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**Department of Public Administration and Development
Management**

**Commercial Banks' Role in Domestic Financial Resource
Mobilization and Economic Development support in Ethiopia**

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DEVELOPMENT MANAGEMENT

**Mobilization of Domestic Financial Resource through
Commercial Banks for Economic development of Ethiopia**

**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF Addis
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MANAGEMENT**

BY
TEFERI GAMO

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Statement of Declaration

Teferi Gamo , hereby declare that the thesis on the topic entitled “Mobilization of domestic financial resource through commercial banks for economic development of Ethiopia” submitted for partial fulfilment of M.A. degree in Public Administration and Development Management specialization in Development Management at Addis Ababa university is my original work and it hasn't been presented for the award of any other Degree, Diploma, or other similar titles of any other university or institution.

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I certify that the thesis entitled “Mobilization of domestic financial resource through commercial banks for economic development of Ethiopia” is the work of Mr. Teferi Gamo. He carried out the research under my guidance and I certified that, to the best of my knowledge, the work reported herein doesn't form part of any other project report or dissertation on the bases of which a degree or other award was conferred on an earlier occasion on this or any other candidate.

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BY
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Acronyms

ADF	Augmented Dickey Fuller
AIB	Awash International Bank
BOA	Bank of Abyssinia
CBE	Commercial Bank of Ethiopia
DB	Dashen Bank
DRM	Domestic Resource Mobilization
FCY	Foreign Currency Yield
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
ICT	Information Communication Technology
LDCs	Less Developing Countries
METEC	Metal and Engineering Corporation
MOFED	Ministry Of Finance and Economic Development
NBE	National Bank of Ethiopia
NEEDS	National Economic Empowerment and Development Strategy
ODA	Official Development Assistance
SME	Small and Medium scale Enterprises
SSBA	The United Nations Secretariat, International Savings Banks Association
UB	United Bank
UN	United Nation
WB	Wegagen Bank

ABSTRACT

Commercial banks are the main players in the financial system of Ethiopia performing financial intermediation. They control greater portion of the investment funds from domestic deposits and are the main creditors of the corporate bodies, micro finance institutions and individuals in various sector of the economy. The purpose of this study therefore was to identify the most effective and efficient ways commercial banks in Ethiopia employ to maximize the volume of domestic deposits. Thus, the study aims to evaluate the design of bank products and services, assess their effectiveness of harnessing domestic deposits and challenges they face in mobilizing deposits. This research has used relevant books, journals, annual reports, websites, and other publications to frame questions. Data from commercial banks on deposits they received from 2005 to 2014 and from in-depth-interview were used to analyze and the come to conclusion. Results from the analysis indicated that deposits mobilization of Commercial Banks in Ethiopia shows an upward trend but the rate of annual increment is at a decreasing rate. Total deposit is dominated by the public bank (CBE) .The bank also dominates the industry in financing the economy through loan. However, the competition among commercial banks is very critical to enhance efficiency in the overall contribution of the banking sector to the economy. The study also reveals significant contribution of branch network in the domestic resource mobilization of commercial banks in Ethiopia. The study's recommendations is that private commercial banks should be aggressive and more competitive in terms their financial mobilizing through increasing branch network and availing different product to bank users.

Chapter one

1.1. Background of the study

Accumulation of Capital has been emphasized as the major factor governing the rate of development. This accumulation of real physical capital stock has been viewed as permitting more roundabout methods of production and greater productivity, thereby providing an additional future stream of income to society. Whether it is financed from internal or external sources, the accumulation of capital in any developing economy requires the mobilization of economic surplus (Meier, 1989). That is, for an economy that wants to increase its real capital formation; the objective must be to provide a climate receptive to the encouragement of domestic savings. The mobilization of domestic resources is a key component of the global partnership on financing for development. Effective domestic resource mobilization in and by developing countries, is the most sustainable way and essential to provide important development resources for the purpose of sustainable pro-poor growth.

Particularly in developing countries experiences have shown that foreign capital alone cannot create any permanent basis for higher standard of living in future and that greater dependence on domestic sources of finance facilitates more the successful implementation of any planned economic development (Agu, 1984). More so, the current trends in the flow of assistance to developing Countries are actually declining and are not keeping pace with actual needs. At a time when all countries have a need for an ever-increasing volume of resources to promote their economic development, it has become difficult to secure foreign funds; and recourse to such funds entails serious disadvantages because it creates serious economic dependency upon the creditor countries and increases the burden of debt. The economic realities in developing countries have therefore considerably reinforced these arguments in favor of greater emphasis on domestic resources mobilization.

Strengthening domestic resource mobilization offers many potential benefits to African economies. Firstly, it will reduce the dependency on external flows, thereby reducing one of the sources of damaging instability in resource availability, and reduce vulnerability to external shocks. Secondly, it will give African countries greater policy space, increasing their ownership of the development process as well as strengthening their State capacity. Thirdly, successful endeavors to increase the importance of domestic resources in the development process depend on the State's ability to improve the domestic economic environment, creating important positive externalities. Finally, these

efforts are also likely to be seen as a positive sign by donors and investors, thereby augmenting external resource inflows.

According to Shone (1996) there are also various reasons that justify the need to grow relying more on domestic resource mobilization. These include First, self-sufficiency and sustainability are much more guaranteed when using domestic than foreign resources such as aid, borrowing or Foreign Direct Investment(FDI); because even though external resources also serve as alternative /complementary sources to alleviate temporary shortages, they come with some political conditions and are less predictable, unreliable and unsustainable; Second, the keen interest in both the government and the general public for improvements in overall well-being is another driving force for countries to focus on mobilizing own resources, even when they command limited resources. Third, it is believed that ownership of the growth path is more ensured when relying on own domestic resources; this is because unleashing the dynamic growth momentum by initial injection of domestic resources is more likely to generate more hope for a brighter future. All these and similar factors encouraged governments to focus on the need to initiate various strategies and for the people to concentrate on resource mobilization with a hope of accelerating economic growth.

Based on the aforementioned concepts as a developing country Ethiopia needs to mobilize domestic savings to achieve the desired economic development. This dependence on domestic sources of capital, therefore, requires a wide range of well-organized and adapted financial institutions especially commercial Banks, which have to mobilize internal resources for the purpose of capital formation and allow the capital to be invested suitably and freely into desired development ventures. Based on that, this descriptive type of study explored in the light of past trends, Commercial Banks role in domestic financial resource mobilization and economic support in Ethiopia. Hence, this study tried to show Banks as financial intermediaries in mobilizing domestic financial resources for economic development through loan and trade financing such as import and export and additionally tried to indentify some constraints of Banks in the efficient performance of this role.

1.2. Statement of the problem

Resources for investment in most Less Developing Countries (LDCs) are predominantly foreign especially Official Development Assistance (ODA), Foreign Direct Investment (FDI) and remittances. However, the high dependence of LDCs on external resources limits their policy space and creates some dependency. Their economic weakness is further aggravated by indebtedness. Similarly many LDCs run large deficits in the current and trade accounts, financed by official grants and loans. Even a small reversal in external capital flows may therefore cause domestic contraction. Mobilizing domestic resources will help reduce vulnerability arising from dependence on weak external income and also this mobilization effort provides the only viable long-term financing basis for development expenditures.

Domestic savings have a critical role to play in financing development. They are needed to provide resources for investment, boost financial market development, and stimulate economic growth. Yet, less developing countries have difficulties in mobilizing adequate domestic resources to meet their investment needs. This is mainly due to the predominance of subsistence activities which just generate enough resources to meet basic consumption needs and the overall high levels of poverty.

The country (Ethiopia) has launched its second Growth and Transformation Plan (GTP-2) which is expected focus on transforming the country to industrialization that in turn demands more saving. Planning for further saving requires the knowledge of the potential of the commercial banks in resource mobilization which will be available for economic development particularly which will be mobilized with in the country. So that, having appropriate and up-to date information on the matter is a critical first step towards devising relevant policy approaches to further mobilize the financial resource necessary to achieve the desired goals regarding transforming the country to industrialization.

The problem this thesis seeks to address in Ethiopia is that mobilizing domestic financial resources through Commercial Banks has not yet achieved the level sustainable for domestic investments which is due to various reasons. However, there is only limited and not updated literature that showing the resource mobilization role of commercial banks in domestic resource mobilization for economic development rather most of the studies focused on the domestic resource mobilization scheme of the government through revenue generation effort which is “taxation” and the overall domestic mobilization but does not clearly show the saving mobilization scheme of formal financial sectors especially through commercial banks from the general public(see Annex 2) .Therefore, this study

designed to fill this research gap by showing the mobilization of domestic financial resource through commercial banks for economic development of the country and tried to show some challenges of commercial banks which hindering an effective domestic resource mobilization effort and recommend ways for enhancing the their role in the economy development.

1.3. General Objective of the study

Generally, the objective of this study is to provide an in-depth analysis of Commercial banks role in domestic financial resource mobilization and economic development support in Ethiopia by center of attention to Commercial bank of Ethiopia (CBE) and also examines the performance of other Commercial Banks for comparison purpose.

1.4. Specific objectives of the study

The specific objectives of the study are to:

- To show domestic deposits mobilization performance of commercial banks over the years specifically, from 2005-2014.
- To identify the challenges commercial banks face in the collection and management of deposits.
- To determine the amount of financial support commercial Banks provide to different economic sectors.
- To find out whether commercial banks private and public have the same performance in deposit mobilization.
- To put policy recommendation to government that helps commercial Banks enhances their contribution to resource mobilization.

1.5. Research Questions

Related questions to ask include;

- (i). What is the performance of domestic deposits mobilization among commercial banks from 2005-2014?
- (ii). What are the challenges faced by commercial banks in the collection and management of deposits?

(iii). What is the amount of financial support commercial Banks are providing to different sectors of the economy?

(iii). Do all commercial banks have the same capacity in deposit mobilization?

(iv). What policy recommendation can be suggested to government that helps commercial Banks enhance their contribution to resource mobilization?

1.6. Significance of the Study

The study has great contribution to provide basic information in the area of domestic financial resource mobilization through commercial banks for the economy development. This in turn contributes to the well-being of the financial sector of the economy and the society as a whole. Therefore, the major beneficiaries from this study are: Commercial Banks in Ethiopia, regulatory bodies and the academic staff of the country. Furthermore, it will serve as stepping stone for further research in similar area. And lastly this study will give good idea to the researcher about this specific topic and general knowledge about any research.

1.7. Scope of the study

The scope of this study was designed to find out mobilization of domestic financial resource specifically deposits through commercial Banks towards economy development Ethiopia on the period 2005-2014. Even if there are so many ways of contribution of commercial banks in the economy development of the country, but this study is limited to only their role through domestic resource mobilization and the contribution of the mobilized resource in the economy by only focusing on loan disbursement and the outstanding loans are not considered in the study.

In Ethiopia there are 17 commercial banks under operation. From the number of the banks under operation as its dominant role in the economy the study gave more emphasis to Commercial Bank of Ethiopia (CBE) and also some relevant data are gathered from the rest of commercial banks for comparison purpose. In order to make the scope of the study manageable, this research focus on some major aspect that determine bank deposit and the study is restricted to identify some of the bank specific and macroeconomic factors affecting deposit mobilization of commercial banks. The research is also limited in its scope since it doesn't consider all primary data and information from external government organs, banking regulators, and the public at large. The study used both primary and secondary data but mostly focused on secondary data review for the period of the

research and the primary data is used as a supplementary to strengthen the finding drawn from secondary data. Accordingly the in-depth interview was used to gather information from the higher officials all of commercial banks in Ethiopia particularly for those who are concerned in the issues of the paper and who are located in each banks headquarter at Addis Ababa.

1.8. Limitation of the study

Although this study has been completed successfully, there were practical difficulties. In its best, this research work should have been extended to cover all facts about role commercial banks in Ethiopia economy development however, the inadequacy of relevant audited data, time and required material have constrained the researcher to limit to some focused areas and also some commercial banks were not willing to give full of the required primary source of information during interview due to fear of competition and unknown reason which might lead to biasness made on the result due to more dependent on the secondary data sources. Additionally the researcher was aimed to collect the required data from all commercial banks in available time but some banks are engaged in the industry in few period of time and they are not well organized in data preparation and submission in the required period of time.

1.9. Organization of the study

The study is structured as follows; Chapter one deals with the general introduction to the study, the problem identification, objective of the study, the scope of the study, methodology, limitations of the study and organization of the thesis. Chapter two seeks to review research related to mobilizing domestic resource (deposits). Issues to be reviewed include, type of deposits mobilized by commercial banks and the effects of deposit mobilization on capital growth and investment in the economy. Chapter three presented the population and sample size; research design; sources of the data; validity and reliability of the data as well as method of analysis. Chapter four is the main body of the research work where tables and figures used in the assessment of the information acquired. It discusses the trend of deposit mobilization, the instruments used in mobilizing deposits, and problems encountered. Also, this chapter contains processing of data and information gathered from the commercial banks and personal experiences.

Chapter five evaluates commercial banks' process of mobilizing deposits in Ethiopia. It also encompasses the findings, suggestions and conclusions drawn from the study and recommendation as to how commercial banks can maximize deposits or otherwise eliminate practices and policies

which are detrimental to deposit mobilization in Ethiopia based on detail information from the public owned bank CBE.

Chapter 2

Literature review

2.1. Introduction

Public Administration and Development management conceptions offer an interdisciplinary program that combines theories and practices in the organization and management of the public sector as well as management of development programs and projects. This conception intend to impart knowledge and skills in the areas of public and development management by offering various theoretical and practical thought on the concepts, principles, approaches of public policy formulation, implementation and evaluation; public finance management; human resource management, public service delivery; development management; new public management; research methodology; project planning and management; leadership and conflict management.

Based on the aforesaid concepts, in development management discipline offering the ideas about how to manage mobilization of domestic resources for financing economic development is a key endeavor towards creating relevant policy approaches by the concerned body of a government to further mobilize the financial resource necessary to achieve the desired economic development. As the result and effective and well managed domestic resource mobilization scheme specifically by developing countries would be an essential way to provide important development resources for the purpose of sustainable development.

2.2. Theoretical Literature

Banks are statutorily vested with the primary responsibility of financial intermediation in order to make funds available to all economic agents. The intermediation process involves moving funds from surplus economic units of the economy to deficit economic unit (Nnanna,O.J.,Eglama,and Idoko,F.O., 2004).

Financial intermediation is an important activity in the economy because it allows funds to be channeled from people who might otherwise not put to productive use of people who will. In this way financial intermediation helps to promote a more efficient and dynamic economy. Banks more effectively finance industrial expansion than any other form of financing in developing economies. Banks are the largest financial intermediaries in the economy. Financial intermediaries help to bridge the gap between borrowers and lenders by creating a market with two types of securities, one of the lender and the other for the borrower Vane and Hompson, (1982).

However, the extent to which the above could be done depends on the level of development of the financial sector as well as the savings habit of the public. The availability of investible funds is therefore regarded as a necessary starting point for all investment in the economy which will eventually translate to economic growth and development (Uremadu, 2006).

Access to financial services is important for growth and poverty reduction. Access to credit that enables an individual to accumulate funds in a secure place over time can strengthen productive assets by enabling investment in micro-enterprises, in new tools, equipment or fertilizers, or in education or health, all of which can play an important role in improving their productivity and income.

However, in many developing countries commercial banks lending or access to formal financial services for the poor majority of the population remains very limited. Credit is the main channel through which savings are transformed into investments. However, not all savings are used to finance investment despite high demand for credit because the credit market in developing countries is rationed. Indeed, the lack of credit has been cited by firm managers in Africa as their most important constrain (Bigstein and Soderbom, 2005).

Lack of funds has made it difficult for firms to invest in modern machines, information technology and human resources development which are critical in reducing production costs, raising productivity and improving competitiveness. Low investments have been traced largely to banks unwillingness to make credits available to manufacturers, owing partly to the mismatch between the short-term natures of banks 'funds and the medium to long term nature of funds needed by industries(as cited in Baykent University Journal of Social science,2014).

2.3. What is Domestic Resource Mobilization, and Why Does It Matter?

Domestic resource mobilization is the generation of savings domestically through financial sectors mainly thorough commercial banks as opposed to investment, loans, grants or remittances received from external sources and their allocation to socially productive investments within the country. It has private side concerns or private domestic savings, which the financial sector (banks) channels towards investment. *Public* resource mobilization is about public savings - the excess of public revenues on current government expenditure. Domestic resource mobilization is “the generation of savings from domestic resources and their allocation to socially productive investments”.

The question of mobilizing domestic savings for development has attracted as increasingly greater attention of researchers. United Nations (1957) states that the major source of increased domestic capital formation must be increased savings and that developing countries should prepare programs to stimulate domestic savings involving the extension of savings in order to ensure that capital moves into the most productive uses.

Lewis (1970) stressed that it is particularly important to stimulate savings among the peasants because of the role which agriculture has to play in economic development. Rostow (1988) in stages of Economic growth noted that during the take off, the rate of effective savings and investment must rise from 5% of the national income to 10%. Awareness has grown in this field as a result of international activities. The United Nations Secretariat, International Savings Banks Association (SSBA) has been co-operating closely in the program of action aimed at assisting developing countries. To this regard, they have jointly organized series of technical workshops on policies and techniques aimed at mobilizing domestic savings in developing countries. Although the workshop have influenced aspects of Social Mobilization process, they appear to have had the most significant effect on two major aspects of the process, namely, the institutional framework and incentive techniques and have been generally instrumental in creating a catalytic effect in regard to saving consciousness at the policy making level in developing countries .

2.3.1. Why focus on domestic resource mobilization?

According to Culpper and Bhushan (2008), resources for development can be mobilized from domestic or external sources. For most countries, the bulk of resources for development are mobilized domestically rather than externally. The external sources can be grouped under four headings:

- (1) Foreign direct investment and other forms of private foreign investment;
- (2) Export earnings from international trade;
- (3) Foreign aid and technical cooperation; and
- (4) The proceeds of debts forgiven by international creditors.

Domestic resources, on the other hand, stem from households, firms, and governments. Households generate savings; firms generate profits and net earnings. However, it is argued here that the crucial difference between domestic and external resource mobilization rests not only on the origin, but also

on the *application*, of the resources in question. In other words, there are typically significant differences between the motivations for, and impact of (for example) FDI resources compared to domestic resources. FDI responds to the commercial profit opportunities of, and retained earnings flow to, foreign investors, while foreign aid and debt relief are often motivated by political objectives of the donors and creditors. These may or may not coincide with domestic development objectives. Or to put it the other way around, it would be difficult

Indeed impossible, to meet domestic development objectives principally through mobilizing external resources. Not only would the quantity of external resources fall considerably short of the total needs of most countries, but they would also not “fit” the needs of many sectors. For example, most low-income countries are agrarian; yet the resource needs of agriculture and the rural population are seldom high priorities for FDI or even aid agencies (Culpper and Bhushan ,2008).

The higher levels of domestic resource mobilization can facilitate higher levels of investment and economic growth and more rapid poverty reduction; and can contribute toward reducing aid dependence (and/or dependence on FDI) and thereby increase domestic policy space and ownership. By way of some introductory observations, it is widely acknowledged that economic and social development entails a number of inter-related processes of transformation. These processes are complex and take many decades, even generations, to work themselves out. Over time, the standard of living and the quality of life improve, but typically not evenly throughout the population(ibid).

Additionally commonplace in the development discourse over the past decade is the critical importance of “domestic ownership” to successful development outcomes (including higher growth rates that appreciably reduce poverty levels). The principal reasons are the failure of much externally-imposed policy conditionality during the 1980s and 1990s, the need for broadly-based political and social support for the policies adopted by developing country governments, and the tremendous diversity of opportunities and constraints facing different countries. These factors speak to the need for policies that are effective within specific historical and geographic contexts, and accordingly they suggest that economic and social policies may vary significantly among developing countries, even while they share the same development objectives (Rodrik, 2007).

The rationale of a greater focus on Domestic Resource Mobilization (DRM) thus springs from the quest for sustainable growth and poverty reduction, and the need to create “policy space” to accommodate genuine domestic ownership and country diversity. In other words, it is hypothesized

that greater DRM can facilitate higher levels of economic growth and poverty reduction, and can also be a powerful means of enhancing policy space and domestic ownership. There is also a political economy rationale for advocating greater DRM. There is evidence to suggest that higher levels of aid dependence erode the quality of governance, as measured by indexes of bureaucratic quality, corruption, and the rule of law. Such political economy arguments provide additional cogent reasons for suspecting that greater emphasis on DRM is warranted on a number of grounds. Moreover, there is some overlap between these arguments and issues of domestic ownership and policy space, as noted above (ibid).

The challenge confronting enhanced DRM, particularly in low income countries, is the obvious fact that domestic resources are scarce where poverty is deep and widespread. Accordingly, increasing DRM has been described as a “hard option” when compared to mobilizing resources through ODA and FDI (Ernest, 2004). However, such a position does not take into account the drawbacks and tradeoffs associated with external resources.

2.3.2. The relationship between domestic savings and Economic Development

The economic growth is the common goal of all nations. Everybody lives with more comfortable, better standard of living than ever before and holding a better welfare because of the surge in their economic development. Government in each country aims to reduce the poverty and increase the level on national income. Therefore, to achieve the main target of economic growth, governments may implement various kinds of policies such as encourage saving, stimulating investment and production in their countries((Rasmidatta, 2011).

Investment contributes to growth in aggregate wealth but the investment cannot increase without increasing in the amount of saving. Thus, savings perform a major role in providing the national capacity for investment and production, which will affect the potential of economic growth. A serious constraint to sustainable economic development can cause from the low rate of saving. In general perception increasing aggregate savings contributes to higher investment and lead to the higher Gross Domestic Growth (GDP) in the short run. It means that the higher saving rate leads to less consumption, which could also result in larger amount of capital investment and finally a higher rate of economic growth(ibid)

On the other hand, in some empirical studies suggest that when economic grow, the economy would contribute to a growth in the personal income and per capita consumption expenditure.

According to the theory of marginal propensity to save, saving expand from the increasing of income . As a result, following this concept it can be easily understood that when the economic growth, the amount of saving also increases (ibid). On the other side even if the saving affects the growth rate of a country its has no long run effect on economic growth instead it is only for temporary period of time ((Slow, 2004) but it does not clearly shows the effects deeply.

2.3.2.1. Sources of Domestic saving

Rasmidatta (2011) indentified that, the sources of domestic saving commonly categorized as follows:

- ✓ **Household Sector Saving:** The savings done or accrued by the individual members in a household consists of household sector saving.
- ✓ **Private Corporate Sector saving:** The savings made in the private owned corporations are called as the private sector corporations. The private corporate sector comprises of:
 - (i) .Non-government non-financial companies,
 - (ii) .Commercial banks and insurance companies working in private sector,
 - iii). Co-operative banks, credit societies and non-credit societies and
 - (iv) . Non-banking financial companies in the private sector.
- ✓ **Public Sector Saving:** The public sector's savings are constituted:
 - (i) Government savings, and
 - (ii) Savings generated by the public sector undertakings in the form of internal resources. One process of estimating public sector saving is to scrutinize the relationship between public savings and the consolidated returns shortage of government which is an alternative measure of government savings.

2.3.3. Resource mobilization role of financial sectors

In order to transform the mentioned savings into investments, savings should be attracted by financial institutions. The process of transformation of savings into investment can be carried out by financial markets and by financial intermediaries. Mobilization of savings of population by financial intermediaries is the most important type of relevant banking operations. Commercial banks play a key role in transformation of savings to investments. They attract savings of people and ensure economic growth of the country ((Bairamli, 2010).

Mobilization of savings of the population into the economy can be realized with the help of the banking system and other institutions of financial sector. For the people in order to deposit their savings in bank accounts, it is necessary to apply more widely such mechanisms as payment through banks for various kinds of services and the goods, transfer of wages and salaries to current accounts of individuals. It is also necessary to use mechanisms of commercial banks for realization of programs of stimulation of a consumer demand and acceleration of activity of non-bank organizations working with the savings of the people. Financial interrelations of people with other sectors of the economy depend on the level of the development of financial institutions and mechanisms that ensure the realization of saving and investment potential of people(ibid)

One site of improving domestic resource mobilization is private saving, which is channeled through the financial sector. The development of the financial sector plays a critical role in the mobilization and allocation of private saving. Sustainable socio-economic development requires the development of an efficient and well-developed financial sector. The major functions of the financial sector include a number of services. In order to facilitate the exchange of goods and services, the sector serves as a payment mechanism. It further mobilizes saving and channel them to investment, providing such an intermediary role between lenders and borrowers(ibid)

A full-fledged financial sector is one of the core market institutions that ensure the supply of long-term capital to the economy. Furthermore, in allocating financial resources, it diversifies risks of investment. In fact, a well-matured financial sector provides a variety of financial instruments. On the one hand, it offers different rates of return, risk, and maturities to savers and on the other, it provides alternative sources of finance at varying interest rates and maturities to investors. Financial sector development is, therefore, the development of different financial institutions including commercial banks, development banks, saving and loan associations, credit unions, insurance companies, mutual funds, pension funds, which intermediate between lenders(savers) and borrowers (investors) with well nurtured financial markets including loans, bonds, equity, asset-backed primary markets and secondary derivative markets(ibid).

2.3.3.1. Resource mobilization of Commercial Banks

The need to develop domestic financial market institutions and patterns of behavior necessary to generate and mobilize scarce resources as a key condition originated in the classic work of Schumpeter (1934). Although the relative magnitude of the impact attributed to banks and other

financial institutions in developing countries differ, there is an acceptable consensus that financial resources are a very important factor in economic development

Since financial resource mobilization problem is very closely tied up with savings problem, the latter approach requires an institutional arrangement which encourages and mobilizes savings on one hand, and which channels savings to mobilized into productive investment on the other. In other words, greater dependence on domestic sources of capital requires a wide range of independent well-organized and adapted financial institutions, which have to mobilize internal resources for the purpose of capital formation (Agu, 1984).

Commercial Banks, the basic component of financial institutions, which are the major relevant important institutions which encourage and mobilize savings because of their network of offices; through their normal credit operations often activate savings lying idle elsewhere; and the bank's liabilities which are part of money supply are highly liquid and thus attract savers (Khatkhate, D.R. and K. Riechel, 1980).

Commercial Banks through their intermediation role between savers and investors have affected the volume as well as mobilization of savings, by providing the market with the diversification of instruments that will meet the precise liquidity needs of savers and at the same time making financial resources available to the investors over a relatively long-period in accord with their needs. Unfortunately, there has been a limited appreciation of the influence of financial technology embodied in the quality and variety of financial instruments developed by financial institutions, on savings and capital formation in developing countries (Bhatia, 1978).

2.3.3.2. Functions of commercial banks

Commercial banks undertake direct investment in the productive sectors of the economy. Bank financing is needed in an investment project and the decision of investment is made under uncertainty. Once the decision to invest is taken and the project financed, there is the likelihood of getting high expected revenue for the development of the economy. Advisory service is also a function performed by commercial banks. Commercial banks give expert advice to their customers especially those who have huge capital and want to invest. They have research department which undertake research on the various sectors of the economy and therefore advise their customers on the productive or profitable areas for their investment ((Khan, 2012).

One of the main forms of deposit kept by commercial banks is savings account. This type of account is operated with the use of passbook. Deposits and withdrawals are recorded in this passbook by the bank. The account attracts interest for their customers but if withdrawals are more than twice in a month, it may not attract interest. Someone else could pay in money into the account but withdrawal is made personally by the customer. It is the most common form of bank account. It encourages the low income earners to form or develops the habit of savings. Saving account holders can apply for loans but not overdraft (ibid).

Khan (2012) identified that Commercial banks play an important role in the process of economic development, which is clear from the following points:

- ✓ **Capital Accumulation or Formation:** capital formation refers to the increase in the existing stock of capital goods in an economy. Commercial banks remove the capital deficiency by encouraging saving and investment. The commercial banks can promote capital formation in the country by moving the resources to the productive uses.
- ✓ **Mobilization of Savings:** there operates vicious circle of poverty in developing countries. So, savings remain at the lowest level. Banks are playing important role in the mobilization of saving by introducing a variety of saving schemes. Banks induce the people to earn interest through saving and it provides various facilities in a country to create a will and power to save.
- ✓ **Availability of Funds:** An additional point of role of banks is more availability of funds. Poor population has poor resources for the economic development in poor countries so that, the activities like inventions and innovations, research and development and initiatives (effectiveness in responding to challenges) are impossible due to insufficiency of funds in these countries. Banks remove the deficiency of capital by providing different types of funds that leads to economic development.
- ✓ **Attaining Self Sufficiency:** a major problem faced by the developing countries is burden of foreign debts and dependence on other countries. Commercial banks provide incentive for the entrepreneurs to take risks and to use idle resources for more and better production. So, banks are helpful in attaining self-sufficiency. Banks provide loan to

develop the various economic sectors. It results in reduction in imports and increase in exports. Accordingly, banks are very important to achieve the self-sufficiency.

- ✓ **Implementation of Modern Technology:** economic development without use of advanced and the most up-to-date technology is impossible. Almost in all the economic sectors backward techniques of productions are used due to poverty in third world countries. Commercial banks provide more funds to people to make it possible to use the modern techniques of production. Due to implementation of modern technology, there is increase in production level, decrease in cost and save in time.
- ✓ **Development of Agriculture Sector:** All the regions and all the sectors of the economy are not equally efficient and developed in an economy. There is big need to develop the backward regions and sectors for the economic development. Rural areas and agricultural sector is still backward in Pakistan. Banks are playing an important role in the development of rural and agriculture sector.
- ✓ **Development of Industrial Sector:** industrial sector is the backbone of the economies in rich nations and also it is still backward of the poor countries. Commercial banks provide different types of loans for the development of industrial sector.
- ✓ **Expansion of Market:** Commercial banks help in the expansion of market. They help in the formation of sound economic infrastructure in order to raise living standards and to expand trade and commerce of an economy. Commercial banks cause development of industrial as well as agriculture sector. Accordingly, there is expansion of market that results in economic development.
- ✓ **Research and Development:** Commercial banks, sometimes, provide finances for research and development, which leads to inventions and innovations. Various institutes in developing countries are operating by the loan provided by the banks. Modern techniques are established and these are applied to economy in research institutes. Due to use of modern techniques of production, better quality and more quantity is produced which leads to improve the living standard of population.

2.3.3.3. Instruments of Deposit Mobilization by commercial Banks

Commercial banks use common tools to attract domestic resources or deposits. The deposit facilities offered by many commercial banks are categorized in to three: demand, savings and time deposits (Antwi, 2015):

Demand deposit: facility is most commonly referred to as current account and is designed for those who need money for transaction purposes. This motive can be looked at from the point of view of consumers who want income to meet their household expenditure and from the viewpoint of businessmen who require money and want to hold it in order to carry out their business activities. Hence, the purpose of deposit facility is for convenience or for making daily commitments.

Savings deposit: caters the need of those who wishes to save money but at the same time want to earn an income. Depositors of savings account hold money because of precautionary motives while are simultaneously induced by their investment motives. Precautionary motive for holding money refers to the desire of people to hold cash balances for unforeseen contingencies. Others are bounded by the speculative motive for holding money. The speculative motive relates to the desire to hold one's resources in liquid form in order to take advantage of market movements regarding the future changes in the rate of interest.

Time (fixed) deposit: facility is offered by banks to cater for the investment motives of customers who normally have idle funds and are looking for better returns on their money.

2.2.4. Commercial Banks as Intermediary in the economic development

Commercial Banks increase the productivity of investment by reducing the holdings of liquid funds by households and directing them to illiquid but high-performance projects. King and Levine (1993) demonstrate that changes in intermediation margins affect the growth rate of aggregate output and, interestingly, these changes are associated with the costs of financial innovation. Innovation increases efficiency and reduces risk, so that monitoring costs decrease and investment productivity rises for any given equilibrium growth rate. Additionally also highlight the role of innovation in a model where endogenous financial intermediation is a necessary condition for growth sustainability.

Financial innovation improves the efficiency of the screening and monitoring functions in evaluating specialized firm investment projects. De la Fuente and Marín (1996) find that endogenous financial intermediation also avoids the duplication of monitoring and risk control of investment when entrepreneurs do not have incentives to develop these functions in the presence of transaction costs.

The optimal level of monitoring depend on input prices and increases with capital accumulation. Similarly, improvements in monitoring ameliorate the risk properties of corporate loan contracts and foster firm's innovations.

Pagano (1993) identifies three specific contributions of financial intermediaries. First of all, an efficient banking system reduces the leakage of resources in funnel savings to firms. Secondly, intermediation ameliorates the allocation of funds since banks discriminate among bad and good projects, choosing those with a higher marginal productivity of capital⁵. Third, both the level and the growth rate of savings can also be affected by financial intermediation. However, these effects are ambiguous since the savings rate may increase or decrease. As bank markets develop, the availability of consumer or mortgage lending to households is higher and –if insurance markets develop in parallel the need of precautionary savings may diminish⁶. In any event, the net effect of intermediary development on savings depends on the risk-return properties of consumer utility function. The risk-return combination of savers portfolio improves with bank efficiency. Nevertheless, the impact on the level of savings will depend upon the effects of the expectation of higher returns (or lower risk) on the relationship between present and future consumption.

2.3.5. Branch Networking and resource mobilization

There is a relationship between commercial banks deposits and commercial bank's branch expansion. Not only are deposits influenced by bank branches, but the expansion of bank branches is also influenced by the level of deposits in any area. It is expected that banks make decisions on expanding their facilities by considering factors such as level of competition, deposit potential, regional income and existence of road and vehicles. As deposit potential is one thing that banks consider in expanding its branches, the deposit can also be a reason for branch expansion strategy that the banking sector uses.

There is a long run relationship between commercial bank branch and commercial banks deposits. It is often argued that branching stabilizes banking system by facilitating diversification of bank portfolios (Mark Carlson and Kris James Mitcheer, 2006)

They found from theoretical literature on banking regulation that branch banking leads to more stable banking systems by enabling banks to better diversify their assets and widen their deposit base .

An argument commonly articulated in the literature is that branch banking stabilizes banking systems by reducing their vulnerability to local economic shocks; branching enables banks to diversify their loans and deposits over a wider geographical area or customer base (ibid). Restrictions on branching have been linked to the instability of banking systems. Daniel (2005), suggest that the lack of widespread branching bank networks hindered the development of large-scale industrial firms. It is stated that unit banks become increasingly incapable of receiving deposits from a widespread geographic area. The single office bank is also not able to monitor geographically diffuse debtors as easily as could be done with multiple offices. Moreover, it can be concluded that under branch banking the mobility of capital is almost perfect.

2.3.6. Overview of the Ethiopian Commercial Banking Industry

The history of modern banks in Ethiopia starts in the imperial period. The first Ethiopian banks were foreign owned banks. They were replaced by domestic public and private banks. After the demise of the imperial era, and with the coming of the Derge to the power, only publicly owned banks were allowed to operate in the country.

Following proclamation No. 84/1994, the private sector was allowed to engage in the bank and insurance businesses which marks a new era for the Ethiopia financial sector development. As a result, private investors have enjoyed the opportunity of investing on banks' businesses. Currently, the Ethiopian banking industry constitutes nineteen banks, of which three are public owned while the rest 16 are privately owned banks. The operation of the industry is also supervised by the National Bank of Ethiopia (NBE).

Table 1 below shows the name of banks and their year of establishment. From the listed banks, the CBE is a pioneer bank in the industry. Awash International Bank (AIB) is the first private bank to join the market followed by Dashen Bank (Admassu Bezabeh, 2014).

Table 1: Ethiopian Commercial Banks and their year of establishment (G.C)

Name	Year of establishment
Public Bank	
1 • Commercial Bank Of Ethiopia	1942
2. Private Banks	
1 • Awash International Bank	1994
2 • Dashen Bank	2003
3. • Abysinia Bank	1996
4. • Wegagen Bank	1997
.5 • United Bank	1998
6 • Nib International Bank	1999
7 • Cooperative Bank of Oromiya	2005
8 • Lion International Bank	2006
9 • Oromia International Bank	2008
10 • Zemen Bank	2008
11 • Buna International bank	2009
12 • Berhan International Bank	2010
13 • Abay Bank	2010
14 • Addis International Bank	2011
15 • Debub Global Bank	2012
16 • Enat Bank	2013

Source: NBE

2.3.7. Bank Regulatory and Supervisory Organ

Bank regulatory and supervisory policies remain diverse. An increase in supervisory power was not found to be helpful in promoting bank development, performance, or stability in earlier work.

Countries may restrict banks to a narrow range of activities, or allow them to engage in a broad array. Since the scope of permissible activities differs across countries, banks are not the same across countries. According to literatures, the paper done on banking industry regulatory and supervisory policies in 180 countries which covers the period from 1999 to 2011 has provided information on (i) Overall restrictions on bank activities, (ii) Entry into banking requirements, (iii) Bank capital regulations, (iv).Official supervisory powers, (v) private monitoring, and (VI) External governance. Out of the surveyed countries following the global financial crisis 65 countries have tightened their overall supervisory restrictions and only 17 countries have eased overall banks restrictions following global financial crisis (2011) compared to pre-financial crisis (1999).

Banking regulation in its strictest sense refers to the framework of law and rules under which banks operate. Banking law and regulation extend to various aspects of banking, including who can open banks, what products can be offered and how banks can expand .The most important rationale for regulation in banking is to address concerns over the safety and stability of financial institutions, the financial sector as a whole, or the payments system Prudential banking regulation is designed to protect the banking system from crises because banking crises typically affect the entire economy((Barth, Caprio, and Levine, 2006).

2.3.7.1. Regulatory Environment in Ethiopian Banking Industry

Proclamation no. 591/2008 provides the legal framework of banking Industry in Ethiopia. The proclamation has given powers and duties to the NBE to regulate, license and supervise banking industry so as to play an important role in economic development; in payment and settlement system; in macroeconomic stability; and to ensure safety, soundness & stability of the banking system of the country.

To execute its duties, the NBE has issued various directives. Its duties are discussed and evaluated below:

- ✓ To enable the newly established bank to compete successfully with existing banks and to maintain a level of capital proportionate with the volume of their business to withstand operational results, the minimum capital required to establish a new bank is raised to Birr

500,000,000.00, which shall be paid in cash and deposited in a bank in the name and to the account of the bank under formation. New entrants into banking business complained that the NBE has increased minimum paid up capital requirement for new entrants from birr 75 million to birr 500 million.

- ✓ The NBE has issued a directive requiring commercial banks to invest 27% of their gross loan disbursements in NBE bills as a way of mobilizing resources for priority sectors.
- ✓ In order to mobilize savings and allocate deposits to profitable enterprises, The NBE's policy on interest rate is that it sets the minimum (floor) bank deposit rate, currently at 5 %.

2.4. Empirical Literatures

2.4.1. Mobilization of Domestic Deposit; The role of Commercial Banks in Ghana

The principal source of funds for commercial banks in Ghana is the deposits they mobilize from households and other company surpluses. Developing economies are characterized by unstable macroeconomic environments such as inflation, inappropriate fiscal and monetary policies, interest rate controls ((Opoku, 2011).

The net effect is the change in liquidity which affects savings and capital formation. Where the macroeconomic environment is favorable to savings then the commercial banks are in a better position to increase savings. On the contrary, where macroeconomic policies erode liquidity from the hands of the people then deposits reduce and may negatively impact on capital growth and investment in the country (ibid)

Commercial banks are the main controller of the financial system in Ghana performing financial intermediation. They control greater portion of the investment funds from domestic deposits and are the main creditors of the corporate bodies, SMEs and individual investors. However, the amount of domestic funds that commercial banks receive is far below the level sustainable for self sufficiency. Huge volumes of funds are left out of the banking system and it needs the efforts of the commercial banks to tap them into productive uses (ibid).

2.4.1.1. Commercial Banks in Ghana

In all, there are twenty-seven (27) commercial banks in Ghana performing an active role in mobilizing deposits in the country. Deposit mobilization is crucial for investment and growth in Ghana in their strives for self reliance. However, the stock market which seems to be the driving

force for the mobilization of investment funds in Ghana is still underdeveloped. Commercial banks continue to dominate in financial intermediation and have the obligation to expand their deposits in order to extend more loans. In doing so, commercial banks need to be aware of the liquidity situation in Ghana, the macroeconomic environment within which they operate and the influence of the central bank in the regulation of money supply so as to facilitate their product design and services to attract depositors. This piece of work further assesses the present mechanisms that commercial banks in Ghana employ to mobilize deposits, the challenges they encounter and the ways of improving future performance((Opoku, 2011)

One of the most important functions of the commercial banks in Ghana is financial intermediation; mobilizing deposits from those who have excess supply and lending them to those with excess demand. In their quest to accomplish these objectives commercial banks identify various tools to facilitate their operations. Commercial banks in Ghana through their various products have embarked on an intensive marketing drive to enhance deposit mobilization. The mechanism has always been product design. These products must be designed to be customer focused. Indeed, they must be designed to either target their corporate customers such as Unilever Ghana Ltd, Guinness Ghana Ltd, Ghana Brewery Ltd, Small and Medium Scale Enterprises (SMEs) and/or individuals saving through current and/ or saving accounts. Above all, the products must attract and retain valuable customers to be able to generate the required profits (ibid).

2.4.1.2. Trend of Deposit Mobilization in Ghana

A study of deposit mobilization in Ghana from the year 2000 to 2004 reveals an upward trend. A sample of nine(9) out of the twenty-seven(27) commercial banks involving the top rated banks by Standard & Poor Rating Agencies indicates an average yearly increase of 32.1% calculated from the yearly percentage increase in deposits. Theoretically, a growth rate of 32.1% in deposits may be considered sufficient to increase supply of funds for loan. However, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate ((Opoku, 2011)

Deposits mobilization of Commercial Banks in Ghana though, has an upward trend; it increases at a decreasing rate hence, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate. The study also reveals certain basic facts about commercial banks in Ghana. Their concentration in the cities and a few urban areas as well as their product design and services are targeted to the literate formal sector employees. In addition, unfavorable

macroeconomic conditions have resulted in negative real interest rate on deposits while unnecessary government intervention has reduced the confidence in the banking sector. The effects of these factors are the low deposits that commercial banks receive. The study concluded with recommendations for commercial banks such as; the need to redefine their product target, increase their scope to include the large majority etc. in order to ensure improvements in their operations(ibid).

2.4.2. Domestic resource mobilization in Azerbaijan

The long-run the level of investments in national economy closely correlates with the level of national savings. Savings of population are integral part of the economic system. The existence of savings increases the possibility of the future development. The savings of the population in Azerbaijan is the most important investment resource for the development of the real sector (agriculture and manufacturing), because foreign capital is mostly invested in production of natural resources like oil and gas. It is of vital importance for the state to mobilize savings of people into the economy. Due to this, the state will be less dependent on foreign investments and the domestic investments accumulated due to the savings of people will provide better stability of the country. This in the long run could contribute to economic growth and development (Bahiramil, 2010).

For maintaining a stable growth rate in the economy of Azerbaijan it was necessitate to increase investments by means of domestic resources. The amount of domestic savings could serve well for this purpose. Currently the ratio of savings of attracted from population to GDP in Azerbaijan equals to 5%, which is not considered to be an optimal level which indicated on International Journal of Economic Sciences and Applied Research.

Redistribution of financial resources from those who own to those who need is essential for the economy. Traditionally the households accumulate financial resources and businesses need these resources. Thus, domestic savings and investments are interrelated. In order to transform savings into investments, savings be attracted by commercial banks in the country and also the process of transformation of savings into investment carried out by financial markets and by financial intermediaries(ibid).

The study indicates that to sustain economic growth it is necessary to ensure macroeconomic stability and develop strong financial institutions and fund market to provide accumulation and transformation of savings into investments. “The private savings ratio tends to increase along with

the development of the financial system ((Koskela,E.,Viren,M., 1983). Strong financial institutions facilitate the flow of funds from savings to investments. Even if savings is high in the country without developed capital markets and financial intermediaries there will be no use as they could not be channeled into investments. On the other hand, insufficient development of the system of financial intermediaries lowers the rate of growth of the economy and can render inexpedient the mobilization of savings.

2.4.3. Contributions of banking sector in the economic Development a Case of Pakistan

In Pakistan, the common resource of supplies funds and the main source of financing to support the national economic performance are commercial, investment and Islamic commercial banks. However other the non-banking financial institutes like development financial institutions, provident and pension funds insurance companies, and operators, also take share to meeting the financial needs of the economy, thus the factors resultant for performance of bank and economic growth are investments, bank Profit/Loss, banks deposits, banks advances and Interest Earning. The commercial banks of Pakistan and other financial industry distinguish positive financial relationship on economic growth of Pakistan (Aurangzeb, 2012).

Banking system plays an important role in financial sector and accounts for 95% of this sector and demonstrated a positive relationship with economic growth of Pakistan. Over the past decade, substantial interest focused on the link between the financial sector and economic growth. Endogenous growth theory emerged in the late 1980s and paved the way for new theories exploring the link. In addition, improved empirical methods added considerable value to subsequent studies (ibid).

The study investigates the contributions of banking sector in economic growth of Pakistan. The data used in the study were collected from the period of 1981 to 2010 of 10 commercial banks. Augmented Dickey Fuller (ADF) and Philip Perron unit root test, ordinary least square and granger causality test have been used. Unit root test confirms the stationary of all variables at first difference. Regression results indicate that deposits, investments, advances, profitability and interest earnings have significant positive impact on economic growth of Pakistan. The Granger-Causality test confirms the bidirectional causal relationship of deposits, advances and profitability with economic growth. On the other side it shows unidirectional causal relationship of investments and interest earnings with economic growth runs from investments and interest earnings to economic growth. It

is recommended that the policy makers should make policies to enhance the banking sector in Pakistan because banking sector is significantly contributing in the economic growth of Pakistan.

2.4.4. Role of Commercial Bank in the Economic Development of India

Financial intermediation by banks has played a central role in India in supporting the growth process by mobilizing savings, particularly after the nationalization of the 14 major private banks in the late 1960s. Banks have been particularly instrumental in mobilizing deposits from the household sector, the major surplus sector of the economy, which, in turn, has helped raise the financial savings of the household sector and hence the overall saving rate. The banks in India played vital role of resource mobilization through the process of financial intermediation and supporting economic growth the country which is stated on Journal of Finance, Accounting & management (Bhatia, 1978).

Commercial Banks play a vital role in the economic development of India. They accumulate the idle savings of the people and make them available for investment. They also create new demand deposits in the process of granting loans and purchasing investment securities. They facilitate trade both inside and outside the country by accepting and discounting of bills of exchange. Banks also increase the mobility of capital. As well organized banking system is the need of the day. Commercial banks are the most effective way to generate the credit flow of money in markets. of India There is acute shortage of capital in India. The banks can play an important role in promoting capital formation, in controlling speculation in maintaining a balance between requirements and availabilities and in direct physical resources into desired channels (ibid)

Commercial banks perform many functions. They satisfy the financial needs of the sectors such as agriculture, industry, trade, communication, so they play very significant role in a process of economic social needs. The functions performed by banks, since recently, are becoming customer-centered and are widening their functions. Commercial banks accept various types of deposits from public especially from its clients, including saving account deposits, recurring account deposits, and fixed deposits. These deposits are payable after a certain time period. Commercial banks provide loans and advances of various forms, including an overdraft facility; cash credit bill discounting, money at call etc. They also give demand and demand and term loans to all types of clients against proper security. Credit creation is most significant function of commercial banks.(ibid).

2.4.5. Domestic resource mobilization in Ethiopia

Ethiopia is on the historic stage of economic transformation. In the last decade the country has achieved a remarkable economic growth which some considered as '*nothing short of a miracle*'. The World Bank's Economic Update for Ethiopia noted that, in the past decade, the country has had high economic growth, averaging 10.7% per year (World Bank, 2013)¹. According to the report, in 2012, Ethiopia was the 12th fastest growing economy in the world, and if this historic growth continues, it could become a middle income country in just 12 years. In Ethiopia, government saving is considered too low to meet the financial need of grand projects. This implies that household saving remains the single most important source of investable funds needed to meet the objective of 'middle income economy by 2015.' Saving may mean different to different people.

In this regard, a lot of effort in mobilizing domestic resources using various strategies as evidenced by the relatively notable economic growth registered in recent years. The strategies it followed included domestic saving mobilization (ibid)

This effort has covered both formal banking institutions. These programs have boosted the saving rate from 5.2 percent of GDP in 2009/10 to 17.7 percent in 2012/13 which in turn contributed to the raise in domestic investment as a share of GDP from 24.7 percent in 2009/10 to 33 percent in 2012/13. In terms of growth, deposits (net) almost doubled between 2012/13 and 2013/14. During the above period total resource mobilized (saving, demand and time deposited) increased from 10 to 14 percent.

According to the World Bank report (2013), the Commercial Banks have been playing significant roles in supporting investment and development activities in the country in many ways. Through their large branch network and solid capital base. Investment activities in the construction and manufacturing sectors, trade activities –both domestic and international trade, and provision of key inputs such as fertilizer and improved seeds to the small operators in the agricultural sector have been financed by commercial banks especially CBE.

In Ethiopia, all commercial banks and other specialized banks mobilize three types of deposits - demand, savings and time deposits, from all economic agents including individuals, private and public enterprises, financial institutions and the government. And, the size of deposits has been continuously increasing through time although the rate varies from year to year. Mobilization of

¹ The World Bank (2013): *Ethiopia Economic Update-II: Laying the Foundations For Achieving Middle Income Status*

deposits has received strong momentum during the post-reform years, owing mainly to the recovery of the economy and a range of policy revision taken by the government. In accordance with the reform, domestic commercial private banks have joined the banking sector and made remarkable expansions (ibid).

Some of the instruments used by commercial banks in mobilizing domestic saving include Expanding bank branches, and various initiatives that boost deposit and saving. The initiatives used include traditional deposit mobilization and special provisions such as lottery coupons, special accounts for youth, women, and interest-free banking, Micro finance institutions, pension schemes, housing saving schemes coupled with a lot of campaign on the need and benefit of saving have also been used.

Keeping the above in mind, the Ethiopian banking sector which is formal financial sectors has been expanding despite still dominance of the one public commercial bank. By fiscal year 2013/14, Ethiopia's banking industry was comprised of 17 commercial banks of which 16 were private and the remaining 1 state owned. The state owned commercial bank of Ethiopia accounted for 70 percent of the industry's total assets and the public banks provided 77 percent of total loans as of December 2012 (World Bank, 2013).

2.4.5.1. Special Domestic resource schemes in Ethiopia

In addition to the various formal and semi-formal privately initiated savings, the government of Ethiopia has also taken various measures to boost savings. These measures include schemes to increase household savings through improving financial sector accessibility and attracting funding from the large Ethiopia Diasporas. The following strategies have been used to promote and mobilize domestic savings:

✓ Deposit mobilizing Schemes Initiated by the Commercial Bank of Ethiopia (CBE)

i. ***Expanding bank branches to create access to unbanked groups in society.*** This is aimed at increasing access to financial services. The number of commercial bank branches have increased from 681 at the end of FY2010 to 1,286 at the end of FY 2012 (89% increase). The majority of the increase comes from the state-owned CBE, which increased its branch network by 167 per cent during the first two years of the Growth and Transformation Program (GTP). The branch expansion in all regions of Ethiopia has led to a significant increase in the likelihood of saving in banks by individuals according to the Urban Employment and Unemployment Survey 2012. Expanding bank

branches is therefore a major saving-supporting policy measure in Ethiopia. This is because the number of branches has had a positive and significant impact on improving the access of individuals to formal saving opportunities.

ii. ***CBE promotes deposit mobilization through the provision of lottery coupons*** for additional new savings made by depositors and for those who opened new accounts (with a fixed minimum amount). That is, every client who deposits Birr 1000 is allotted some lottery tickets to enable the client to participate in a lottery for various prizes.

iii. **Initiatives have been underway by CBE to boost deposits by encouraging special accounts for youth, women, and interest-free banking** in line with Islamic banking traditions for those who oppose interest earnings due to religious beliefs.

- ✓ **Pension schemes** – the government has established pension schemes for employees of NGOs and private companies, in addition to the government pension scheme under 25 which employees contribute 7% of gross pay and the government contributes 11% of the gross pay. Being long term by nature, pension funds are expected to provide reliable financing for long-term development projects that would normally face difficulty attracting suitable investment. The insurance sector has similar potential, with the added benefit of providing an income safety net for businesses and individuals.
- ✓ **Housing savings scheme** - A new scheme is being implemented in the city of Addis Ababa since June 2013. The scheme aims to encourage low- and middle-income earners to deposit money for a given period, to meet two goals: to encourage saving as a way of life to meet their future needs and to mobilize sufficient savings to enable them to buy a subsidized home. The scheme provides three main choices for the individual saver: the “10/90”, the “20/80” and the “40/60” options. Accordingly, an individual saves ten per cent (or 20 per cent or 40 per cent) of the housing cost in closed saving accounts at Commercial Bank of Ethiopia branches. By the time the savings reach a predefined per cent of the estimated housing cost, the savers will be entitled to a house depending on additional eligibility criteria.
- ✓ **Diaspora bonds** – In a bid to attract savings, the government of Ethiopia has issued Diaspora bonds. The purpose of Diaspora bonds is to raise savings domestically and to finance specific projects. In 2008, Ethiopia was the first country in Africa to introduce Diaspora bonds. The

“Millennium Corporate Bonds”, issued by the Ethiopian Electric power Authority, aimed to finance national projects. Drawing on the experiences of the first bond, the government issues a second bond in 2011, aimed at securing financing for the Grand Renaissance Dam project.

Getnet Alemu (2012), indicated in his study that the banking industry in Ethiopia is highly regulated and closed from foreign competition. Banks operate extremely in conservative lending policies and require physical collateral for virtually all loans constrain inclusive growth. He further stipulated that Key risks to financial stability & inclusive growth include: Unpredictable inflation; foreign exchange shortage exacerbated by unstable export performance; crowding out of private financial institution (declining marking share of private banks); Corruption (in banks and in the overall economy – erosion of business confidence Inadequate level of capital of the banking sector); lack of skilled manpower in the banking industry; collateral based lending is constraining private sector lending and alternative financing mechanism is lacking; ineffective ICT infrastructure on account of very weak internet connectivity; regulatory burden (tightening of regulations – 27% NBE bill and entry barrier by increasing the capital requirement); foreign Banking entry barrier limits technology transfer; lack of standardized accounting practices, auditing & reporting; and weak risk management practices – each bank established a small unit to deal with risk management, yet it has capacity limitations in terms of guidelines and risk assessment and management expertise.

Chapter Three

Research Methodology

3.1. Introduction

This chapter covered the methods of the study. It took into account the entire research design that is, methods adopted in the sampling technique; population and sample size of the study; the nature and source of data, and the way these data were collected and analyzed. The validity and reliability of the data were also highlighted.

3.2. Research Design

The primary objective of this study is to identify the mobilization domestic financial resource through Commercial Banks for economic development and also identifying challenges that could be an obstacle to effective deposit mobilization performance of the banks in Ethiopia. From the perspective of this specific objective, the type of research design undertaken in this research study is descriptive type because it is more useful to explore and describe the existing practice of the banks and also it is most appropriate to describe challenges which are hindering the performance of commercial Banks.

3.1.2. Sample Design

There is 1 public owned bank and also 16 private commercial banks operating in Ethiopia banking industry are considered for comparison purpose.

3.3. Population and sample size

The population of the study is commercial banks in Ethiopia the Seventeen (17) Commercial banks which were in operation during the periods have been considered in the research paper because of access to ready data. Even if detail investigation made on the leading bank (CBE), all private are considered in the study.

Based on the aim of gathering data from the whole commercial banks operating in Ethiopia, the study includes Commercial Bank Of Ethiopia (CBE), Awash International Bank, Dashen Bank, Bank of Abyssinia, Wegagen Bank, United Bank, NiB Bank, Cooperative bank of Oromia, Lion bank, Zemen bank, Oromia International bank, Berhan bank, Buna International bank, Abay bank, Addis International bank, Debu Global bank and Enat bank.

3.4. Data type and Sources

The research had lean itself on both primary and secondary data. The first primary data have been based on an in depth interview with senior bank officials of the banks which was very significance and believed to increase the quality and reliability of the data. According to (Boyce 2006) In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation. Additionally In-depth interviews are useful to explore new issues in depth which are often used to provide context to other data (such as outcome data), offering a more complete picture of what happened and why. Hence, the interviews were conducted with sixteen (16) key informants of senior banks officials at their office in person to support data gathered from secondary sources through unstructured interview open ended questions. It is designed to gather valid and reliable information through the responses of the interviewee to a sequence of questions which has qualitative nature

The secondary data source used included audited and published financial statements and annual reports for the years, 2005 to 2014. The websites of the various commercial banks, brochures, past research work, books as well as print media were also scrutinized for information. The periods were chosen because of access to ready data. The data was sourced from nine (17) commercial banks and was basically from the Annual Financial Reports which were gathered through contacts of the concerned bodies.

3.5 Validity of Data

The validity is concerned with accuracy of data. That is, the validity refers to the extent to which the data obtained is accurate for the purpose. The researcher exercised validity by soliciting an audited and published annual reports from competent concerned body of the banks. The data especially, the Annual Reports of the banks did not pose any problem to the researcher since they were outside their zone of indifference" and therefore was genuine. This helped the researcher to get relevant information for the purpose of the study. In-depth interview were designed to gather valid and reliable information through the responses of the interviewee to a planned sequence of questions

3.6 Reliability of Data

Reliability of data concerns its consistency. Thus, reliability refers to the extent to which the data is the same irrespective of their source. That is, the data specifically, the annual reports of the all commercial

banks in Ethiopia banks were not at variance with each other and therefore were reliable because all commercial banks annual report data emanated from each bank's financial statements.

3.7 Method of Data Analysis

Data analysis as defined by Montgomery (1991) is a careful examination of collected information in an organized form in order to understand the growing trend in any situation. Creswell (2005) defined data analysis as a process which involves drawing conclusions and explaining findings in words about a study.

The analysis of the data was employed both quantitative and qualitative methods. The acquired quantitative data of various types from relevant sources were analyzed with the use of simple descriptive statistical techniques like percentages and averages. Table and graphs were used for presentation of the analyzed data. The data that was collected through in-depth interview has been analyzed using inductive approach. According to Talja (1998) qualitative analysis often started by analyzing and counting the distribution of answers question by question.

Chapter Four

Data Analysis, discussion and Presentation

The previous chapters' present introduction of the study, the literature review and the research methods adopted in the study but this chapter deals with data analysis, discussion and presentation.

This chapter has four parts the first part discussed about the overall performance of commercial banks in domestic resource mobilization, the second part is about how the mobilized resource support the economy development, the third part focused on a public commercial bank which is commercial bank of Ethiopia performance in the economy through domestic resource or saving mobilization and the fourth part focused on the challenges of commercial banks on effective domestic resource which is available to finance the economy based on in-depth interview results.

4.1. Trends of commercial banks Domestic resource mobilization

A well-established and efficiently functioning banking system is the brain of the economy. Banks offer institutional mechanism through which resources can be mobilized and directed from less essential uses to more productive investments. The role of banking institutions in the efficient allocation of available resources is for capital formation and accelerated growth.

The nations strive for the development of their economy and poverty reduction. Investment is the driving force to bring about fast and sustained economic growth. Resources to be employed in the facilitation of investment activities are acquired via the accumulation of wealth over a certain period of time in the form of savings. In this regard, Commercial banks play crucial intermediary roles in mobilizing domestic financial resources from those who wish to save and provide loan to those who wish to invest. Having a well developed banking system with diversified products and services accessible to the public is believed to boost economic growth and reduce poverty. Of course, the relationship is reciprocal indicating high economic growth is necessary for a sustained development of the banking system itself.

Deposit mobilization is the most important function of commercial banks since their successful functioning depends on the extent of funds mobilized based on that diverse, well-functioning, competitive financial system is crucial both for mobilizing savings and for investing them productively. Every country needs a financial system that promotes savings and provides credit efficiently to economic sectors. The data presented in table 2 below shows idea about the amount of domestic resource mobilization of all commercial banks in Ethiopia over the years studied.

Table 2: Each Commercial Bank's performance in total domestic resource mobilization

Name of bnaks	(In '000 of Birr)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CBE	24,946,304	27,983,804	32,804,225	36,522,162	42,308,587	54,677,664	88,430,668	116,584,459	153,154,972	192,964,473
Awash	2,212,885	1,713,821	3,419,198	1,994,999	2,967,411	6,105,940	7,743,781	8,723,300	12,545,209	15,040,715
Dashen	2,833,007	3,691,602	4,860,547	6,151,522	7,925,210	10,144,549	11,841,239	14,065,600	15,851,264	17,681,343
Abyssinia	1,627,627	2,176,885	2,721,327	3,477,767	4,494,186	5,138,897	6,075,259	6,771,246	8,496,148	9,096,477
Wegagen	2,326,363	1,530,944	2,236,539	4,849,312	6,912,518	7,527,983	5,733,716	5,428,297	7,148,159	8,026,270
United	746,433	1,220,581	1,541,089	2,324,388	3,381,837	4,424,517	5,786,707	6,401,588	7,698,860	8,909,069
Nib	1,224,177	1,451,772	1,878,934	2,469,931	3,296,390	4,127,188	5,157,401	5,838,126	6,655,213	7,923,293
Coperativ e Oromia					788,680	1,371,820	1,980,420	1,672,144	4,465,040	5,450,097
Lion			122,256	375,228	703,600	1,017,580	1,297,373	1,736,656	2,105,863	2,686,984
Zemen					277,847	688,025	1,162,558	1,792,882	2,505,525	5,933,937
Oromia Internatio nal					189,497	820,935	1,526,319	2,117,297	3,050,440	4,492,861
Berhan						238,011	694,257	931,726	1593129	2,011,803
Buna						239,262.-	491,316	903,306	1,547,609	1,815,426
Abay							263,383	778,905	1,475,935	2,181,719
Addis							74	211,400	561269	792,413
Debub global									1,523.697	819,343
Enat										929,441
Total	35,916,796	39,769,409.-	49,584,115.-	58,165,309.-	75,245,763.-	96,522,371	138,184,471.-	174,956,932	229,856,159	286,755,664

Source: NBE

The growth performance of the banking industry in terms of total deposit also indicates that it was well over 32.24% annually especially during the last four years (Table 2). The CBE in particular did far better than the private banks in deposit mobilization owing to its aggressive including branch opening. The private banks as well showed above trend growth performance in their deposit in the recent years in particular. Growth in deposit was far better for the entire industry. As indicated on the table the total deposit position of the overall commercial banks had reached birr 286.8 billion at the end of the year under review.

As depicted on the table above even though there is high domestic deposit mobilization increment from year to year in overall banking industry, there is a wide disparity in the rate of deposit growth among commercial banks. The first seven commercial banks namely the public commercial bank (CBE), Awash, Dashen, Abyssinia, Wegagen, United and NIB banks mobilized high amount of saving as compared with others. With regards to deposit shares, it increased from 35.9 billion birr in 2005 to 286.7 billion birr in 2014. CBE took 66% share during 2011-2014. Among the private banks, the highest share went to DB (7.2%), followed by AIB (5.4%), BOA (3.8%), UB (3.6%), WB (3.4%) and NIB (3.1%) and 7.5 % by the rest commercial banks.

The result of the study shows that, the Ethiopian banking industry in terms of domestic deposit mobilization is highly dominated by the public bank (CBE). Moderate competition is important for banking industry as well as for the economy as a whole (De Nicoló, 2005). As he stated that if competition becomes more intensive, it may lead to banks to be excessive risk taking, which would result in deterioration of the quality of banks' products and financial position. In addition, failure in competition inadequate resources to lend, decline in investment spending, and slower economic activity will occur. In the worst case, banks will start to fail, and fear can spread from one bank to another. So the private commercial banks should be more competitive in terms their active role in the economy through mobilizing the required financial resource.

Table 3 : The growth rate of total deposit in the selected banking industry since 2009

Banks	Annual growth (%)						
	2009	2010	2011	2012	2013	2014	Average
Commercial bank of Ethiopia	17.5	25.7	55.7	41.0	28.6	30	33.2
Dashen bank	28.8	28.0	16.7	18.8	12.7	12.7	14.7
Awash International bank	13.8	23.0	26.8	18.9	36.3	28	27.7
Bank of Absinya	29.2	14.3	18.2	11.5	25.5	13	16.7
United Bank S.c	45.5	30.8	30.8	10.6	20.3	30	20.3
Wegagen Bank	38.3	7.5	50.3	(5.3)	31.7	32.4	19.6
Nib Bank	33.5	25.2	25	13.2	14	21	16
Total Deposit	24.65	28.29	43.16	26.23	31.29	25.21	29.8

Source: own calculation based on Annual Reports of NBE

In terms of annual growth rate as provided by table 3 above of the selected top 7 banks, total deposit increased by average 29.8% in 2014. Similarly, deposits collected by the Commercial Bank of Ethiopia and AIB increased by 30% and 28% compared to 17.5% and 13.8, respectively on 2009. On the other hand, deposit mobilized by Dashen Bank, Bank of Abyssinya, United bank, Wegagen Bank and NIB declined by 12.7%, 13%, 30%, 32.4% and 21% in 2014 compared to 28.8%, 29.2%, 45.5% 38.3% and 33.5 in 2009, respectively. Deposit of some banks have indicated increment in 2014: Deposits attained by Awash International Bank, Bank of Abyssinia, United Bank S.Co and Wegagen Bank increased by 28%, 13%, 30% and 32.4%, respectively, in 2014 compared to 2012 levels: 18.9%, 11.5%, 10.6% and (-5.3%). Deposit has been increased mainly due to expansion of branch networks & technology based instruments. Fluctuations in attaining deposits may be driven by several factors.

The overall result of the table implies that, in Ethiopian banking industry even if there is high yearly deposit amount which is indicated on (table 2) the rate of growth of deposit is very unstable. Specifically the public bank (CBE) annual growth rate of deposit has more instable nature. Deposit

instability increases aggregate risk exposure of the banks. Hence, the need for prudent liquidity management of all banks in general and CBE in particular is critical.

4.1.1. Deposit Mobilization of banking industry by type of deposit

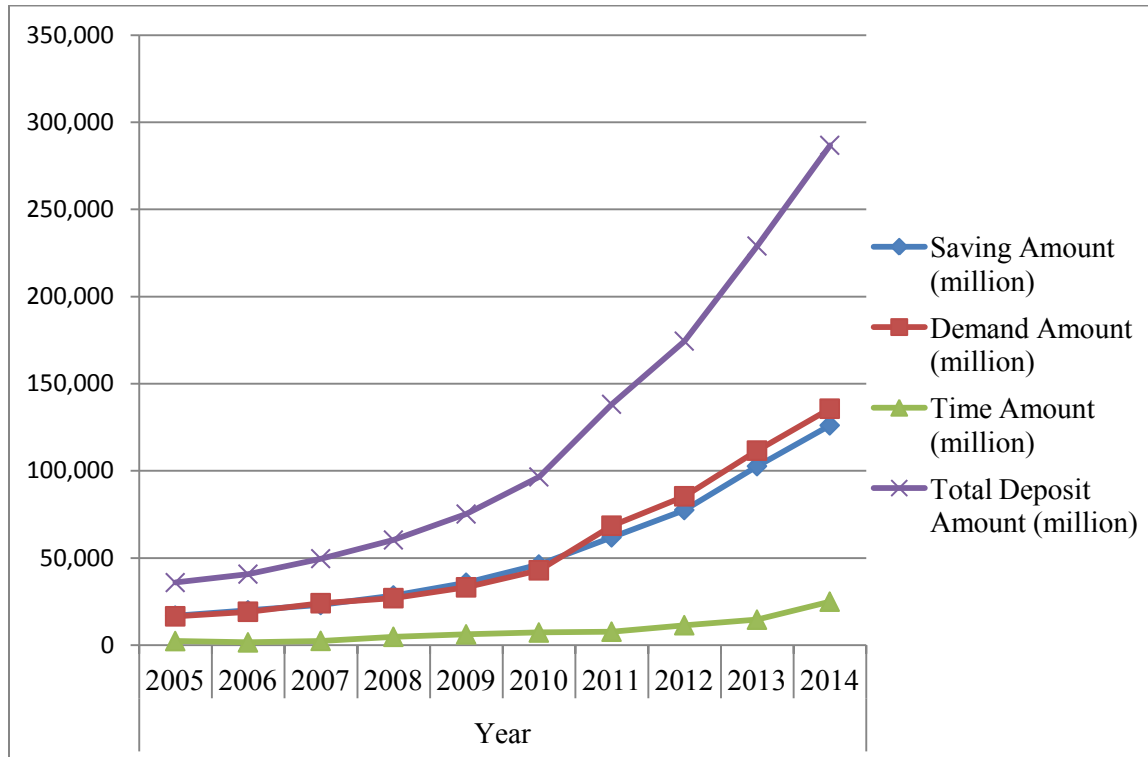
The domestic deposit which was mobilized commercial banks is not viewed as all the stable funds for financing the required economy development so that identifying the mobilized deposit by type is very crucial for decision making.

Table 4: Performance of banking sector by type of deposit

Year	Saving		Demand		Time		Total Deposit	
	Amount (million)	Growth Rate (%)	Amount (million)	Growth Rate (%)	Amount (million)	Growth Rate (%)	Amount (million)	Growth Rate (%)
2005	16,969		16,575		2,373		35,917	
2006	19,967	17.67	19,192	15.79	1,618	-46.66	40,777	13.53
2007	23,065	15.52	24,092	25.53	2,490	53.89	49,647	21.75
2008	28,538	23.73	26994	12.05	4,830	93.97	60,362	21.94
2009	35,835	25.57	33,197	22.98	6,209	28.55	75,241	24.65
2010	46,258	29.09	42,974	29.45	7,292	17.44	96,524	28.29
2011	61,886	33.78	68,537	59.48	7,761	6.43	138,184	43.16
2012	77,540	25.29	85,426	29.64	11,472	47.81	174,438	26.23
2013	102,716	32.46	111,637	30.68	14,661	27.8	229,014	31.29
2014	126,118	22.78	135,656	21.52	24,982	70.4	286,756	25.21
Total	538,892		564,892		83,688		1,186,860	

Source: NBE and own calculation

Figure 1: Growth rate of deposit by type



As provided in table 4, the total deposit of the Ethiopian banking industry in general has been at growing stage in the last five years. The industry registered its maximum deposit growth in 2011, which is 43.16%, and the minimum growth is registered in 2014 (25.21%). This shows that, despite variation in growth, the industry is among the best performing sectors of the economy and has been contributing greatly towards investment financing. However, the 2014 growth rate of total deposit in the industry is at its lowest level compared with the past five years. So, searching new deposit potential sources through making household level deposit potential assessment and tracking the government strategic areas to have accesses to new customers are important to enhance the rate of deposit growth.

In terms of resource mobilized by deposit type, as evidenced from table 4, the amount share of demand deposit has been significantly larger than saving and time deposit. Demand deposit account is characterized by high transaction (deposits and withdrawals) that makes it less dependable fund for financing the economy development .Hence, the deposit portfolio must strategically be modified towards saving and time deposit account.

Based on the above depicted table 4, the majority (47%) of the commercial Banks' deposits balance comes from demand deposit which is considered relatively unstable source of fund due to its the turnover is high because the main objective is trade facilitation. On the contrary, only 9% of the total deposits come from time (fixed time) depositors while 44% is from saving depositors. According to the standard, these two sources are considered stable source of funding. Therefore, the commercial banks need to further enhance its saving deposit mobilization efforts to secure its funding stability.

4.1.2. Banks' Branch Network and Deposit mobilization

The potential positive effect of saving seems well recognized among the policy makers of the country and the government has taken some initiatives to increase domestic saving rate in order to sustain the current fast economic development rate. As clearly stipulated in GTP document, the government planned to increase the Gross Domestic Saving (GDS). Limited access to financial institutions is considered to be one of the reasons for low gross domestic saving of Ethiopia. Expanding access to both private and public financial institutions is one of the government strategies to mobilize the unutilized funds.

The Commercial Banks are expanding their outreach throughout the country based on their main objective of deposit mobilization. Through branch expansion, the banks are also creating access to financial services for the community in the any areas of the country. Hence, opening yearly additional branches at potential areas of the country is one of the tools of deposit mobilization

The table below indicates that almost all banks that are operating in the Ethiopian banking industry have branches. These branches enable them to have access to customers at the grass root. The bank that has a better access to customers has the likelihood of being the leader bank in the industry and easily mobilizes the resources.

Table 5: Branch network of Commercial Banks

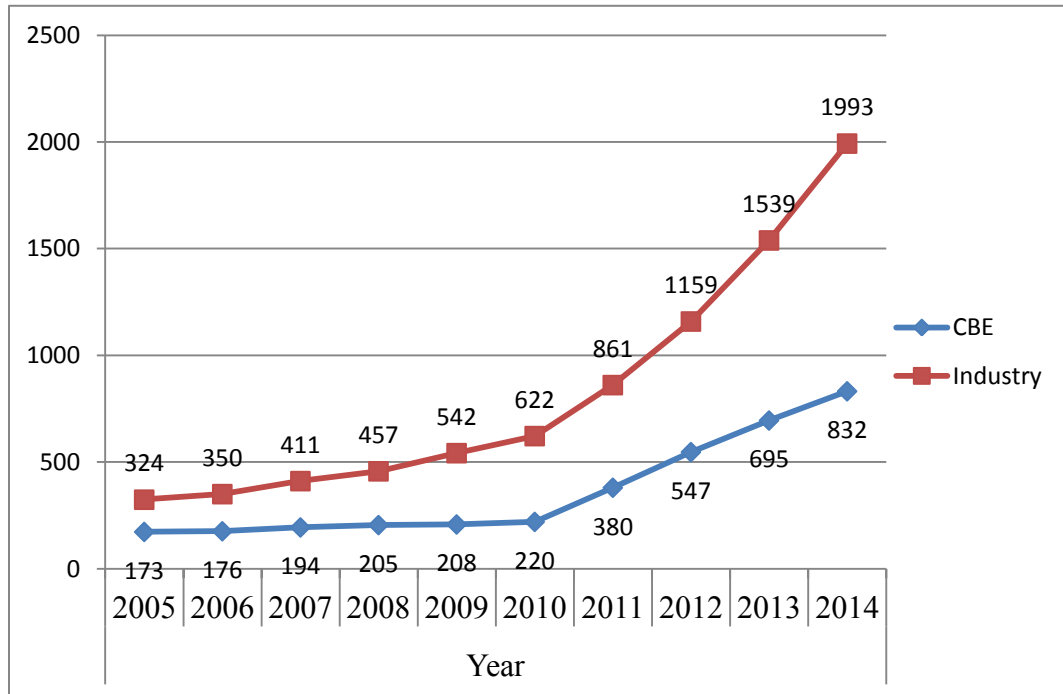
Name of banks	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CBE	173	176	194	205	208	220	380	547	695	832
Awash	35	40	47	30	31	64	70	86	115	150
Dashen	34	37	42	47	52	58	64	77	108	138
Abyssinia	21	25	29	43	46	48	55	63	78	100
Wogagen	27	32	38	44	48	50	54	63	76	95
United	16	21	27	34	40	42	48	63	73	94
NIB	18	19	26	38	43	45	49	55	71	88
Cooperative Oromia					28	39	45	53	78	106
Lion			8	16	19	24	29	39	46	63
Bunna						4	11	21	33	60
Oromia International					26	27	36	45	65	106
Zemen					1	1	1	1	1	3
Berhan							9	15	22	37
Addis							1	5	11	18
Abay							9	26	48	71
Enat										10
Debub Global									19	22
Total	324	350	411	457	542	622	861	1159	1539	1993

Source: NBE

As depicted on the above table, the number of bank branches has increased by almost four fold over the last 10 years to stand at 1993 at 2014. Above all with the objective of enhancing domestic resource mobilization in the country to finance especially the ambitious five years Growth and Transformation Plan (GTP), a public commercial bank is being encouraged to expand its branch network. As a result, the share of CBE from the total bank branches in the country has increased at a rate faster than the private banks and still maintains 42% of the total branch network.

Due to the observed branch expansion especially in recent years, the total domestic deposit (saving, demand and time) mobilization of the banking sector has increased significantly from 35.9 billion by the end of June 2005 to 286.8 billion by the end of June 2014 (Table 2).

Figure 2: Branch Network



The above figure 2 illustrates that, the trend of branch network of CBE and banking industry in general from 2005 to 2014. In 2005 the CBE and the banking industry had 173 and 324 branches, respectively. Until 2010 both trends show a slight increase, however, 2010 onwards the graph increases rapidly. In 2014 the number of branches in the banking sector reached 1,993 among which CBE contributes 832 (42%) of total branches

The analysis result of the study indicates that the number of branches in the industry has increased rapidly. In 2014, the number of commercial banks operating in the country reached 17: One governmental and 16 privately owned bank (Table 2). As a result of the entry of private banks into the domestic banking business, the number of branches of the industry increased of which the share of seven large banks: CBE, DB, AIB, BOA, UB, WB and NIB were, respectively, 42%, 6.9%, 7.53%, 5%, 4.76%, 4.71% and 4.41% .The number of branches of the banking industry has increased by 33.75% per annum during 2011-14. The CBE's branch expansion trend is high

compared to other banks. Continuous expansions in branch network year after year imply the intensification of competition among banks.

Based on the literatures and also the above result shows that branch network enables the banks to increase its geographical presence. Under the branch banking system, the bank with a number of branches possesses huge financial domestic resources; enjoys the benefits of large-scale operations; greater capacity to meet risks and has a competitive advantage over others.

As compared to private commercial banks, the public commercial bank CBE's deposit share has been increased to 61% in 2012, as a result of the aggressive branch expansion and other parallel deposit mobilization efforts in 2012. In 2014, the share is reached to 66%, due to a relatively increased branch expansion activity. While considering branch expansion, the influence of the CBE is visible simply by comparing the shape of the CBE and the industry in the figure 1. The CBE has been aggressively working to open branches in different localities owing to the overarching deposit mobilization strategy. The overall result implies that the high domination of branch expansion of CBE enabled the bank leading the industry total domestic deposit.

As their weak performance, private commercial banks in Ethiopia are expected that make decisions on expanding their facilities by considering factors such as level of competition and deposit potential. As deposit potential is one thing that banks consider in expanding its branches, the deposit can also be a reason for branch expansion strategy that the banking sector should use. So, Private commercial banks should use branches as a means for deposit mobilization. And so, as banks increase their number of branches and widen the geographical coverage, based on that they can mobilize more domestic deposits.

4.2. Commercial banks in financing the economy through mobilized domestic resource

Sustainable development financing will need to rely on domestic financial systems, and ultimately on domestic investors, to mobilize savings and channel them into productive investment. The banking sector is one of the major sources in financing the economy by providing loan to individuals, firms and the Government. As indicated on the following table, total new loans disbursed by the banking sector reached 53.2 billion in 2014, indicating nearly 7 fold increase to the level of loan disbursement in 2005 (Table 6).

Table 6: Each Commercial Banks performance in loan disbursement to the economy

(In '000 of Birr)

Name of Bank	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Commercial Bank of Ethiopia	3972.2	4115.9	5231.7	14418.2	11098.9	10697.0	17796.8	31940.3	27365.9	32184.1
Awash International Bank	1050.4	1409.5	1807.3	1547.0	2845.6	2955.7	4654.0	2467.2	2961.5	1944.6
Dashen Bank	1181.2	1676.4	1935.8	2145.7	2293.6	2231.8	2912.0	3632.4	2917.3	3757.5
Bank of Abyssinia	424.2	885.9	982.4	1934.3	1367.2	2139.8	2497.9	2101.7	2252.6	1534.2
Wegagen Bank	1284.6	1997.3	2399.3	2754.1	2153.2	2189.4	2612.0	2556.5	3031.3	2070.9
United Bank	342.5	629.8	688.9	746.8	1452.9	2283.7	2557.1	2358.1	2210.4	2085.4
Nib International Bank	375.0	469.7	994.5	1144.1	1234.3	1066.8	1645.0	2093.4	2429.6	3382.8
Coperative Bank of Oromia		214.9	388.0	1337.6	581.5	572.4	660.2	669.0	332.9	803.9
Lion International Bank			56.4	197.3	452.2	355.0	472.9	568.8	601.8	567.0
Zemen Bank					205.9	424.0	649.4	786.7	1195.3	787.3
Oromia International Bank					108.2	367.6	847.1	579.5	816.4	1149.9
Berhan Bank						155.5	312.4	254.2	690.9	484.0
Buna International Bank						224.2	309.5	472.8	532.4	679.3
Abay Bank							152.3	453.0	686.5	806.8
Addis International Bank								159.6	232.5	222.9
Dehub global									104.4	271.5
Enat Bank									6.0	479.4
Total	8630	11399	14484	26225	23794	25663	38079	51093	48368	53212

Source;NBE

The table above shows that the amount of fresh loans disbursed to the various economic sectors during the reporting year was Birr 53.2 billion. As can be observed from the table, a public bank (CBE) cover 60% of the total loan disbursed in 2014 where as Private Banks all together granted 40% of the total fresh loans disbursed during the same fiscal year.

The share of the majority private banks in loan disbursement since 2009 is decreasing. There are several reasons for this. As per Interview made with the senior official of Private commercial banks the reserve of the NBE is one of the factor which was placed on the lending activities of the private commercial banks since 2008. It raised the reserve requirement on commercial banks from 5% to 10% and further to 15% effective April 2008. In addition to this the liquidity requirement has also increased following the revision of reserve requirement (it is always 10% plus to the reserve requirement). This means the liquidity requirement requires banks to hold a further 25%. The other factor that has reduced the capacity of banks for loan disbursement was the credit cap that was set by the NBE. NBE has set the maximum net credit that can be provided by each commercial bank for each year since 2009 up until 2011.

Commercial banks share of loan and advances can indicate their capacity of meeting the financial need of the customers. The banking system ensures the efficient allocation of resources in an economy through lending to businesses and individuals using various credit systems. The delivery of credit to the users as shown in Table 6 indicates the performance of banks in their extension of credits to both the private and public sectors. This performance is as a result of the impact of size of deposit among other sources which is evidenced in Table 2, the volume of deposits mobilized by banks has been on the increase over the higher volume and rate of growth in the post consolidation era, after 2005. The result indicates that CBE takes the majority share of the loan of the industry so that it needs action to enhance the contribution of private banks in the economy.

4.2.1. Loan by sector (supporting various economy sector)

Banking system ensures the efficient allocation of resources in an economy through lending to various sectors which are businesses and individuals using credit systems.

Table 7: Loan granted through Commercial banks by economic sectors

(In '000 of Birr)

Disbursement by Sector	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Agriculture	1,560.2	2,188.8	2,621.0	5,371.6	3,037.5	4,437.1	8,248.0	14,175.4	9,709.2	10,867.5	62,216.30
Manufacturing	1,080.4	1,301.9	1,524.9	2,739.4	2,668.3	4,958.2	10,465.2	16,511.9	19,298.4	20,391.1	80,939.70
Domestic Trade	1,907.7	2,458.1	2,986.4	5,012.1	5,264.9	5,169.4	6,744.7	9,700.7	8,325.0	9,104.1	56,673.10
Export	1,241.4	1,657.8	2,233.8	3,116.3	2,858.5	5,279.5	5,936.4	2,659.5	2,569.1	2,973.3	30,525.60
Import	1,697.2	1,884.4	2,143.2	6,094.1	5,307.0	2,937.9	4,652.0	4,401.8	3,700.5	4,307.3	37,125.40
Hotels and Tourism	48.9	92.4	165.0	243.6	274.6	320.2	395.4	456.3	882.6	1,190.6	4,069.60
Transport and Communication	371.6	1,007.0	1,431.5	1,337.7	903.3	965.6	1,850.6	1,917.3	1,575.7	1,555.5	12,915.80
Housing and Construction	626.5	1,167.0	1,674.9	2,017.0	4,040.2	3,916.0	2,900.9	5,083.4	6,322.9	6,695.8	34,444.60
Mines, Power and Water Reso.	0.0	0.0	13.3	59.3	0.0	7.2	7.3	16.2	82.4	265.6	451.30
Others	815.4	503.4	585.4	997.5	771.2	343.5	711.9	907.0	1,529.5	1,899.8	9,064.60
Personal	83.8	141.2	179.5	265.8	241.8	272.3	311.7	183.8	256.3	268.4	2,204.60

Source: NBE

The table above depicted that, during the last three years (2012-2014), manufacturing industry took on average 34% of the total loans and while agriculture takes 19%, international trade both Import and export absorbing 14.8%, housing and construction 12.6%, domestic trade 8%, others 7.4%, and transport & communication 5.8%. The banking industry especially CBE has focused (give priority) on financing of manufacturing sector, international trade and agricultural sector respectively and expected to continue this priority. The overall increment of loan which is registered during the research period is the implication of favorable deposit is mobilized during the years and resulted in increased loans.

However, as information gathered from GTP-2 document, the main macroeconomic policy objectives of the five year GTP (Growth and Transformation Plan) was achieving a rapid, sustainable and broad-based economic growth through creating conducive macroeconomic environment. During the first four years of GTP implementation period (2010/11-2013/14), real GDP growth rate averaged 10.1 percent and the share of agriculture, manufacturing industry and service in GDP averaged at 40.2 percent, 14.3 percent and 46.2 percent, respectively. Thus, the process needs to be accelerated to bring about a significant shift in the structure of the economy particularly, to set the economy on a rapid process of industrialization and structural transformation. This entails extensively financing in manufacturing industry should be more than the share which is indicated on the above table and also enhancing productivity of agriculture so as to support the process of industrialization and export development so that the banking industry should more support to the manufacturing sector. As per annual report of commercial banks, most shares of agriculture and manufacturing are largely financed by the public commercial bank (CBE) while domestic trade is largely the private banks' domain.

Keeping the above in mind, the manufacturing sector has unique banking needs which involve financial assistance with cash flow needs, financing growth or acquisitions and new projects. Based on the literatures the contemporary manufacturing sector has a character of high standards of quality, innovation and hi-tech supported machinery and continuous growth that needs the backing of a bank which understands the sector. This implies that require banks to have more allocation of right funding to support entrepreneurs, provide specialist guidance/advisory services. Nationwide there are private and government owned banks engaged in commercial and developmental financing activities which accelerate the advancement of the country's economy. CBE is taking the lions share

in financing both the private and public manufacturing. The private owned commercial banks also play their own role in availing the necessary finances to enhance the private manufacturing sector. As indicated on (Annex 1) , after 2011 CBE has become dominant financier for the manufacturing sector whereas the credit financing share of other banks was very low which shows private banks involvement in financing the manufacturing sector was minimal.

4.2.2. Loan by Ownership

The commercial banks' loan in Ethiopia is also categorized based on ownership which granted to public, cooperatives and private sectors.

Table 8: Loan disbursement by ownership

(In '000 of Birr)

Type of Ownership	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Public Enterprises	1,313	307	936	5,175	5,266	1,449	6,103	13,535	15,172	13,483	62,739
Cooperatives	1,231	1,965	2,533	5,390	2,637	3,722	7,503	12,116	5,968	9,189	52,254
Private Sector	6,889	10,129	12,090	16,690	17,469	23,436	28,619	30,363	33,112	36,847	215,644
Total	9,433	12,401	15,559	27,255	25,372	28,607	42,225	56,014	54,252	59,519	330,637

Source: NBE

The table above illustrated that during the last three years of 2012-2014 private & individual borrowers covered 59% of the total loan which of public enterprise take 25% followed by cooperatives 16%. Private & individual borrowers share decreased from 82% in 2010 to 62% in 2014 while public enterprise share increased from 5% in 2010 to 22% in 2013 and cooperative loan increased from 13% in 2009 to 15% in 2013.

The implication of the result shows even though the share finance by banks in private and individuals loan is the lion share of the total loan, it shares has been decreasing. The decrease on share of loan of private sector may limit the activities of Private sector. On other hand, public enterprise share has been increasing since many huge projects or infrastructure has been takes place in the country. Despite the increased financing of the economy by providing loans, most of the finance in recent years has been going to the state and state-owned enterprises while relatively less annual percentage growth of the finance has been going to the private sector. That is why access to finance has been reported as being one of the critical obstacles for business development in Ethiopia in the various enterprise surveys (IMF, 2013). Unless such a financial constraint is properly addressed, the potential for inclusive finance would be limited and Ethiopia could not be able to sustain its recent economic development line.

4.3. The contribution of CBE in the economy

Because of its long years existence in Ethiopian banking industry, Commercial Bank of Ethiopia (CBE) has played more role in Ethiopia. As public bank have historically been playing significant roles in supporting development activities in the country. To this end, the Growth and Transformation Plan (GTP) has various implications for the entire banking system in general and the CBE in particular. Demand for credit, which is already high, would be expected to further increase, which calls for an enhanced effort to mobilize resources and supply of loanable funds.

CBE as a public owned bank plays more vital roles than private commercial banks in the economy and provides its support to the nation's economy various ways.

4.3.1. Through financing micro-finance and small scale financial institutions

As public bank the bank recognizing the role of the institutions in the socio-Economic development of the country and giving special attention and financing them. The following table shows the role the bank in financing the institutions in recent period of time

Table 9: Contribution of CBE in supporting micro finances in recent years

(In '000 of Birr)

Items	Year				
	2010	2011	2012	2013	2014
Micro-finance	89,368	148,936	203,000	79,000	198,086
Total	89,368	148,936	203,000	79,000	198,086

Source: CBE MIS

The above table indicates that the commercial bank of Ethiopia has played its part and share on supporting the small scale institutions through the regional micro-finances by leveraging their money shortages. This indicates what other countries have been done in the context of developmental financing, so CBE also exercises such practices on the bases of the same theory in line to the government's policy. Micro and small Enterprises play vital role in economy development by creating employment opportunity and then reducing poverty but there is still the gap between demand and supply of credit so, commercial banks in general and CBE in particular should need to fill this financial gap.

4.3.2. Contribute to the economy Development through control inflation through and poverty eradication

Based on its role to the economy support, the commercial bank of Ethiopia arranges the availability of foreign currency to import the essential consumption goods to manage and reduces the inflationary burdens of the society. Besides, it also provides the FCY to the major public projects to enhance their production and services in order to meet the GTP targets of the country. So, the following tables are showing the FCY provision. For instance, the Bank's credit process plays a role in the edible oil sector in two ways. The first one is through financing the domestic edible oil processors whenever the request arises. Secondly, the Bank financially supports the government's effort in importing the palm oil.

Table 10: CBE in control of inflation and poverty eradication

In millions of USD equivalent

Items	Year					
	2009	2010	2011	2012	2013	2014
Edible Oil	-	-	331.1	359.2	7,728.3	7,815.7
Wheat	-	-	-	0.6	2,738.0	3,551.5
Sugar	78.29	-	178.8	188.3	6,019.8	443.2
Fertilizer	253.75	285.11	567.9	196.6	5,489.4	9,984.0
Fuel	1,182.71	1,389.97	2,036.1	2,308.2	-	-
Total	1,514.75	1,675.08	3,113.9	3,052.9	21,975.50	21,974.40

Source: CBE MIS

The above table depicts that the foreign currency would arrange to purchase for the basic consumption goods and input for production and service improvement. It implies that had not been the bank financed and arranged the foreign currency to the above imported commodities the inflation may not be afforded by the society; it might be raised and continued far of double digit.

4.3.3. Contribute to the economy development through financing Public projects:

The Bank offers a wide-range of credit products supposed to fit with the existing or future demands of the economy and its customers. CBE extends short, medium and long terms loans and advances to borrowers who are engaged in commercial and non-commercial activities. According to the information from the bank's credit sources, the bank credit focused on three sectors based on the government development strategy which are Manufacturing, Agriculture and Export. In every activities of the bank the existence and experiencing of equity is very critical for fair distribution of economic growth.

The UN annual report, (2012:123) maximizes this idea that it is only by the provision of cheap and adequate (priority) credit and package of agricultural extension services to small farm holdings that technological progress in farming can be made scale-natural. Scale-natural technological progress is essential to equitable growth, because no sustainable improvement in the distribution of income is

possible without reducing the effective scarcity of land. It is obvious that infrastructure is a pivotal for market stability and easily access of the potential resources of a country. In doing so, financing for such kind of projects is necessary. Therefore, the CBE has provided credit facility for the following public projects listed under the following table.

Table 11: CBE in financing major public projects

(In '000 of Birr)

Items	2009	2010	2011	2012	2013	2014
EEPCO	3,000,000	5,000,000	13,000,000	19,000,000	16,200,000	28,000,00
Regions(for housing development)	1,875,000	2,182,000	3,017,000	4,101,000	5,675,000	8,850,000
Pre shipment	2,271,245	3,386,823	5,489,559	9,623,881	8,370,918	3,100,000
Sugar projects	-	-	2,621,874	9,180,200	6,093,685	10,190,90
METEC	-	1,020,215	98,110	101,500	2,500,000	
Railway	-	-	1,192,631	-	-	7,700,00
Ethiopian road construction	-	-	-	-	100,000	-

Source: CBE MIS

As we can observe from the above table the credit financing for the public projects and other private loan has shown a great increment every year. This means the bank has also played its remarkable contribution on the expansion of infrastructure and development of the country. The country Ethiopia has registered an average 11% GDP growth for the consecutive ten and plus years, which magnifies the CBE's role played to accelerate and sustain this development and adds value to the entire economic, social, political, and cultural development of the society. This mega projects have a great opportunity in the employment creation and income distribution fairly by constructing residential houses, electric power, telephone access, land transport and the like that have its own impact on the life of the society.

4.4. In -depth Interview Results to show challenges of banks and to put recommendation to the government

In order to understand the banks role in domestic financial resource mobilization, the researcher used unstructured interviews with key informants of commercial Banks to gain a greater insight into the findings that dig out from secondary data analysis. The Banks' officials were chosen from the head quarter of each bank due to they have information about the overall bank's issues and they are most knowledgeable parties about the role of their banks in the economic development of the country. The interviews were conducted through personal contact with each bank's respondent at his /her office. The interview questions were designed based on the objective to find out the banks role in domestic financial resource mobilization, the challenges facing the banks and also the policy recommendation of the banks.

As per the interview result, the banks' deposit has been somewhat at growing level for the last decade which is the result of branch expansion. Specifically as a public bank response, the deposit amount exhibited by the public bank (CBE) was recorded growth since 2011, this high growth was due to the CBE has started to aggressively expand its branch network. This growth in the branch network also helped the CBE to raise its deposit amount. This may imply that the whole commercial banks take increase in branch network has positive impact to the required deposit mobilization.

As mentioned earlier and the required data indicates that there is high increase in domestic deposit mobilization in overall banking industry in Ethiopia in general and CBE in particular due to high branch expansion.

Respondents also stated that their deposit mobilization is mainly in three forms, i.e. demand deposit, fixed deposit and saving deposit. Saving deposit is an interest minimum interest on saving deposit is fixed by the national bank of Ethiopia (NBE). Demand bearing deposit is non interest bearing deposit that the bank collects mainly from companies and businessmen with the deal that they can withdraw their money on should give to the depositor. The last one fixed deposit is the contract between the bank and its customers, which states about the date of the withdrawal and the special and negotiated interest the bank. Even if all commercial banks give center of attention to saving deposits, the actual largest proportion is taken by demand deposit which due to lack adequate public's confidence in the banking sector in general and private banks in particular so that the bank should made more effort to mobilize saving deposit which required for long term investment.

As per the interview result the challenges of Commercial banks are summarized as follows

- All commercial banks' financing the economy through loans mostly based on the availability of collaterals i.e. the ability of the borrower to provide adequate collaterals. The officials believe that it is a problem by itself; because many capable borrowers will lose the opportunity to realize their aims due to lack of collaterals. This implies that, there should be appropriate legal protection to banks with regard to other forms of securities. Laws on negotiable instrument, investment securities and financial guarantee bonds should be developed to give a chance to banks the opportunity to regenerate their delinquent portfolio in existing environment
- The other challenges all commercial banks raised by the respondent is that the banks in the country can give interest above the minimum interest rate fixed by NBE as a means to attract customers and compete with each other. However, they cannot give interest less than the minimum interest rate fixed by NBE.
- Internet and telecommunications impede smooth development and improvements in internet related services which believed by the respondents that helpful to satisfy the existing customers as well as to enhance more customer attraction to the banks but in contrast, the banking industry is under challenges/dissatisfaction of their customers/ since internet interruption and low capacity when high transaction takes place.
- The other issue raised by private banks is related with recent government policy condominium housing. In order to reduce the housing problem and support citizens to have their own house, the government issued a new program that allows citizen to buy condominium apartments and the balance to be settled in long-term loan basis. All these resources are mobilized and administered by the public owned CBE.
- The respondents of private banks believe that, the CBE has engaged in an aggressive branch opening particularly since 2011 financial year. This expansion of state owned bank in one way or other reduced future market for private banks.
- There is also another issue raised during the interview by the respondents from the private banks is that the challenges of private commercial banks with regards to less deposit mobilized as compare to public bank is that the public mainly choose government owned

banks which the result of for a long period of time government owned control the banking sector and still now the larger market share is under the hands of government owned bank. This is also one of the reasons that many customers still choose CBE which could be the challenge of the private banking sector especially in terms of efficiency.

During interview the respondents mentioned some policy recommendation to Government which are summarized as follows:

- Regarding the challenge of the banks related to loan is based on collateral; the respondents recommended that there ought to be appropriate legal protection to banks with regard to other forms of securities and financial guarantee bonds should be developed to give a chance to banks the opportunity to regenerate additional portfolio in existing environment.

In reaching the unbanked society which is taken as one of the strategies of the CBE is doing good work but there is high domination over private banks. According to the private banks response to minimize the domination of state owned bank and to encourage expansion of private banks the government should take some reform measures.

Chapter FIVE

Summary of findings, Conclusion and Recommendation

The preceding chapter discusses about the results and finding of the study while this chapter deals about summary of the major findings, conclusions and recommendations based on the overall information and result of the study.

5.1. Summary of findings

The main objective of this study was to investigate Commercial banks role in domestic financial resource mobilization and economic development support in Ethiopia. Specific objectives were to determine and evaluate the deposit mobilization capacity of Commercial Banks and in this regards, find out whether private and public Commercial Banks have the same capacity in mobilizing the deposit and also to show the level of financial support commercial Banks providing to different sectors of the economy. The study tried to reveal certain challenges of the banks in collection and management of deposits. Accordingly the study disclosed basic policy recommendation to the government that helps Commercial Banks to enhance their contribution to resource mobilization. As a result of the analysis made, the following are the summary of the major findings:

Regarding trends of Deposit Mobilization

- ✓ The study's result shows that the level of domestic deposit mobilization in Ethiopia through commercial banks within the research is at growing level.
- ✓ The study analysis result indicated that the banking industry even if there is high yearly increase deposit amount, the rate of growth of deposit is very unstable.
- ✓ As depicted on the study ,the majority of the commercial Banks' deposits balance comes from demand deposit which is considered relatively unstable source of fund due to its the turnover is high because the main objective is trade facilitation.
- ✓ There is high relation shown on the study increase in branch network expansion and the amount yearly deposit and the result shows the bank with a number of branches possesses huge financial domestic resources in Ethiopia.

Regarding the capacity among commercial banks in deposit mobilization

- ✓ The result of the study shows that, in terms of domestic deposit mobilization the Ethiopian banking industry is highly dominated by the public bank (CBE). This indicates that there is no moderate competition in public and private banks in Ethiopia.
- ✓ One of the mechanisms to mobilize additional deposit which is indicated on the study result is expanding branch network. As the result, even if the Commercial Banks are expanding their outreach throughout the country to meet this objective, the share of CBE from the total bank branches in the country has increased at a rate faster than the private banks and still maintains 42% of the total branch network

Regarding the level of financial support in which Commercial Banks are providing to different sectors of the economy.

- ✓ In Ethiopian banking industry the total disbursement of the mobilized resource in the economy is dominated by Commercial Bank of Ethiopia (CBE).
- ✓ The banking industry loan disbursement especially CBE has focused (give priority) on financing of manufacturing sector, international trade and agricultural sector respectively.
- ✓ The implication of the result shows even though the share finance by banks in private and individuals loan is the lion share of the total loan, the shares has been decreasing. This decrease on share of loan of private sector may limit the activities of private sector. The reason of public enterprise share has been increasing is due to many huge projects or infrastructure has been takes place in the country
- ✓ Based on the result of the analysis despite the increased financing of the economy sectors by providing loans, most of the finance (over 70%) has been going to state-owned enterprises while less than 30% of the finance has been going to the private sector. That is why access to finance has been reported as being one of the critical obstacles for business development in Ethiopia in the various enterprise surveys.
- ✓ The result indicates that most of the public projects and micro finance institutions are financed by a public owned bank (CBE) and also CBE takes the responsibility in controlling the economy environment of the country such as inflation.

Regarding Challenges

- ✓ The study result indicates that all commercial banks' financing the economy through loans mostly based on the availability of collaterals which is a problem by itself; because many capable borrowers will lose the opportunity to realize their aims due to lack of collaterals.
- ✓ As per the study result, one of the challenges of private commercial banks with regards to less deposit mobilized as compare to public bank is that the public mainly choose government owned banks which the result of a long period of time government owned control the banking sector and still now the larger market share is under the hands of government owned bank.
- ✓ The result of the study reveals that internet and telecommunications obstruct smooth development and improvements internet related services which believed to enhance more customer attraction to the banks but in contrast, the banking industry is under challenges/dissatisfaction of their customers/ since internet interruption and low capacity when high transaction takes place.

Regarding Policy Recommendation

- ✓ As per the interview result, the challenge of the banks related to loan is based on collateral; the respondents recommended that there ought to be appropriate legal protection to banks with regard to other forms of securities and financial guarantee bonds should be developed to give a chance to banks the opportunity to regenerate additional portfolio in existing environment.
- ✓ As the result of the study based on interview , in reaching the unbanked society which is taken as one of the strategies of the CBE is doing good work but there is high domination over private banks. According to the private banks response to minimize the domination of state owned bank and to encourage expansion of private banks the government should take some reform measures.

Key finding from the Review of the Literature

- ✓ Banks are critically important for economic growth but their effectiveness depends on the quality of resource allocations and on their ability to mobilize adequate savings and translating these savings into capital accumulation. Banks need to be well guided to discharge their basic functions more effectively.

5.2. Conclusion

This study was set out to assess Commercial banks' role in domestic financial resource mobilization and economic development support in Ethiopia. Relying on this broad objective, a number of specific objectives were developed. In order to achieve these specific objectives, research questions have been formulated that is aimed to answer. The research questions are:

- (i). What is the trend of deposits mobilization among commercial banks from 2005-2014?
- (ii). What are the challenges faced by commercial banks in the collection and management of deposits?
- (iii). What is the level of financial support commercial Banks are providing to different sectors of the economy?
- (iii). Do all commercial banks of have the same capacity in deposit mobilization?
- (iv). What policy recommendation can be suggested to government that helps commercial Banks enhance their contribution to resource mobilization?

In order to answer these stated research questions, the study took into Consideration mixed research approach, i.e. quantitative and qualitative approach

- ✓ The level of domestic deposit mobilization in Ethiopia through commercial banks is at growing level.
- ✓ The majority of the commercial Banks' deposits balance comes from demand deposit which is considered relatively unstable source of fund due to its the turnover is high because the main objective is trade facilitation.
- ✓ In Ethiopian banking industry even if there is high yearly increase deposit amount, the rate of growth of deposit is very unstable.
- ✓ There is high relation between branch network expansion and the amount yearly deposit and the result and that means bank with high number of branches possesses huge financial

domestic resources in Ethiopia. In terms of domestic deposit mobilization the Ethiopian banking industry is highly dominated by the public bank (CBE) and there is no moderate competition in public and private banks in Ethiopia.

- ✓ The public Bank (CBE) from the total bank branches in the country has increased at a rate faster than the private banks and still maintains 42% of the total branch network.
- ✓ In Ethiopian banking industry the total disbursement of the mobilized resource in the economy is dominated by Commercial Bank of Ethiopia (CBE).
- ✓ The banking industry loan disbursement especially CBE has focused (give priority) on financing of manufacturing sector, international trade and agricultural sector respectively.
- ✓ In Ethiopia most of the public projects and micro finance institutions are financed by a public owned bank (CBE) and also CBE takes the responsibility in controlling the economy environment of the country such as inflation.
- ✓ The challenge of the banks related to loan is based on collateral; so that there ought to be appropriate legal protection to banks with regard to other forms of securities and financial guarantee bonds should be developed to give a chance to banks the opportunity to regenerate additional portfolio in existing environment.
- ✓ To minimize the domination of state owned bank and to encourage expansion of private banks the reform measure is needed from the government side.

5.3. Recommendation

The major recommendation of the study is presented as follows:

- ✓ The result of the study shows that, in terms of domestic deposit mobilization the Ethiopian banking industry is highly dominated by the public bank (CBE). Moderate competition is important for banking industry as well as for the economy so the private commercial banks should be more competitive in terms their active role in the economy through mobilizing the required financial resource by giving great emphasis to branch expansion and or through development of new products
- ✓ Ethiopian banking industry even if there is high yearly deposit amount, has more instable nature. This could affect deposit balances unambiguously and worsens a bank's portfolio set. Hence; all commercial banks should need to the prudent liquidity management system.

- ✓ Based on the result of the study, the commercial Banks' deposits balance comes from demand deposit which is considered relatively unstable source of fund due to its the turnover is high because the main objective is trade facilitation. Therefore, the commercial banks should focus on further expanding saving deposits base. The study identified that saving deposit is the most stable and reliable source of fund that can be used reliable fund for economy development.
- ✓ In Ethiopian banking sector the branch networking is also dominated by the public bank (CBE). It has been clearly noted in this study that enhanced accessibility has a positive relationship with bank deposit growth. Thus, all banks should addressing banking accessibility through branch expansion and can resolve problems experienced in deposit mobilization and can channel the more resources in the hands of the community. Especially private commercial banks should use branch expansion as a means for deposit mobilization. And so, private Commercial Banks increase their number of branches and widen the geographical coverage, based on that they can mobilize more domestic deposits and would narrow the domination of CBE in the economy.
- ✓ The result indicates that CBE takes the majority share of the loan of the industry so that it needs action to enhance the contribution of private banks in the economy.
- ✓ In Ethiopia all bank related to loan is based on collateral; so that there ought to be appropriate legal protection to banks with regard to other forms of securities and financial guarantee bonds should be developed to give a chance to banks the opportunity to regenerate additional portfolio in existing environment and to more financing role in the economy.
- ✓ The banking industry should continue to finance the priority sector to transform Ethiopia economy.
- ✓ The Ethiopian government launched GTP-2, it is imperative to sustain higher economic growth during the coming five years and beyond. The plan is designed by anticipation of high financial support from domestic resources which is not only all covered by public financial sectors so that government should take some encouraging measures not only to on public commercial bank but also to activate weak role of private banks in the economy development.
- ✓ Public sector bank inevitably lead investment in key developmental projects such as involving in financing public projects , but broad-based development is required in order to

create sustainable economic development , and this investment typically comes from private sector banks as their deposit base grows so the government should give attention to the development of private banks.

Further research recommended

- ✓ Does the aggressive branch expansion of the public Bank (CBE) violets the free market system or not

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Annex 1: CBE in supporting various economic sectors through Loan

Year	Agriculture (Incl. IFAD)	Manufacturing	Domestic Trade	Transport	Hotel & Tourism	Other Services	Total	Export	Import	Total	Building & Const.	Personal	Fin. Institu.	Total
2004/05	1,140,038	227,631	533,162	125,506	21,628	538,114	1,218,410	311,860	999,194	1,311,054	32,680	42,386		3,972,199
2005/06	1,567,633	340,642	703,918	134,328	31,399	51,911	921,556	348,899	847,430	1,196,329	43,587	46,189		4,115,936
2006/07	1,608,838	545,491	646,578	406,980		306,746	1,406,371	787,857	556,151	1,344,008	259,580	67,437		5,231,725
2007/08	3,534,357	917,590	1,395,567	799,418	51,208	396,396	2,642,589	976,276	4,439,953	5,416,229	667,386	85,645		13,574,873
2008/09	2,516,035	710,793	880,958	606,657	24,008	234,050	1,745,673	367,493	3,403,226	3,770,719	1,494,296	74,055	104,000	11,092,413
2009/10	3,737,357	1,585,511	494,240	395,972	23,096	434,374	1,347,682	790,670	435,771	1,226,442	1,120,958	65,938	-	10,351,472
2010/11	7,520,524	5,519,786	428,368	650,387	36,299	254,486	1,369,539	672,403	1,324,341	1,996,744	191,002	70,799	89,368	17,779,900
2011/12	12,812,276	11,343,021	2,197,883	922,648	55,462	386,639	3,562,631	411,548	1,364,118	1,775,666	374,340	2,560	148,936	31,940,123
2012/13	7,707,495	13,516,770	807,940	375,210	282,929	112,588	1,578,667	337,531	672,429	1,009,960	459,859	2,893	203,000	27,179,203
2013/14	9,815,554	14,844,232	1,474,566	203,818	419,609	134,566	2,232,558	267,637	1,509,769	1,777,406	533,801	24,791	79,000	32,183,122
2014/15	10,474,290	15,246,826	1,945,922	1,172,822	398,279	225,412	3,742,435	499,132	765,170	1,264,302	1,252,791	19,205	198,086	33,659,996

Source : CBE MIS

Annex 2: Previous studies and their gaps

Year	Author	Title	Research focused on	The Gap which filled by this study
2008	Haile Kebret TAYE, Gashaw Tsegaye AYELE, Monica Kansiime KAGORORA	Domestic Resource Mobilization: Case Study on Ethiopia	Total domestic resource mobilization within the country which is summation of from governmental sources(taxation) and from the overall financial government sectors	Not clearly shows recent domestic deposit mobilization role of all commercial banks and their contribution to the economy development through allocation of the mobilized resources
2009	Befekadu Mulatu	Savings and Economic Growth in Ethiopia	Total domestic saving in Ethiopia as compare to the rest of Sub Saharan African countries	“