (Federal Negarit Gazette, 2013) under the proclamation number 780/2013, the finance intelligence center announced to control Anti-money laundry and Countering the financing of terrorism support. Banks also have obliged to take due diligence & identify the source of the wealth and funds of the customer when new customer account is opened and give information on every deposit and withdrawal beyond birr 300,000.00 and USD 15,000.00 this leads some persons to think as government is tracking their money. Therefore this is also being a big threat on deposit mobilization.

According to (Abay, 2010) , by sub-Saharan Africa standards, Ethiopia's rate of domestic saving has been very low. From 1997 to 2010, the average saving rate in low-income countries of the region was about 9 per cent, while it was about 19 per cent for middle-income countries. In the same period, the average saving rate of "fragile" sub-Saharan African states was 11.5 per cent, still significantly higher than Ethiopia's rate of 4 per cent.

1.3 Objective of the Study

The general objective of the study is to assess determinants of deposit mobilization in Ethiopian private commercial banks.

While the specific objectives are:

- ✓ To identify internal factors affecting deposit mobilization of private banks.
- ✓ To evaluate economic factors that determine deposit mobilization of private banks.

- ✓ To identify the major costs that are incurred by banks in relation with deposit mobilization.

1.4 Research questions

The research provides answer to the under listed research questions.

- ✓ What are the factors affecting the deposit mobilization activities of Private commercial banks of Ethiopia?
- ✓ What are the costs significantly influencing the deposit mobilization activity of private commercial banks?

1.5 Significance of the Study

The significance of the study has great contribution to the existing knowledge in the area of factors determining deposit mobilization in the case of private commercial Banks of Ethiopia.

The study is used to know factors affecting deposit mobilization and help banks to design and implement effective deposit mobilization strategies.

The other significance of this study is, to support further investigation on the area. Since, there are no sufficient studies conducted on this area, it will also help other researchers through revealing issues for further research.

1.6 Scope of the Study

From the entire financial sector operating in Ethiopia, the research covers particularly the activities of all privately owned commercial banks that are registered by NBE and are being operational is assessed through primary data during the study period where as to evaluate the effect of monetary and economic variables the study took 15 years of secondary data. The paper has covered exclusively the activities of Ethiopian private commercial banks.

1.7 Research Methodology

The researcher is used both primary and secondary data sources. For primary data collection method, the researcher uses all private Commercial Banks. The researcher also distributed questionnaires to selected head office and branch staffs of each bank using purposive sampling

technique. The questionnaires has a content of both open-ended and close-ended to capture the better the questions at hand.

For secondary sources, the researcher is applied fifteen consecutive years Annual Reports from 1999/2000-2013/14G.C. of all private commercial banks in Ethiopia and collected the reports issued by National Bank of Ethiopia, Articles, journals, books and previous research works relevant to this topic.

The detail research methodology is discussed in the third chapter of this study.

1.8 Organization of the study

The paper is organized into five chapters including the introduction part of the study. The first chapter states the background of the study, statement of the problem, the general and specific objectives of the study, the significance of the study, scope of the study and organization of the study. The second chapter incorporates the literature review part and it includes the theoretical and empirical literature review on commercial bank deposit. The third chapter demonstrates the methodology of the study. The sources of qualitative and quantitative data of the study are indicated. The multiple regression model of the study and methods of diagnostic tests is stated on the third chapter. The fourth chapter includes the analysis of the data and presentation of the output. Finally, in the fifth chapter the researcher completes the findings of the study, recommendations and the conclusion made.

Chapter Two

2. Literature Review

Literature Review is prepared in two parts, the theoretical part and the empirical part. The theoretical part includes the major types of deposits, the cost of deposit mobilization, Importance of deposit mobilization, the effects of poor deposit mobilization as well as factors that affect deposit mobilization. The empirical part evaluate past studies that were shown on the area of factors determining commercial banks deposits.

2.1. Theoretical Review

For a nation economic development, banks have an important place. Banking institutions from an important part of the money market and are vital in a modern developing society. Banking is the life blood of modern economy. It may truly be said that modern commerce is so dependent upon banking that any termination of banking activity, even for a day, would completely paralyze the economic life of a nation.

2.1.1 Major Types of Deposit products

A deposit account is a current account, savings account, or other type of bank account, at a banking institution 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 represent the amount owed by the bank to the customer.

According to (Islam & Ghosh, 2014) the Major types of deposits are:-

Checking accounts: - A deposit account held at a bank or other financial institution, for the purpose of securely and quickly providing frequent access to funds on demand, through a variety of different Channels. Because money is available on demand these accounts are also referred to as demand accounts or demand deposit accounts.

Savings accounts: - Accounts maintained by retail banks that pay interest but cannot be used directly as money (for example, by writing a cheque). Although not as convenient to use as checking accounts, these accounts let customers keep liquid assets while still earning a monetary return.

Term deposit: - A money deposit at a banking institution that cannot be withdrawn for a preset fixed 'term' or period of time. When the term is over it can be withdrawn or it can be rolled over for another term. Generally speaking, the longer the term the better the yield on the money.

2.1.2 The cost of Deposit mobilization

Deposits constitute a vital source of funds required for banking business. The components of deposit mix, such as fixed, current, and savings deposits, have their own risk-return profiles that affect the profitability of banks. Average cost of deposits, which is a percentage of interest cost to total deposits, can be used as an indicator for analyzing the cost or efficiency of deposits of banks and the banks' overall profitability. The higher the ratio, lower will be the productivity of funds management and vice versa. A lower ratio has a positive impact on the banks' profitability. (Shollapur & Baligatti, 2010).

2.1.3 Importance of Deposit mobilization

I. A source of investment

According to (Ongore & Kusa, 2013), Intermediation function of banks play a vital 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.

(Nwanko, Ewuim, & Asoya, 2013) States that, savings are resources which one decides to put aside for investment purposes and not for luxury. What people save, avoiding to consume 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.

II. Low cost

According to (Shettar & 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.

According to (Elser, Hannig, & Wisniwski, 1999) 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.

III. A 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.

(Tuyishime, Memba, & Mbera, 2015) also affirmed that, 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.

IV. Economic Growth and Development

According to (Ongore & 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.

2.1.4 The Effects of Poor Deposit Mobilization

According to (Khalayi, Ondiek, & Musiega, 2014) 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,

- 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.

2.1.5 Factors that affect deposit mobilization

According to (Ongore & Kusa, 2013), the performance of commercial banks can be affected by internal and external factors these factors can be classified into bank specific (internal) and macro- economic variables. The internal factors are individual bank characteristics which affect the bank's performance. These factors are basically influenced by the internal decisions of management and board. The external factors are sector wide or country wide factors which are beyond the control of the company

(Aftabi, Daneshvar, Karimbakhsh, Shadab, & Mortezaei, 2013) , also stated that, in a general classification, the factors affecting the banking resources can be divided into two categories: external and internal factors.

External factors are uncontrollable factors of bank management and factors such as inflation, money supply growth rate, National income, economic growth, GDP growth rates and central bank policy are included.

Internal factors can be categorized into service factors, financial factors, relationship and human factors, physical and institutional affiliation factors.

Service factors include:-

- Variety of banking services.
- The quality of banking services.
- Electronic banking services.
- Specialized skills of staffs.

Financial factors include:-

- Paid loans.
- The interest rate paid on deposits.
- Bonuses paid to depositors.

Relationship and Human factors:-

- Advertise.
- Bank employee's behavior and how they deal with customers.
- Appropriate informing and training customers.
- Proper individual characteristics of employees.

Physical conditions and factors:-

- Location of bank branches.
- Number of bank branches.
- Interior and exterior design and beauty of branches.
- Appropriate physical facilities.

Organizational affiliation factors:-

- Payment of staff salaries and social security.
- Organization of social security and pension benefits paid by the bank.

2.1.5.1 EXTERNAL FACTORS

I. Inflation

According to (Tareq, 2015) Inflation rate is considered to be an influential variable in saving mobilization. It has an adverse impact on the personal savings rate in the economy. The overall inflation rate of the economy has been considered as the interest rate for both sectors.

According to (Zeidy, 1996) Inflation reduces the real value of financial holdings, discouraging financial savings by inducing their holders to shift them into physical or real assets which are better store of value. Although this is true at a theoretical level there is no conclusive empirical evidence that negative real rates have an adverse impact on domestic savings.

(Ahlsweide & Schildbach, 2012), states as inflation accelerates, deposits become less attractive, depending on the interest rate. In this case, the assumption would be that as deposit interest rates rise, deposits would increase in principle as well. The narrower the spread between deposit rates and inflation, the less attractive it should be to hold deposits above the required level.

II. Government laws

A general lack of an appropriate legal, regulatory and prudent framework. This situation is a strong impediment to saving in that it undermines savers confidence and retains retail savings in informal financial system. It is generally accepted that informal systems fail to intermediate savings - in particular in to longer maturities and do seldom reward it financially. Conversely, the lack of an appropriate legal, regulatory and financial framework, prevents formal financial institutions from reaching small savers and Confines them to entities and enterprises sufficiently large for having a legal identity under the existing inadequate legal frameworks. (Zeidy, 1996)

According to (Mashamba, Magweva, & Gumbo, 2014) a lot of people have excluded themselves from the banking sector. They feel that physically handling their own money offers them a sense of control given the banking sector's recent history which has caused many a customer bouts of financial anxiety. Faced by the stimuli of both industry competition and regulatory pressure.

III. Economic Development

According to (Alipour, 2014) Banks as one of the key financial intermediaries play an important role in the communication between the owners of surplus funds and required groups to the resources to development and advance their economic activities. In fact, banks collect the surplus resources in the hands of people on the supply side of the money market and then allocate resources among different required sectors.

According to (Ongore & Kusa, 2013) Commercial banks play a vital role in the economic resource allocation of countries. They channel funds from depositors to investors continuously. They can do so, if they generate necessary income to cover their operational cost they incur in the due course. In other words for sustainable intermediation function, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. Good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis which have negative repercussions on the economic growth.

As (Zhang & Daly, 2013) mentioned GDP is one of the most commonly used macroeconomic variables to measure cyclical output effects within an economy where GDP is expected to influence numerous factors related to the supply and demand for loans and deposits. Favorable

economic conditions will effect positively on the demand for banking services, but may have either positive or negative influence on bank profitability levels. In general we expect a positive relationship between GDP and bank performance.

IV. Individual Income

(Nwanko, Ewuim, & Asoya, 2013), has stated that a tri-lateral relationship among savings, consumption, and income is the key determinant of the amount of personal savings. On the first side, given a certain income, the decision to buy goods and services negatively affects savings. Savings passively adjust to consumption and income. They represent a resource slack, buffering shocks in income and consumption desires.

(Tareq, 2015) Also stated that, Income is the most important factor that influence. Higher the income greater will be the ability to acquire temporary surpluses which can be deposited with the banks as well as the need to hold financial assets as a means of payments. It is evident that capacity of the poor to save is much higher than was anticipated. The individual savings behavior of the households not only depends on his income but also on the income of others.

V. Money Supply

According to (Al-Qudah & Jaradat, 2013), Money supply is a measure of the total amount of money in an economy. Money supply (M2) is the summation of currency in circulation, demand deposit, time deposit and saving deposit.

(————, 2009) Stated that, Money supply is the amount of money within a specific economy available for purchasing goods or services. The broad definition of money supply (M2+) is adopted which includes currency in circulation, demand deposits, quasi-money and foreign currency deposits. The money creating activities of the deposit money banks impact directly on money supply and given that the central bank is responsible for controlling money supply in an economy, it is important to evaluate the role of these banking institutions on the convergence process. Excess money supply, whether created though the direct or indirect channels, influences economic activity (growth) and may provide downside risks on macroeconomic stability, impacting negatively on inflation, interest rates and exchange rate.

VI. Investment

(Tuyishime, Memba, & Mbera, 2015) Stated that, the growth of any economy depends on capital accumulation, which in turn depends on investment and an equivalent amount of savings to match it. Two key issues for developing countries are how to stimulate investment and increase the level of saving to fund increased investment.

VII. Age Dependency Ratio

As (Hyung, 2013) pointed out, due to longer life expectancy and sustained lower fertility rate, characteristics which are seen in most developed and rapidly developing countries, old age dependency ratio is gradually increasing, implying lower saving rate. The youth-dependency thesis which argues that higher ratio of the youth in population distribution will induce lower saving rate. The presence of children also induces households to increase consumption and decrease saving.

(Loichinger, Hammer, Prskawetz, Freiburger, & Sambt, 2014) Stated, the most commonly used dependency ratios are the demographic young age and elderly dependency ratio. The young age dependency ratio relates the number of persons below the age of 20 to the number of persons aged 20-64, the old age dependency ratio the number of persons aged 65+. A large part of any population is usually economically dependent in the sense that a part of its consumption is financed through transfers from other persons. The dependent population consists most notably of children and retired elderly persons. A group of indicators which provide aggregate information on the extent of demographic change in a given society are economic dependency ratios. The needs of children are mainly covered through transfers from the parents, the needs of elderly persons mainly through public transfers from the population which is active in the labor market.

2.1.5.2. INTERNAL FACTORS

I. Information Technology

New technology is an essential feature of international banking systems, and yet there is a range of social, political and economic factors that can constrain the uptake and use of advanced technology in developing countries like Ethiopia.

According to (Banson, Sey, & Sakoe, 2012). Technology has become an intrinsic part of banking, making it easier and cheaper to develop and deliver financial services. As a consequence of the highly technological environment developed around the world in the banking industry, the expansion of distribution channels for financial services relies on a very complex network of partnerships. There is a tremendous opportunity for banking technology to connect lower-income citizens at reduced costs and bring millions of consumers to the formal financial marketplace through electronic channels.

According to (Alipour, 2014) in recent years, Advances in information technology in the banking industry have radically changed the banking practices and customers can do their banking activities as 24 hours. Internet banking allows customers through bank website have internet banking transactions as extensive and faster and less cost than traditional branches without restrictions of time and space. The speed of development of informatics industry causing major changes in the form of money and resources transaction systems in the areas of banking and new concept of banking has emerged as electronic banking.

According to (Zillur Rahman, 2015), Information technology (IT) and the internet have emerged as a dynamic medium for channeling transactions between customers and firms in virtual market places. Due to this, bank customers access their bank accounts, transfer funds, review transaction details, pay their bills online, and conduct transactions electronically virtually anytime and anywhere. Additionally, there are several other advantages of this, such as cost savings for banks and convenience for customers by 24/7 access to their account. In many cases however, both service employees and customers were averse to adopting new technology.

As (Al-Ajam & Nor, 2015), stated that Internet banking provides many benefits not only for banks, but also for customers. Customers can conduct financial activities from anywhere at any time. Ease of transactions and avoidance of queues and restrictive branch operating hours and internet banking is cheaper than traditional banking. At the same time, banks could provide lower cost financial services, and enhance customer satisfaction.

According to (Shereif Mahdi & Dawson, 2007) Worldwide, banks continue to invest heavily in IT, for example in telecommunications networks and SWIFT or Bank's Automatic Clearing House (ACH). They also link overseas branches with their headquarters in order to enable banks to communicate business effectively across the globe regardless of time and distance.

According to (Pramod, Li, & Gao, 2012), IT creates new opportunities for banks in the way they organize product development, delivery and marketing. Although IT has been used to improve regular banking activities such as speed transactions and database management, the threat of IT being used for illegal activities especially money laundering becomes both a practical issue and a research focus.

According to (Nelson, 1999) Technological innovations reduced both geographic and economic barriers to competition, and created an added dimension of uncertainty with in the industry Automated Teller Machines (ATMs) significantly reduced geographic barriers and helped banks better serve their customers.

According to (Malhotra & Singh, 2007) Bank deposits (Deposits) may influence the probability to adopt Internet banking. Banks that are less reliant on traditional sources funding may pursue a more aggressive overall business strategy, including the adoption of Internet banking. However, a positive relation between the deposits base and the decision to adopt electronic banking. A bank can generate Internet transactions if it has sizeable customer base. Banks oriented on client base (i.e. deposits of the bank) respond more actively to adoption of electronic banking and adopt new products quicker than the banks with a small number of deposits *ceteris paribus*.

Banks with relatively high expenses for premises and fixed assets (Expenses) may view adoption of Internet banking as a way to reduce expenditures devoted to maintaining a branch network. The adoption of Internet banking should appear more attractive to the banks experiencing higher fixed expenses. Thus, the expected sign for Expenses is positive.

II. Competition among Banks

Banks play a key role in improving economic efficiency by channeling funds from resource surplus unit to those with better productive investment opportunities.

According to (Zewdu, 2014) the entry of the private sector in the financial sector has created better opportunities for enhanced access to financial services in the country directly through their operations and indirectly through the spillover effect on public financial institutions. The emergence of private banks with the spirit of competition and emphasis on profitability has led to major shift in the focus of public banks towards a more profit oriented approach. The Government has restructured these banks granting full operational autonomy, recapitalizing them

and cleaning their balance sheets from bad debts accumulated in the previous socialist directed credit delivery system.

According To (Eshetu, Tesome, & Abebe, 2013), to enhance the role of banks in an economy, competition is an important driving force; without competition, it is improbable to bring about efficiency and foster financial sector development. In other words, insufficient competition may result in substantial social losses on account of higher price, higher transaction cost, lower credit supply, lack of innovation and poor service quality. Although competition has a positive effect on efficiency and economic growth, there are certain characteristics Intensive competition may lead to excessive risk taking by banks, which would result in deterioration of the quality of banks' lending portfolio and balance sheets. If banks suffer deterioration in their balance sheets and so have a substantial contraction in their capital, they will have fewer resources to lend, hence a decline in investment spending, and slower economic activity. If the deterioration in bank balance sheets is severe enough, banks will start to fail, and fear can spread from one bank to another. Depositors, fearing for the safety of their deposits and not knowing the quality of banks' loan portfolios, withdraw their deposits to the point that multiple bank failures occur, whose ultimate consequence would be severe contraction in economic activity. This suggests the need for some degree of market power in achieving stability and efficient allocation of resources in banking industry.

According to (Rakesh, Arun , & Varun, 2015) Competition is particularly important in banking sector as it invests the savings of a society. Banking competition is expected to remove cost inefficiencies and thus provide welfare gains and help in economic growth. Regulators are particularly interested in banking competition and central banks take measures to alter competitive levels for the greater good of the economy. Heightened competition should encourage banks to reduce operating costs and hence eliminate inefficiencies in the banking industry.

III. Saving Interest Rate

According to (Tareq, 2015) Interest rate on deposit has a profound impact on the savings mobilization. People deposit with the banks with the expectation of getting some return. Low interest rates discourage savings. In this model average interest rate has been taken. Interest rate for both urban and rural has been assumed to be the same.

According to (Khalai, Ondiek, & Musiega, 2014) Low rates of interest on deposits have always been an obstacle to savings mobilization. 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. The common peculiarity of monetary theories of interest is that the interest is a monetary phenomenon. And monetary theorists believed that interest rate varies inversely with supply of money and positively with the purchasing power (value) of money. The defenders of the monetary theories of interest argued that when supply of money increases, purchasing power (value) of money falls and, hence the rate of interest also come down.

(Mashamba, Magweva, & Gumbo, 2014) Stated that to encourage private savings, the real interest rates should be positive. Furthermore, innovative saving schemes and investment bonds should be introduced to mobilize resources. These savings are ultimately channeled to the productive sectors of the economy and this promotes economic growth. In light of this countries with repressed financial system find it hard to raise deposits as interest rates on deposits are controlled by the government, hence the need for financial liberalization. They showed that financial liberalization led to higher interest rates which equated the demand and supply of savings. The authors expressed their view that higher interest rates lead to increased savings and financial intermediation in improving the efficiency of savings and investment. The higher real interest rates increase the extent of financial intermediation which in turn raises the rate of economic growth in developing countries. The growth of any economy depends on capital accumulation, and this requires investment and an equal amount of saving to match it.

IV. Number of Branches (Accessibility)

In recent years and particularly with the entry of private banks into the era of activities we have been seen the fierce competition in the banking subsidiaries establishing that the situation has become more competitive edge. The number of branches can be influenced in the amount of bank deposits and banks are more successful in mobilizing resources that the number of its branches more than others. Today, an increasing number of bank branches and credit institutions and the development of its activities, the necessity for cooperation between banks in order to create harmony between requirements and economic development and the banks activities and

banking developments is felt. And banks play effective role in investment in the economic development and in productive. Increasing the number of branches and the increasing of the volume of the bank turnover nationwide, banking system became as a fundamental goal of economic development. (Alipour, 2014).

(Tareq, 2015), also stated that, Expansion of bank facilities increases the amount of aggregate savings in the economy. As volume of economic activities increases in a community the potentiality of establishing bank branches increases, which ultimately increases the level of voluntary savings of the households.

According to (Tegene, 2012) unrestrained access to public goods and services is an essential condition of an open and efficient society. It is argued that as banking services are in the nature of a public good, it is essential that the availability of banking services to the entire population without discrimination should be the prime objective of public policy of any country. Expectations of poor people from the financial system is security and safety of deposits, low transaction costs, convenient operating time, minimum paper work, frequent deposits, and quick and easy access to credit and other products, including remittances suitable to their income and consumption.

2.1.6 Saving Mobilization strategy

According to (Martin , 2013) financial institutions are actively pursuing innovations in areas such as mobile technology, information management, and agent distribution systems, which show promise of lowering the costs of servicing mass numbers of low-balance deposit accounts. Over the next several years the microfinance community will likely learn whether lowering transaction costs for both savers and providers not only increases access, but also facilitates greater and more effective use of savings accounts by poor people.

I. Transactions costs of clients

(Martin , 2013) states that,despite the expected long-term benefits of savings, using savings accounts may cost clients either directly (e.g. Travelling to a bank branch or paying user fees) or indirectly (e.g., the opportunity cost of undergoing financial management trainings). It has long been recognized that transportation costs in particular may be responsible for a large share of usage and uptake shortfalls

II. Transactions costs of providers

According to (Martin , 2013),it is important to minimize the costs faced by savings providers in order to ensure the sustainability of savings products, pass on lower costs to clients who may be unable to afford financial services, and pay higher interest rates to clients that already hold savings accounts. The general consensus in the industry appears to be that provider costs are still too high, meaning that their costs must be covered by soliciting clients willing to keep higher balances. Unsurprisingly, the result is the exclusion of millions of the poorest potential clients, who nevertheless demand access to savings.

III. Lack of trust

(Martin , 2013) Affirms that, trust is key to mobilizing savings. First-time clients rarely trust an institution immediately to entrust it with hard earned cash .In the developed world, lack of trust in financial products in the wake of the financial crisis has led many consumers to avoid such products entirely. There is usually some hesitancy or suspicion on the part of local populations in developing as well as developed countries who are underexposed to financial services: “[Clients] often wonder _why can’t you just give me something instead of teaching me how to save?””

IV. Education challenges and illiteracy and/or innumeracy

According to (Martin , 2013), financial literacy can be viewed as an important potential outcome of savings programs. However, lack of basic education—including financial literacy—can also impede the establishment of such savings programs in the first place, leading to low uptake and usage rates. Part of the difficulty may be due to low literacy rates in most of the developing world:

2.2 Empirical Review

Among the articles written on the subject, the researcher has selected Two local and One overseas studies made by:-

- 1) (Gemedu, 2012) On the title Factors Determining Commercial Bank Deposit: An Empirical Study on Commercial Bank of Ethiopia.
- 2) (Adem, 2015) Determinants of Commercial Bank Deposits in Ethiopia: a case of Commercial Bank of Ethiopia.
- 3) (Tareq, 2015) on the title —Saving Mobilization Behavior of NCBs In Bangladesh—

According to (Gemedu, 2012), the article used data from Commercial Banks of Ethiopia in doing the research through mixed methodologies of the investigation. The data of total deposit of CBEs for 12 years regressed against three independent variables namely deposit rate, number of branches and inflation rates. The type of the data for this study is time series including the 12 years of data in the regression analysis. The model is multiple regression model with one dependent variable and three independent variables.

The dependent variable of this multiple regression is total deposit of commercial banks, which is indicated by the symbol LNTD. Whereas the independent variables are deposit rate, inflation rate and branches of commercial banks, which are indicated by the symbol DR, INFRATE and LNBR respectively. Two dummy variables, D2002 and D2011 are added in the model to have normal distribution among the residuals.

Deposit rate (DR) and Inflation rate (INFRATE) had positive insignificant effect on the commercial bank deposits. However, The branches of commercial bank (LNBR) had positive coefficient estimates and significant at 5% significant level, therefore branch expansion has positive significant effect on commercial banks deposit.

Given the summary result of descriptive and empirical analysis, the study had concluded the following to commercial banks by taking CBE as evidence of the study. The major ones are adopted here:

The main source of capital for commercial banks is deposit and saving deposit is the most used kind of deposit in banks. Deposit rate improvement, service excellence, good will of the bank,

branch expansion, promotional effort, awareness creation and coupon prize can be an opportunities for deposit attraction and mobilize more deposits.

(Adem, 2015), adopted mixed research approach. The rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method. 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.

Estimation was done using Ordinary Least Squares technique by E-views7 statistical package. The results from economic analysis showed that all the explanatory variables were positively correlated with the explained variable. Among these variables, branch opening is an important strategy for deposit mobilization, it is highly significant than others. Individual remittances from diasporas is also next to branch opening is significantly affects CBE's deposit. The others are affects positively and can increase CBE's deposit. And finally, the study had recommended what should be done to encouraging deposits growth by Commercial bank of Ethiopia for the benefit of the domestic deposit mobilization.

According to (Tareq, 2015), the article used data from Nationalized Commercial Banks of Bangladesh in doing the research through mixed methodologies of the investigation. The paper analyzed the behavior of savings mobilization with the banking sector over the years with a special emphasis on the savings mobilization behavior of the Nationalized Commercial Banks (NCBs). Time-series data were used to analyze the patterns and trends in bank deposits over the years. A Log-Linear model is formed to measure the impact of the factors affecting Savings mobilization Behavior (1991-2005). The first step of this log-linear analysis was to identify the factors that affect the bank deposits over the years and then through regression the actual impact of the individual variables were found.

In the above function, Total Deposit is a function of a number of explanatory variables. All these variables have its own impact on the savings mobilization. By constructing this model and then through multiple regression analysis tried to find out the impact of these variables.

Income (Y) , Number of Bank Branches (BR) , Interest Rates (IR) , Inflation(INFL) , Return on substitute Investment(SI) , Literacy Rate(L) , Transaction Cost(TC) had positive coefficient estimates and significant at 1 % significant level.

Given the summary result of descriptive and empirical analysis, the study had concluded the following to National commercial banks by taking NCBs of Bangladesh as evidence of the study. The major ones are adopted here:

The deposit mobilization is not at all an easy task, rather it is both critical and complicated issue. One of the main factors that affect the savings mobilization is literacy of saving of the people. The more the people are educated the higher will be the savings mobilization. The main objective of the research is to fill these gaps and their impacts on the results of the study and to add more about the current situation of the subject.

Therefore, this study try to explore taking all private banks for the study. The questionnaires distributed and responded are more of what is previously taken. And the previous researches have taken commercial bank of Ethiopia. On top of this, (Gemedu, 2012) has taken three variables, out of which, deposit rate and inflation are insignificant and number of branch is significant at 1%. Further, additional independent variables are also included beyond what was used by (Gemedu, 2012), on the quantitative part. The researcher also needs thorough focus on factors that affect deposit mobilization and its impact on private commercial banks of Ethiopia. The rationale for selection of private banks is the unfair competition among public and private banks.

2.3 Conceptual Framework

The research describes factors that affects private banks deposit. There are independent variables (factors) that affect the dependent variable deposit mobilization such as Number of Branch, Government rules and regulations, service excellence, deposit interest rate, inflation rate etc. the state Bank (CBE) is also has more branch than the private banks and it is assumed as more reliable as private banks by citizens because it is a Government Owned. The Government

is also participating on deposit mobilization such as making civil servants to get their salary only from CBE and condominium housing saving etc.

According to (Martin , 2013), financial literacy can be viewed as an important potential outcome of savings programs. However, lack of basic education—including financial literacy—can also impede the establishment of such savings programs in the first place, leading to low uptake and usage rates. Part of the difficulty may be due to low literacy rates in most of the developing world

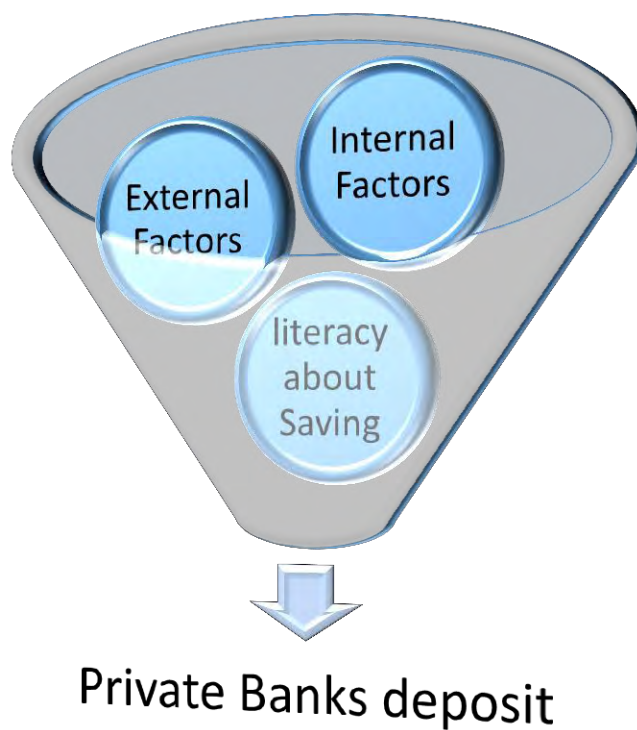


FIGURE 1. CONCEPTUAL FRAMEWORK OF THE RESEARCH

Chapter Three

3. Research Methodology

This section illustrates the methodology that has been pursued to obtain the desired results as per the stated general and specific objectives. Research methodology is the theoretical framework that helps us to produce valid knowledge about the particular study that the researcher already proposed to engage, and shall be clearly presented the appropriate information on the basis of understanding the existing reality of Challenges of deposit mobilization in Ethiopian private commercial Banks. Besides, this section shows us the ways or procedures that how data were collected and the analytical tools to interpret and analyze data.

Therefore, since the study being requires careful selection of methodologies to produce reliable information, the entire research process is guided by the following methodological components.

3.1 Research Design

The most important factor that determines/establishes the research design is the nature of the problem at hand, which is done to accomplish the intended objectives. Due to the fact that; the subject of the study is characterized as multi-dimensional responses, integrated approach is look upon as an appropriate methodology. Thus, to generate necessary information and come up with more rich and comprehensive data, both qualitative and quantitative approaches (Mixed approach) were employed. The former approach might be focus on examining the real experiences of the respondents including their own expression and articulation with more

subjective views, whereas the latter mostly concentrate on the critical interpretation of quantifiable empirical data. The rationale for which selecting the integrated approach is due to the fact that evaluating the challenges and prospects of deposit mobilization require multifaceted patterns.

The research design is also focused on how data sources were collected. In order to triangulate and get deep analysis in the study area and would come up with optimal solution to the proposed challenges, the researcher put forward to employ both primary and secondary data source collection methods. The quantitative method uses Eviews software to analyze the data, whereas the qualitative data were illustrated as an identical opinions and thoughts has taken together through the course of thematic approach. Hence, considering for generating a clear picture about the subject of the study, the raw data interpretation and analysis laid on descriptive and analytical statistical methods.

3.2 Data Collection Method

The data for this study were gathered from both primary and secondary data sources. To obtain fresh and first hand data sources, information had collected from all private Ethiopian commercial banks. Here the primary data were gathered using questionnaire. 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). Data of fifteen years were gathered including the year from 1999/00 to 2013/14 of all Ethiopian private commercial banks are used for the study.

3.3 Sampling Techniques

The target population of this research is all Ethiopian private commercial banks. Based on this fact, all Ethiopian private commercial Banks are included on the research.

The questionnaires are distributed to the employees of Private commercial banks of Ethiopia particularly for those employees who actively participating in deposit mobilization tasks such as Branch managers, supervisors and accountants of the selected city branches based on judgmental (purposive) non probability sampling. The rationale for this selection was the larger proportion

of bank deposit and the number of staffs found in the city branches. The numbers of questionnaires distributed were 112 filled and returned 88 questionnaire.

3.4. Multiple Regression Model

The type of the data for this study is time series for 15 years of data in the regression analysis from 1999/00-2013/14. The model is multiple regression models with one dependent variable and four independent variables:

Per Capita Income (PCI): (This is real GDP per capita income of people). Various economic theory and empirical evidences confirms that an increase in people income influences positively their savings capacity.

Investment (Inv): Investment and savings are more interrelated macroeconomic variables that feed each other. In most cases savings support investment as an input. On the other side investment creates job opportunity for people, adopts new technology, and improves standards of livings at national level. The expected sign here is positive.

Age Dependency Ratio (ADR): Demographic factors such as population age structure and dependency ratio influences savings behavior of the economy. Of the three stages in human life childhood, middle age or youth stage and old age, people consume more than they produce during childhood and old age. Age dependency ratio here is the ratio of the sum of people younger than 15 and those older than 64 to the working age population. Life cycle hypothesis assumes that when there are too many dependent people in the country, consumption tends to increase and savings decline. Therefore, the expected sign here is negative.

Money supply (MS): when money is supplied to the economy to fill the countries budget deficit, the banks deposit also increase. Because, it circulates with in the economy.

$$DEPt = \alpha + \beta_1 MS_t + \beta_2 PCI_t + \beta_3 INV_t + \beta_4 ADR_t + \epsilon$$

Where:

DEPt = Total deposit of private banks

MSt = Broad money supply

PCIt = Per capita income

$INV_t = \text{Investment}$

$ADR_t = \text{Age dependency ratio}$

ε = is error term with zero mean and constant variance

t = is time in year while α is parameter constant and $\beta_1 - \beta_4$ are coefficients of the respective variables.

3.5 Diagnostic test methods

The assumptions were made relating to the classical linear regression model (CLRM). These were required to show that the estimation technique, ordinary least squares (OLS), had a number of desirable properties, and also that hypothesis tests regarding the coefficient estimates could validly be conducted. The method used to test these assumptions by the researcher is described as follows:-

3.5.1 The average value of error is Zero

The first assumption required is that the average value of the errors is zero. In fact, if a constant term is included in the regression equation, this assumption will never be violated. But if the regression did not include an intercept, and the average value of the errors was non zero, several undesirable consequences could arise. (Brooks, 2008)

3.5.2 Test for Heteroscedasticity

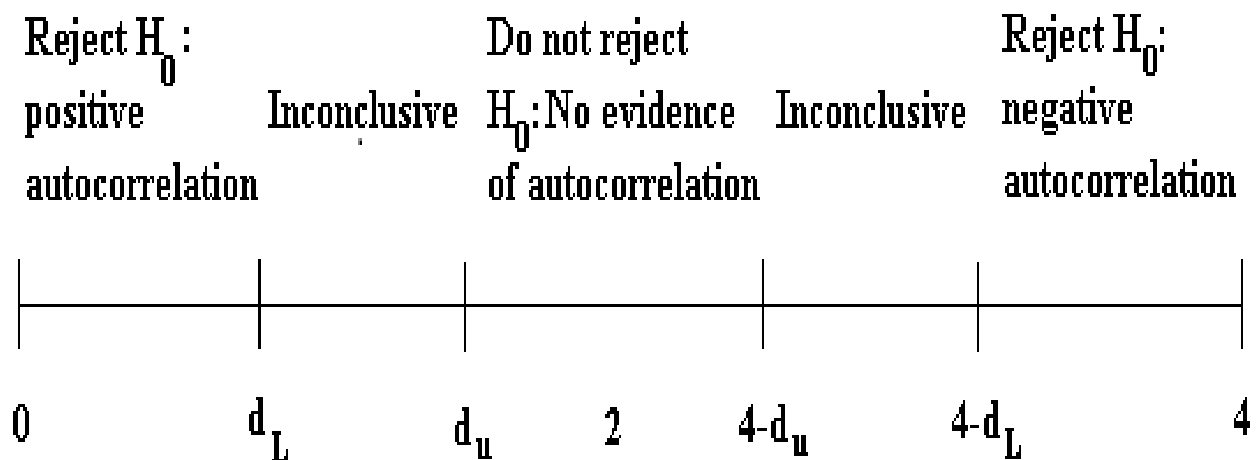
According to (Brooks, 2008), It has been assumed thus far that the variance of the errors is constant, this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be heteroscedastic.

The OLS standard errors will be too large for the intercept when the errors are heteroscedastic. The effect of heteroscedasticity on the slope standard errors will depend on its form. For example, if the variance of the errors is positively related to the square of an explanatory variable (which is often the case in practice), the OLS standard error for the slope will be too low. On the other hand, the OLS slope standard errors will be too big when the variance of the errors is inversely related to an explanatory variable.

3.5.3 Test for Autocorrelation

The CLRM's disturbance terms is that the covariance between the error terms over time (or cross-sectionally, for that type of data) is zero. In other words, it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are 'auto correlated' or that they are 'srially correlated'. A test of this assumption is therefore required.

This is an assumption that the errors are linearly independent of one another (uncorrelated with one another). If the errors are correlated with one another, it would be stated that they are auto correlated. To test for the existence of autocorrelation or not, the popular Durbin-Watson test was employed.



As the above Figure shown us Durbin-Watson has 2 critical values: an upper critical value (d_U) and a lower critical value (d_L).

FIGURE 2. REJECTION AND NON-REJECTION REGIONS FOR DURBIN-WATSON TEST

3.5.4 Test for normality

One of the most commonly applied tests for normality is the Bera—Jarque (BJ) test. BJ uses the property of a normally distributed random variable that the entire distribution is characterized by the first two moments -- the mean and the variance. The standardized third and fourth moments of a distribution are known as its skewness and *kurtosis*. Skewness measures the extent to which

a distribution is not symmetric about its mean value and kurtosis measures how fat the tails of the distribution are. A normal distribution is not skewed and is defined to have a coefficient of kurtosis of 3. It is possible to define a coefficient of excess kurtosis, equal to the coefficient of kurtosis minus 3; a normal distribution will thus have a coefficient of excess kurtosis of zero. (Brooks, 2008).

The Expected signs of the variables

Variables	Expected signs
Broad money supply	+
Per capita income	+
Investment	+
Age Dependency ratio	-

Table 1. The expected signs of the variables

Chapter four

4. Data Analysis and Discussion

This part of the research is presented in to two parts, the first part is analysis of quantitative data and the second part is the qualitative data analysis. The quantitative data is obtained from the National Bank of Ethiopia and multiple regression method is conducted .The second part is the qualitative data analysis and presentation. Which is obtained from the responses obtained from the questionnaires distributed.

4.1 Analysis of Quantitative Data

This section presents the empirical findings from the econometric result for the challenges and prospects of deposit mobilization in Ethiopian private banks. The model for Dependent variable, Total deposit of private banks and independent variables has been tested for the assumptions of the classical linear regression model (CLRM) before interpreting the result. According to the test results, the model satisfies all the assumptions for the CLRM which is discussed here under. These tests are indicated under the following sections.

4.1.1. Test results for the classical linear regression model assumptions

In this study as mentioned in chapter three diagnostic tests were carried out to ensure that the data fits the basic assumptions of classical linear regression model. Consequently, the results for model misspecification tests are presented as follows:

4.1.1.1. Test for Heteroskedasticity

Ho: The assumption that there exists homoscedasticity

H1: There is no homoscedasticity (there is Heteroskedasticity)

In this study as shown in table 4.1, both the F-statistic and Chi-Square versions of the test statistic gave the same conclusion that there is no evidence for the presence of heteroskedasticity, since the p-values were in excess of 0.05. The explained sum of squares from the auxiliary regression, also gave the same conclusion that there is no evidence for the presence of heteroskedasticity problem, since the p-value was considerably in excess of 0.05.

Heteroskedasticity Test: ARCH

F-statistic	0.008378	Prob. F(1,11)	0.9287
Obs*R-squared	0.009893	Prob. Chi-Square(1)	0.9208

TABLE 2. HETROSKEDASTICITY TEST

4.1.1.2 Test for Normality

Ho: The residuals are normally distributed

H1: The residuals are not normally distributed

The normality tests for this study as shown in figure 4.1, the coefficient of kurtosis was close to 3, and the Bera-Jarque statistic had a P-value of 0.36 implying that the data were consistent with a normal distribution assumption and 36% of the data is normal.

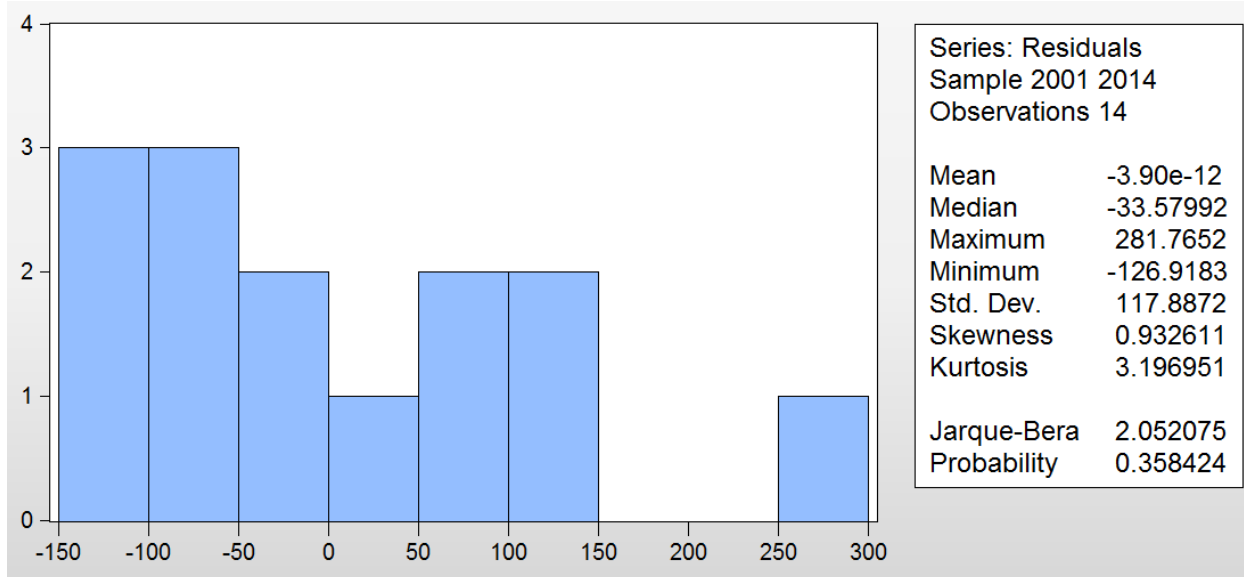


FIGURE 3. NORMALITY TEST FOR RESIDUALS

4.1.1.3. Test for Autocorrelation

Ho: There is no autocorrelation

H1: There is autocorrelation

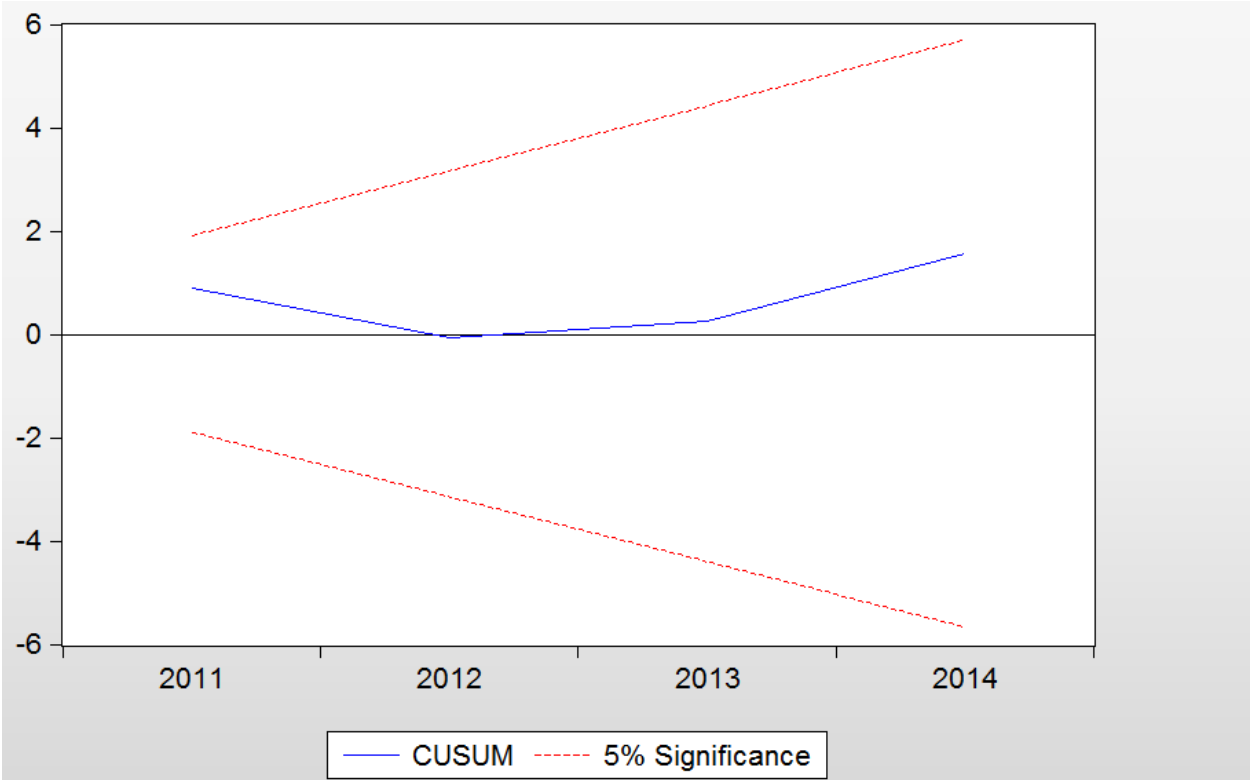
According to the DW stat result of the study, there is no autocorrelation which occurred between the variables and their respective lagged value. As (Brooks, 2008) stated, implication of DW taking one of three important values (0, 2, and 4):

$P = 0$, $DW = 2$ this is the case where there is no autocorrelation in the residuals. So roughly speaking, the null hypothesis would not be rejected if DW is near 2 \rightarrow i.e. there is little evidence of autocorrelation.

$P = 1$, $DW = 0$ this corresponds to the case where there is perfect positive autocorrelation in the residuals.

$P = -1$, $DW = 4$ this corresponds to the case where there is perfect negative autocorrelation in the residuals.

Therefore, as per our regression result found, the DW is 1.889 and it is near 2. It implies us there is little or no autocorrelation.



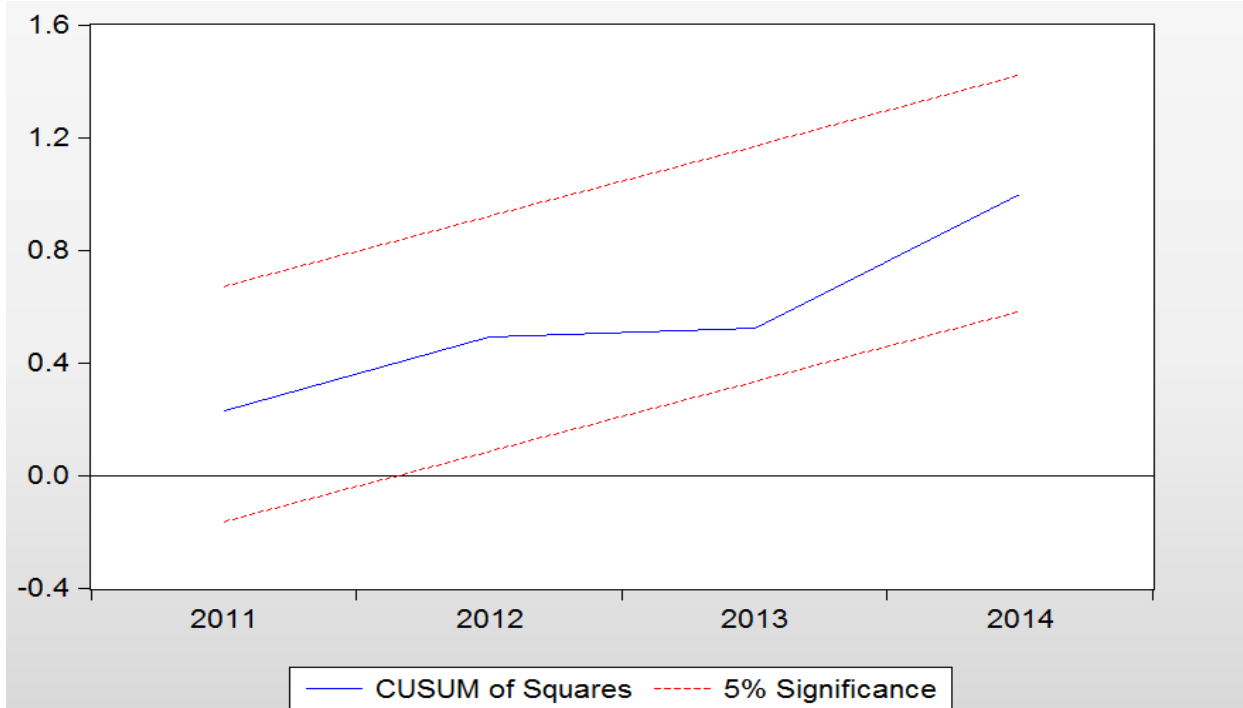


Figure 4. Plot of CUSUM and CUSUM of square (stability taste)

TABLE 3. ARDL (1, 1, 1, 1,1) Co-INTEGRATION AND LONG RUN RESULT (DEPENDENT VARIABLE: TD)

The coefficient of ECM is -0.446443, or 45 % of short run disequilibrium converges back to long run equilibrium after a shock is 45 % a year. Which is significant at 5% level. Furthermore, in the short run per capita income has insignificant contribution or have no impact on total deposit.

4.1.2 Interpretations of the Regression Analysis

As per the results of regression analysis. The coefficient of determination (R^2) of 0.9999 means that 99.99% of the variation in deposits is being explained by the independent variables in the model and there is a strong relationship between deposits and the independent variables. The other less than 1% is for factors encompassed by the standard error statistic from the regression results obtained, the model proved to be consistent with the OLS assumption of no autocorrelation.

Per Capita Income

A regression coefficient indicates, other explanatory variables remaining constant, a unit increase in per capital income increase the level of deposit by 170 thousand but statistically insignificant. Private Banks deposit is mostly mobilized to creditworthy customers which does not necessarily use the credit to factors of production. This deposit brings economic growth but not significant. This indicates, the role of government in the financial sector has more influence than the private ones.

Money supply

A regression coefficient represents, other explanatory variables remaining constant, a unit increase in money supply will result in about 99 million increase in Private commercial banks deposits and statistically significant at 1%. However, according to WAMA (West African Monetary Agency), it is important to evaluate the role of these banking institutions on the convergence process. Excess money supply, whether created through the direct or indirect channels, influences economic activity (growth) and may provide downside risks on macroeconomic stability, impacting negatively on inflation, interest rates and exchange rate

Age Dependency Ratio

The regression result indicate other explanatory variables remaining constant, as Age Dependency Ratio increase by a unit the private commercial deposit also increased by 396 million and statistically significant at 1%. This result is contrary to (Hyung, 2013) Stated that, due to the presence old age dependency ratio, youth-dependency ratio and the presence of children also induces households to increase consumption and decrease saving. As Age dependency increases households forego banking products (saving). Households are expected to consume what they earn. The possible causes for the regression result are the inflow of remittance and the customer base of private banks are composed of business men and women who doesn't have the worry of the age dependency.

Investment

A regression coefficient of -0.370983 means that other things being constant, a unit increase in Investment results in 37 million decrease in Private commercial banks deposits and statistically significant at 1%. The possible reason, private banks are giving optimal level of credit as possible.

The result is also consistent with (Tuyishime, Memba, & Mbera, 2015) who Conformed that, in order to stimulate investment saving have to increase in the level needed for investment so that the saving is used for financing of investment.

4.2. Analysis of Qualitative data

This section presents the descriptive analysis of Bankers’ responses to each item in section one (general information of respondents) and section two on the survey questionnaire.

From a total of 112 questionnaires distributed, 88 are returned. The returned questionnaires are carefully checked. The response rate is 79 percent.

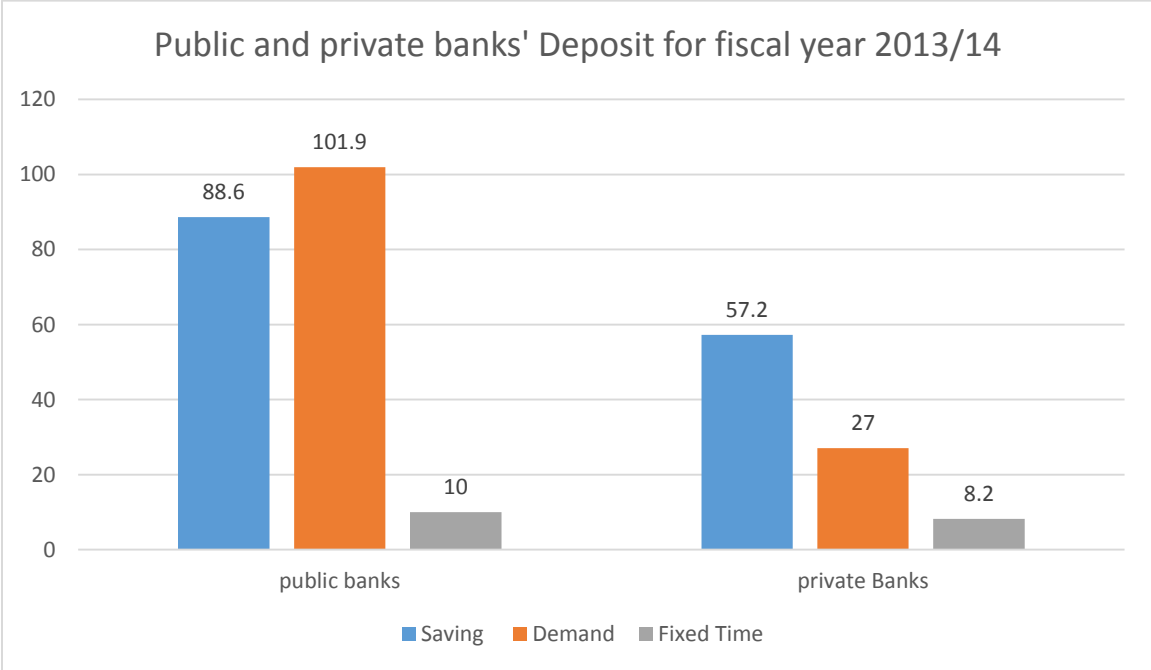


FIGURE 6. TYPES AND TOTAL DEPOSITS OF PUBLIC AND PRIVATE BANKS FOR THE FISCAL YEAR 2013/14

The above Bar graph shows us 2013/2014 fiscal year deposit of public and private banks, as indicated above saving deposit of public banks is greater than private banks almost two fold. On top of this, the demand deposit of public banks is greater than almost 5 fold of the private banks. This is happened due to large companies and government organizations use these banks and

individuals perception also have not yet changed. However, the time deposit is almost similar because banks use this fund when there is a liquidity problem because it sucks their profit.

The under stated table shown us 15 years total deposit growth tendencies of both public and private banks. As indicated below the gap between public and private banks is increasing from time to time.

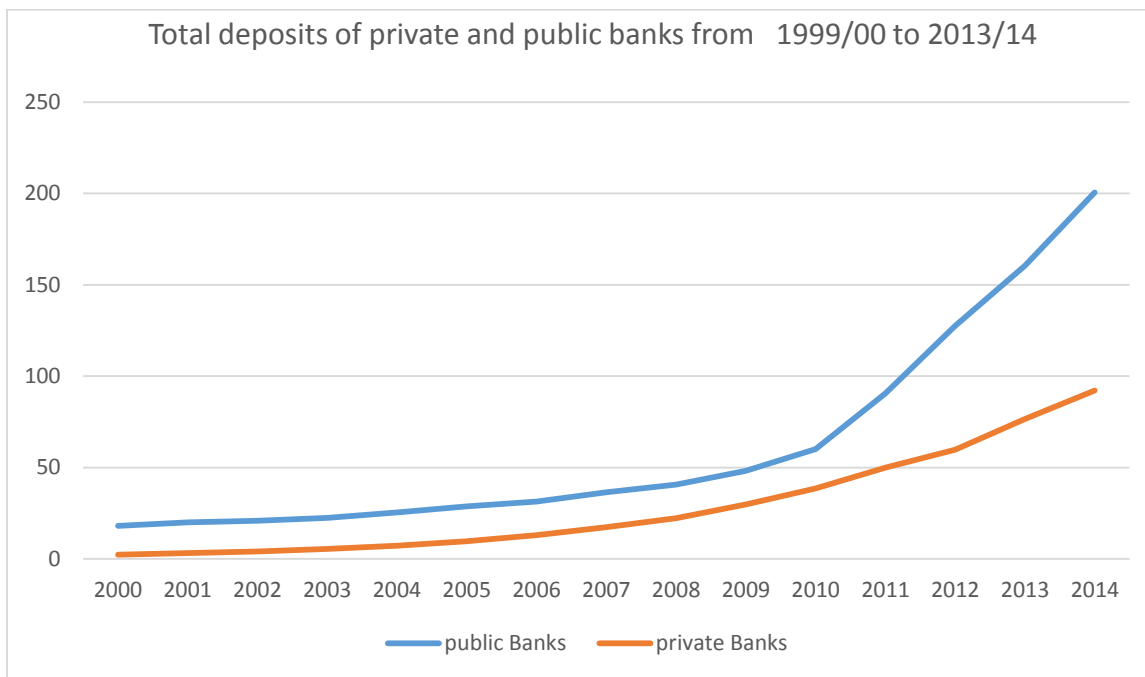


FIGURE 7. TOTAL DEPOSIT GROWTH TENDENCIES OF BOTH PUBLIC AND PRIVATE BANKS

Especially starting from year 2011 total deposit of the public and private banks gets wider and wider gaps. This possibilities has occurred due to the reestablishment of housing mortgage saving which is operated through the Ethiopian Commercial bank as well as the aggressive branch Expansion have played a positive and significant impact on the total deposit of the public banks.

4.2.1 General information of Respondents

The respondents' general information includes gender and level of experience.

Gender of the respondents

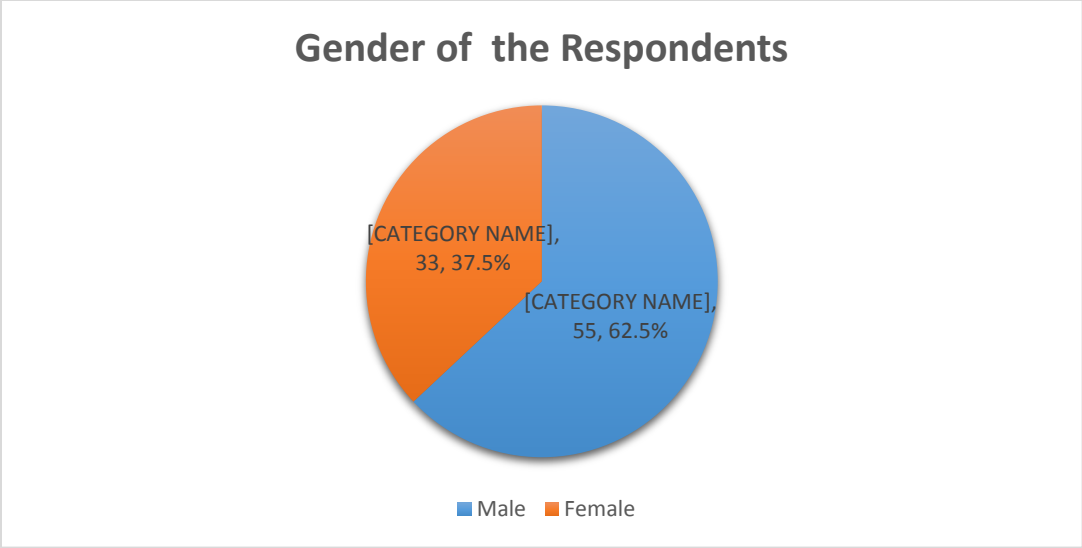


FIGURE 8. GENDER OF THE RESPONDENTS

The study findings (figure 8) revealed that 62.5 % of the respondents were male and 37.5 % were female. The respondents picked for this study were at the management level or supervisory level and at professional level.

Experience of the respondents

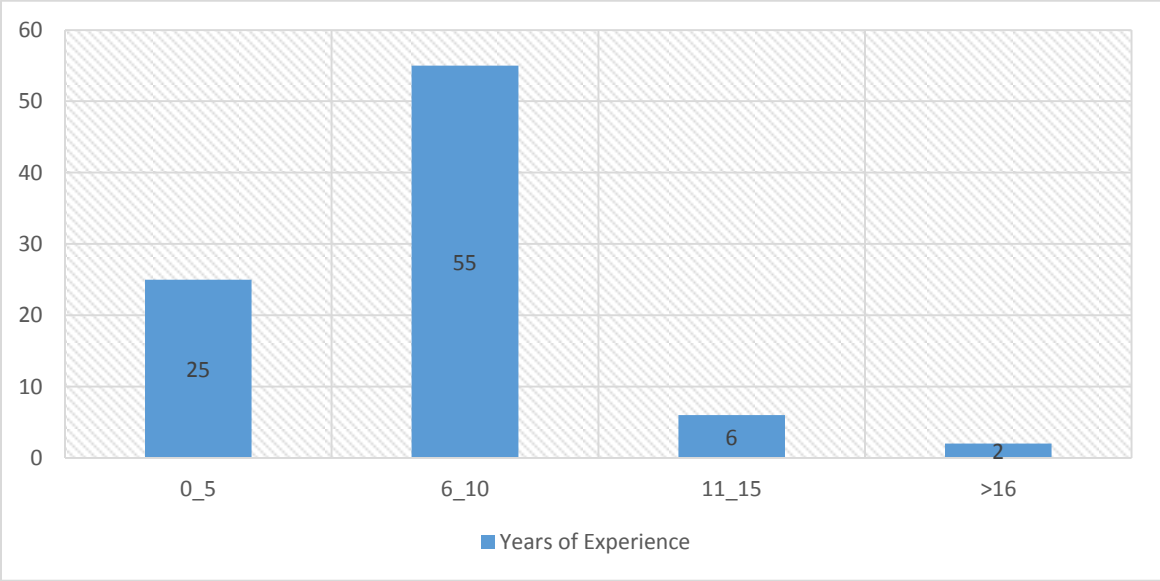


Figure 9. Experience of the respondents

The findings indicate that the majority of the respondents have experience of between 6 to 10 years (63%) while only 28 % have experience of less than 5 years. Those with the experience

between 11 to 15 and above 16 years of experience have the equal percentage (9 %). The findings thus indicate that the majority (63 %) of Bankers as far as deposit mobilization is concerned have sufficient experience. This gave the researcher confidence that the respondents were experienced enough such that their views and opinions based on the questionnaire will not be out of experience.

The most significant depositors of banks in terms of the size of deposits.

Deposit in terms of the size of deposits	Frequency	percentage
Individual customers	12	14%
Business Organizations	72	82%
Government entities	0	0%
NGO's	4	4 %

Table 4. The most significant depositors of banks in terms of the size of deposits

As per the table shown above, 14 % of the respondents says individual customers, 82% business organizations and 4 % of them Ngo's but the government entities have got 0% of respondents because every government entities use public banks rather than private banks.

This mean, the most significant depositors of banks in terms of the size of deposits is found in business organizations b/c they have more transactions and more funds than individuals.

The type of deposit which has the most significant deposit volume.

Types of deposit which has significant deposit volume	Frequency	percentage
Saving Account deposits	79	90%
Current Account deposits	9	10%
Fixed time deposits	-	-

TABLE 5. THE TYPE OF DEPOSIT WHICH HAS THE MOST SIGNIFICANT DEPOSIT VOLUME.

As per table 6, 90% of respondents replied that, the most significant deposit of private banks is saving account deposits and 10% of the respondents say current account deposit. Figure 6. Also

affirmed that, the most significant volume of deposit in private banks is saving deposit but when we see the state banks the most significant amount of deposit is current (demand) deposit.

Number of branches

Number of branches	Frequency	percentage
Less than 100 branches	9	10 %
Between 100-150 branches	62	70 %
Between 150-250 branches	17	20 %
Above 250 branches	0	0 %

TABLE 6. NUMBER OF BRANCHES

As indicated in Table 7. 70 % of the respondents stated that 70 % of the six private banks has a branch from 100-150, 10 % of them less than 100 branches and 20 % of them above 150 and less than 250. There is no private bank that it has above 250 branches. It indicates us private banks has few branches than state banks. If private banks open more branches it helps them to mobilize more deposit.

Incremental Bank branches

Incremental Bank branches	Frequency	percentage
Yes	88	100 %
No	0	0 %

TABLE 7. INCREMENTAL BANK BRANCHES

AS THE ABOVE TABLE SHOWN, THE NUMBER OF BANK BRANCHES INCREASE YEAR TO YEAR AND 100% OF THE RESPONDENTS REPLY AS THERE IS AN INCREASE IN NUMBER OF BRANCHES YEAR TO YEAR.

The main reason of branch expansion

Reasons for branch expansion	Frequency	percentage
------------------------------	-----------	------------

To increase customer base	12	14 %
To Give loan facility	6	7 %
To collect foreign currency	7	8 %
To Mobilize Deposit	62	70 %
To increase Number of Staffs	1	1 %

Table 8. The main reason of branch expansion

The main reason for branch expansion is deposit mobilization. As table 9. Shown us, 70 % of respondents perceived the main reason of branch expansion is for mobilizing deposit, 14% to increase customer base and 8 % responded to collect foreign currency. The remaining 8% of the respondents perceived that the reason is, to give loan facility and to increase number of staffs. To summarize the responses the main objective is to mobilize deposit and to increase customer base as well as it uses them to collect foreign currency.

The amount of deposit differ from branch to branch

Does the amount of deposit differ from branch to branch?	Frequency	Percentage
Yes	88	100 %
No	0	0 %
I do not know	0	0 %

TABLE 9. THE AMOUNT OF DEPOSIT DIFFER FROM BRANCH TO BRANCH

As Table 10. Shows us, 100% of respondents perceived that, deposit is differed from branch to branches, there are some reasons it makes difference. The main reason is proximity of the branch to business centers, employees' capacity to handle customers and the MGT's strategy.

The difference in deposit mobilization among branches

What are the possible reasons for difference in deposit mobilization among branches?	Frequency	percentage
Convenience of bank branch	13	15 %
Proximity (branch close to home or job)	17	19 %

Good customer service /handling	26	29 %
General appearance office & materials	3	3 %
Awareness of the society	17	21 %
Convenient working Hours	10	11 %
Low cost /charges	2	2 %

TABLE 10. THE DIFFERENCE IN DEPOSIT MOBILIZATION AMONG BRANCHES

According to the filled and returned questionnaires, 29 % of the respondents the main reason in deposit mobilization among branches is quality customer service ,21% of the respondents believe awareness of the society differ deposit mobilization among banks ,19% of the respondents believe that proximity of the branch is the reason of difference in deposit mobilization. The remaining 31 % convenience of bank branches, convenient working hours, general appearance of office, materials and low cost /charges.

The volume of deposit mobilized grow year to year

The volume of deposit mobilized grow year to year	Frequency	Percentage
Yes	88	100 %
No	0	0

Table 11. The volume of deposit mobilized grow year to year

As per the above table 100% of respondents agreed on the volume of deposit grow year to year

The reason for consistent growth of deposit

The reason for consistent growth of deposit	Frequency	percentage
Attractive interest rate	17	19 %
Product disparity (card banking, internet banking, mobile banking...)	20	23 %
Literacy about saving.	15	17 %
The service given by the bank(Quality Service)	14	16 %

Branch expansion	10	12 %
Convenience of the branch	3	3 %
The citizens' per capita income increased	9	10 %

TABLE 12. THE REASON FOR CONSISTENT GROWTH OF DEPOSIT

As per table 13. 23% of the respondents believe that the main reason of consistent growth of deposit is product disparity, 19 % of them believe attractive interest rate, 17% literacy about saving and 16 % is the quality of services given by the bank. The remaining 25% of the respondents believe the main reason is branch expansion, convenience of the branch and the citizens' per capita income.

Transaction costs affect the volume of deposit

Does transaction costs affect the volume of deposit?	Frequency	percentage
The interest rate paid on deposits	55	63 %
Cost of Fuel or transportation mobilize deposit	2	2 %
The cost of stationery and office supplies	6	7%
The advertising and publicity cost	7	8%
Cost of renting offices	14	16 %
Costs related to publicity, promotion such prizes and gifts	1	1%
Costs related to recruiting, placing and training bankers for deposit mobilization	3	3 %

TABLE 13. TRANSACTION COSTS AFFECT THE VOLUME OF DEPOSIT

The majority of the respondents or 63 % of them believe that transaction cost of deposit mobilization is interest rate paid on deposit and 16 % of the response is cost of renting offices,

the remaining 21 % is related to cost of promotion and advertising, cost related to recruiting, placing and training bankers for deposit mobilization.

The cost of mobilizing deposits increasing year to year

Does the cost of mobilizing deposits increasing year to year?	Frequency	Percentage
yes	88	100 %
No	0	0%

TABLE 14. THE COST OF MOBILIZING DEPOSITS INCREASING YEAR TO YEAR

All respondents agreed that, the cost of mobilizing deposits increasing year to year it is related with the increase in the volume of deposit.

Factors that affect the volume of deposit mobilization

Factors that affect the volume of deposit mobilization.	Frequency	percentage
Saving interest rate	12	14 %
Economic Development of the country	21	24 %
The money supplied by Government (by printing money)	11	12 %
The Number of branches opened	22	25 %
Inflation	3	3 %
Increase in per capita income	7	8 %
Quality customer service	12	14 %

TABLE 15. FACTORS THAT AFFECT THE VOLUME OF DEPOSIT MOBILIZATION

There are factors affects deposit mobilization, as per table 16. 25 % of the respondents believe that factor that affect deposit mobilization is the number of branches opened by banks which means a bank which has more branches mobilize more deposit, 24 % of the respondents believe that economic development of the country and deposit mobilization has positive relationship, and 28 % of respondents of two factors believe saving interest rate & quality customer service increase deposit mobilization. In general all of the factors affect deposit mobilization.

Competition among local banks for deposit mobilization

Competition among local banks for deposit mobilization.	Frequency	percentage
Yes	88	100 %
No	0	0%

TABLE 16. COMPETITION AMONG LOCAL BANKS FOR DEPOSIT MOBILIZATION

Deposit mobilization is critical, therefore local banks compete each other. As table 17. Indicates us 100 % of respondents believe that as there is stiff competition among local banks.

Reasons for stiff competition

Reasons for stiff competition	Frequency	percentage
To give a better dividend to shareholders	39	44 %
To increase their profit	42	48 %
To increase market share	6	7 %
To make sustainable growth	1	1 %

TABLE 17. REASONS FOR STIFF COMPETITION

There are reasons for stiff competition, as table 18 shows us 48 % of the respondents perceive increasing profit is a reason for stiff competition among banks, 44 % of them say to give a better dividend to shareholders, and the remaining 7% is increase market share and 1% to make sustainable growth. Therefore, the majority of the respondents say the reason is to increase profit and shareholders dividend

The competition with other private and government owned banks

The competition with other private and government owned banks	Frequency	percentage
Stiff	76	86 %
Moderate	9	10%

Weak	3	4 %
------	---	-----

TABLE 18. THE COMPETITION WITH OTHER PRIVATE AND GOVERNMENT OWNED BANKS

Private Banks face competition, as table 19. Indicates us 86 % of the respondents believe that, there is stiff competition among banks but 14 % of the respondents believe there is moderate and weak competition.

Highly competing your banks

Highly competing banks	Frequency	percentage
Government Banks	76	86 %
Private Banks	9	10%
Both	3	4 %

TABLE 19. HIGHLY COMPETING YOUR BANKS

From the above table 20, 86 % of the respondents believe that, Government is highly competing private banks. The remaining 14 % is given to private banks and to both by respondents but it indicates us to high accessibility of the bank.

The main challenges of your bank

The main challenges of your bank	Frequency	percentage
Competition from other banks	43	49 %
More banks joined in the market	5	6 %
Lack of technology	1	1 %
Small number of Branches (inaccessibility)	18	20 %
Government participation in banking industry	12	14 %
Lack of trained manpower	0	0 %
Government low		

/regulations	9	10 %
--------------	---	------

TABLE 20. THE MAIN CHALLENGES OF YOUR BANK

The majority of the respondents or 49 % believe the main challenges of private banks is competition from other banks, 20 % of the respondents' also believe small number of branches. The remaining such as government participation in banking industry & Government laws /regulations take 14% and 10% of the respondents respectively.

4.3. Summary of research findings

Deposit mobilization is critical issue for banks. Cognizant of this, in depth analysis is done based on secondary data and survey questionnaire. The research is intended to address challenges and prospects of deposit mobilization in Ethiopian private banks. Based on the results of the analysis and interpretations, the followings are the summary of the findings

- ❖ The most significant depositors of banks in terms of the size of deposits are business organizations, because business organizations have huge transactions and large amounts of Deposits.
- ❖ Saving deposits are the most significant deposit volume of private banks, saving deposits are the safest deposit because it has less probability of withdrawal than demand deposits.
- ❖ Private Banks have small number of branches and their concentration is only on main cities, But every private banks increasing their branches year to year.
- ❖ The main reasons of Branch expansions is to mobilize deposits and to increase customer base.
- ❖ There are differences in deposit mobilization among branches such as convenience of bank branches, good services, and proximity of branches to job or home, awareness of the society, convenient working hours, low cost /charges and General appearance of office materials.
- ❖ The amount of deposit mounting year to year. Because, banks increasing their accessibility, peoples are getting knowledge about saving, the competition brings quality customer service, availability of various products with modern technologies and the peoples' per capita income also increasing.

- ❖ Some transaction costs affect the volume of deposit in the bank, the key transaction costs affecting deposit mobilization is interest on saving deposits, rental cost of branches and costs of stationary and printings. The cost is increasing year to year in relation with increase in deposit and rental cost of the bank branches.
- ❖ There are factors that affect the volume of deposits of the bank such as interest rate on saving deposit, inflation, money supplied, and economic development of the country, number of bank branches, per capita income and quality customer service.
- ❖ There are high (stiff) competition between private and public banks and among private and private banks. But, the main competitor of private banks is public bank.
- ❖ The main challenges of private banks is inaccessibility or have small number of branches, stiff competition , Government participation in banking industry , Government laws such as imposing tax based on bank statement leads customers to put their cash in their own home, financial intelligence centers report leaving fear on depositors.
- ❖ Age Dependency Ratio, Money supply and Investment have significant effect on total deposit of Private Banks. But, Per capita income has insignificant effect on total deposit.

Chapter Five

5. Conclusions and Recommendations

The previous chapter presented the analysis of the findings, while this chapter deals with the conclusions and recommendations provided based on the findings of the study. Accordingly this chapter is organized into two subsections. The first section presents the conclusions while, the second section presents the recommendations.

5.1. Conclusions

This study examined the challenges and prospects of deposit mobilization in Ethiopian private banks. Based on the result of descriptive and empirical analysis, the study had concluded the following:

- ✓ The external factors such as Age Dependency Ratio, Money supply and Investment and legal environment affects the operation and performance of financial institutions.
- ✓ The internal factors such as literacy about saving , quality customer service and narrow scope of branch affects the total deposit
- ✓ One of the main factors that affect the savings mobilization is the awareness of the people. The more the people are conscious the higher will be the savings mobilization.
- ✓ The key transaction costs affecting deposit mobilization is interest on saving deposits, rental cost of branches and costs of stationary and printings.
- ✓ The main challenges of private banks is inaccessibility or having small number of branches, stiff competition , Government participation in banking industry , Government laws such as imposing tax based on bank statement and reports to Financial Intelligence Center.
- ✓ The difference in deposit mobilization among branches are convenience of bank branches, quality customer services, and proximity of branches to job or home, awareness of the society, convenient working hours, low cost /charges and General appearance of office materials.
- ✓ There is a stiff competition between private and public banks. But, the main competitor of private banks is public banks.

5.2. Recommendations

- ❖ Banks should increase creating awareness to peoples because, one of the main factors that affect the savings mobilization is literacy of saving of the people. The more the people are educated the higher will be the savings mobilization.
- ❖ Private banks ought to build their own building at least at the main cities to reduce rental cost, they have to reduce time deposit stock and increasing low cost saving and demand deposit to reduce interest expense and they have to transfer their services to modern

technologies such as card banking, mobile banking etc. just to reduce stationary and printing costs.

- ❖ Private Banks must come up with products and services for the unbanked population. This could take the shape of low cost accounts, reduced bank charges and increase interest on deposits. They can also increase their branch networks by moving into the rural areas and other unbanked groups of the economy. (Tuyishime, Memba, & Mbera, 2015), affirmed that large chunk of deposits are lying idle under pillows and in bamboos in the rural areas being left out of the banking stream. Therefore private commercial banks should increase ways to approach and mobilize the huge deposits lying in the unbanked people to maximize and maintain their portfolios.
- ❖ Banks should provide excellent services for their customers to mobilize more deposits. Thus, banks can promote their products and built brand loyalty.
- ❖ The government ought to encourage investment to take steps that ensures address the high rates of unemployment. It has been proved that economic growth is good for the growth of the banking sector. As more people are employed they will take up banks' products. Banks through their intermediary roles will re-channel the same resources to the economy.
- ❖ Government should not be partial for public banks, for instance, Ordering Private Banks to purchase 27% of loan granted for purchase of bond below saving deposit interest rate and making non-home owners' citizens to open special saving account at public bank only and making civil servants to take their salary from public banks only. Because it reduces competition.
- ❖ Government ought to set a system to control taxes rather levying based on bank statement and also has to set a system to control every cash flows of the country rather receiving information from banks.

References

Abay, s. W. (2010). *Domestic Resource Mobilization in Sub-Saharan Africa: The Case of Ethiopia*. addis ababa.

- Al-Qudah, A., & Jaradat, M. A. (2013). The Impact of Macroeconomic Variables and Banks Characteristics on Jordanian Islamic Banks Profitability: Empirical Evidence. *International Business Research*, 6(10).
- Adem, S. B. (2015). *DETERMINANTS OF COMMERCIAL BANK DEPOSITS IN ETHIOPIA: A CASE OF COMMERCIAL BANK OF ETHIOPIA*.
- Aftabi, A., Daneshvar, S., Karimbakhsh, A., Shadab, R., & Mortezaei, F. (2013). Assessing the effect of banking resource mobilization on financial resource attraction (Case Study: Melli Bank of Anzali). *International Research Journal of Applied and Basic Sciences*, 4(7), 1884-1888.
- Ahlswede, S., & Schildbach, J. (2012). "Deutches Bank Research"Poised for a comeback: Bank deposits. Germany: Doutches Bank .
- Al-Ajam, S. A., & Nor, M. K. (2015). International Journal of Bank Marketing- Challenges of adoption of internet banking service in Yemen. *Emerald insight*, 178-194.
- Alipour, H. (2014). COMPARISON OF EFFECTIVE FACTORS IN BANK RESOURCE MOBILIZATION FROM PERSPECTIVE OF BRANCH MANAGERS AND CUSTOMERS (CASE STUDY: AGRICULTURAL BANK OF GILAN PROVINCE) . *Kuwait Chapter of Arabian Journal of Business and Management Review*, 90-99.
- Banson, A.-K. F., Sey, E., & Sakoe, J. (2012). THE ROLE OF MOBILE DEPOSIT IN DEPOSIT MOBILIZATION IN GHANA . *Asian Journal of Business and Management Sciences*, 1-18.
- Banson, F. A.-K., Sey, E., & Sakoe, J. (2012). The Role of Mobile Deposit in Deposit mobilization in Ghana. *Asian Journal of Bussiness and Management Sciences*, 3(03), 1-18.
- Brooks, C. (2008). *Introductory Econometrics for Finance*. New York: Cambridge University press.
- Dagne, S. (2015, november 8). Banking a Fight for the Cream. *Fortune*, 16, 24.
- Elser, L., Hannig, A., & Wisniwski, S. (1999). *Comparative Analysis of Saving Mobilization Strategies*. CGAP.
- Eshetu, S. Z., Tesome, W. K., & Abebe, K. T. (2013). Competition in Ethiopian Banking Industry. *African Journal of Economics*, 176-190.
- Federal Negarit Gazette, Proclamation No. 780/2013 (february 19, 2013).
- Gemedu, W. E. (2012). Factors Determining Commercial Bank Deposit: An Empirical Study on Commercial Bank of Ethiopia. Addis ababa.
- Hyung, J. (2013). An Analysis on the Effect of Old Age Dependency Ratio on Domestic Saving Rate.
- Islam, A., & Ghosh, P. (2014). A Comparative Analysis of Deposit Products in Banking Industry : an Opportunity for eastern Bank LTD. *Journal of Investment and Management*, 3(1), 7-20.
- Khalai, J. A., Ondiek, A., & Musiega, D. (2014). A Comparative Study of Effects of Interest Rates on Deposits Mobilization among Sacco Members in Kakamega County. *International Journal of Business and Management Invention*, 28-41.

- Khalayi, J. A., Ondiek, A., & Musiega, D. (2014). A Comparative Study of Effects of Interest Rates on Deposit Mobilization Among Sacco Members in Kakamega country. *International Journal of Business and Management Invention*, 3(5), 28-41.
- Loichinger, E., Hammer, B., Prskawetz, A., Freiberger, M., & Sambt, J. (2014). *Economic Dependency Ratios: Present Situation and Future Scenarios*. Retrieved from www.foreurope.eu
- Malhotra, P., & Singh, B. (2007). Determinants of Internet banking adoption by banks in India. *Emerald Insight*, 323-339.
- Martin, J. (2013). *Savings as a Cornerstone Laying the Foundation for Financial Inclusion*. Virginia: The SEEP Network.
- Mashamba, T., Magweva, R., & Gumbo, L. C. (2014). Analysing the relationship between Banks' Deposit Interest Rate and Deposit Mobilisation. *IOSR Journal of Business and Management (IOSR-JBM)*, 64-75.
- Nelson, R. M. (1999). Bank marketing and information Technology : a historical analysis of the post-1970 period. *Emerald Insight*, 265-274.
- Nwanko, F., Ewuim, N., & Asoya, N. P. (2013). Effects of Co-Operatives on the Savings Behaviour of Members in Oyi Local Government Area, Anambra state, Nigeria. *African Research Review*, 7(1), 209-227.
- Obamuyi, M. T. (2013). An Anaysis of The Deposits and Lending Behaviours of Banks in Nigeria. *International Journal of Engineering and Management*, 4(1), 46-54.
- Ongore, V. O., & Kusa, G. B. (2013). Determinants of Financial performance of Commercial Banks in Kenya. *International Journal of Economics and Financial Issues*, 3(1), 237-252.
- Pramod, V., Li, J., & Gao, P. (2012). A framework for preventing money laundering in banks. *Emerald insight*, 170-183.
- Rakesh, A., Arun, M., & Varun, D. (2015). Bank competition and efficiency: empirical evidence from Indian market. *Emerald Insight*, .
- Ruediger, R. (2011). *Market Potential Assessment and Road Map Development for the Establishment of Capital Market in Ethiopia*. addis ababa: the Addis Ababa Chamber of Commerce and Sectoral Associations with financial support from the Swedish Agency for International Development Cooperation, Sida.
- Selvaraj, N., & Kumar, B. (2015). A Study on the Deposit Mobilization Pattern of the Dindigul central Bank Co-operative Bank Limited. *J Tourism Hospit*, 4, 1-8.
- Shereif Mahdi, O. M., & Dawson, P. (2007). The introduction of information technology in the commercial banking sector of developing countries: voices from Sudan. *Emerald Insight*, 184-204.
- Shettar, R. M., & Sheshgiri, S. M. (2014). Deposit Mobilization in socio-Economic Impact : A case study of union bank of India. *IOSR Journal of Engineering (IOSRJOEN)*, 04(05), 21-26.

- Shollapur, R. M., & Baligatti, G. Y. (2010). Funds Management In Banks: A cost-Benefit Perspective. *International Business & Economics Research Journal*, 9(11), 21-30.
- Tareq, M. A. (2015). Savings Mobilization Behaviour of NCBs in Bangladesh. *Austrian Journal of Business and Economic studies*, 1(2), 79-92.
- Tegene, G. (2012). Management of Commercial Banks in Ethiopia from the Perspective of Financial Inclusion. *European Journal of Business and Management*, 163-168.
- Terefe, s. (2012). prospects and challenges of private commercial banks in Ethiopia. Addis ababa.
- Tuyishime, R., Memba, F., & Mbera, Z. (2015). THE EFFECTS OF DEPOSITS MOBILIZATION ON FINANCIAL PERFORMANCE IN COMMERCIAL BANKS IN RWANDA. A CASE OF EQUITY BANK RWANDA LIMITED. *International Journal of Small Business and Entrepreneurship Research*, 3(6), 44-71.
- Varman, M. (2005). Impact of Self-Help Groups on Formal Banking Habits. *JSTOR*, 40, 1705-1713.
- Zeidy, I. A. (1996). Issues in Domestic Resource Mobilization in the context of Structural Adjustment Programme (SAP) With particular reference to Ethiopia. (pp. 1-24). Addis Ababa: Economic Commission For Africa.
- Zewdu, G. A. (2014). *Financial Inclusion, Regulation and Inclusive growth in Ethiopia*. Overseas Development institution, addis ababa.
- Zhang, X., & Daly, K. (2013). The Impact of Bank Specific and Macroeconomic Factors on China's Bank Performance. *Global Economy and Finance Journal*, 6(2), 1-25.
- Zillur Rahman, A. K. (2015). International Journal of Bank Marketing. *Emerald Insight*, 96-121.
- . (2009). *MONEY SUPPLY GROWTH AND*. freetown: WEST AFRICAN MONETARY AGENCY (WAMA). Retrieved from www.amao-wama.org/fr/publications

APPENDIX



Addis Ababa University
College of Business and Economics
Degree of Masters in Accounting and Finance

Dear Respondents,

This questionnaire is designed to gather data from the employees of Private commercial banks of Ethiopia on “DETERMINANTS OF COMMERCIAL BANKS DEPOSIT MOBILIZATION EVIDENCE FROM PRIVATE COMMERCIAL BANKS IN ETHIOPIA” which will be used as an input for the accomplishment of Master’s Thesis on a partial fulfillment of MSC in accounting and finance. Your genuine response is solely used for academic purpose and the data will be treated utmost confidentiality. Therefore, your kind co-operation is appreciated in advance for giving me your valuable time in responding the issues raised below.

For further information and need my assistance while you fill this questionnaire please contact me through phone number 0911084044.

General Instruction

- Please put a tick (√) on the space provided.
- Select the appropriate answer and circle.
- For question that need further explanations please use the space provided under each section.

I. Personal Information

1. Sex (optional) Female Male

2. Work experience in the bank: Below five years 6-10 years
 11-15 years 16 and above years

II. General Information

3. Which group of customers are the most significant depositors of your bank in terms of the size of deposits?

- Individual customers Business organizations
 Government entity NGOs
 If others specify -----

4. Which deposit type has the most significant deposit volume?

- Savings account deposits
 Current account deposits
 Fixed time deposits
 If others, specify -----

5. How many branches does your bank have as of the year ended June 30, 2015?

- Less than 100 branches 100-150 branches
 151-200 branches 200-250 branches
 More than 250 branches

6. Is your bank increasing the number of its branches every year?

- Yes No

7. If your answer for Number 12 above is 'Yes' what do you think is the main reason for the branch expansion?

- Deposit mobilization To Give Loan facility

- The advertising and publicity cost
- Cost of renting offices
- Costs related to publicity, promotion such prizes and gifts
- Costs related to recruiting, placing and training bankers for deposit purpose
- Others, please specify-----

13. Is the cost of mobilizing deposits increasing year to year?

- Yes No

14. Which of the following factors do you think affect the volume of deposits of the bank? (Multiple answers can be given)

- Saving interest rate
- Economic Development of the country
- The money supplied by Government (by printing money)
- The Number of branches opened
- Inflation
- Increase in per capita income
- Quality customer service
- Please specify if any additional factor.....
-
-

15. Do you think there is stiff competition among local banks for deposit mobilization currently? Yes No

16. What are the possible reasons for stiff competition?

- To give a better dividend to shareholders.
- To increase their profit.
- To increase market share.
- To make sustainable growth.

17. How do you see the competition with other private and government owned banks?
 Stiff Moderate Weak
18. Is government owned or privately owned banks highly compete your bank?
 Government Privately owned banks Both Government and private
19. What do you think main challenges of your bank?
 Competition from other banks more banks joined in the market
 Lack of technology Lack of trained manpower
 Small number of Branches (inaccessibility) Government laws /regulations
 Government participation in banking industry

Thank You for Your Cooperation!!!