

Addis Ababa  
University  
(Since 1950)



**CHALLENGES OF DEPOSIT MOBILIZATION FOR  
PRIVATE COMMERCIAL BANKS IN ETHIOPIA  
(THE CASE OF AWASH INTERNATIONAL BANK S.C.)**

By: Samuel Tesfahunegn

ID: GSE1116/05

Submitted to Addis Ababa University, School of Graduate Studies,

In partial fulfillment of the requirement for

Executive Master of Business Administration

Advisor: Gemechu Waktola (PhD)

October, 2015

## Table of contents

### **CHAPTER 1: Introduction**

|   |   |
|---|---|
| 1.1. Background of the study.....                     | 1 |
| 1.2. Statement of the problem .....                   | 3 |
| 1.3. Research questions .....                         | 4 |
| 1.4. Objectives of the study .....                    | 4 |
| 1.4.1 General Objective .....                         | 4 |
| 1.4.2 Specific Objectives .....                       | 4 |
| 1.5. Significance of the study .....                  | 5 |
| 1.6. Limitations and Delimitations of the Study ..... | 5 |
| 1.6.1 Limitations of the Study .....                  | 5 |
| 1.6.2 Delimitations of the Study .....                | 5 |
| 1.7. Organization of the study .....                  | 6 |

### **CHAPTER 2: Literature Review** .....

|   |    |
|---|----|
| 2.1. The Concept of Banking .....                         | 7  |
| 2.2 Determinants of banks' Performance.....               | 8  |
| 2.3. Banking in Ethiopia .....                            | 14 |
| 2.4. The Importance of Deposits .....                     | 18 |
| 2.5. Types of Deposits .....                              | 21 |
| 2.6. Factors Affecting Deposits of Commercial Banks ..... | 21 |

|   |           |
|---|-----------|
| 2.7. Background of Awash International Bank s.c. ....                             | 36        |
| <b>CHAPTER 3: Research Methodology</b> .....                                      | <b>38</b> |
| 3.1 Data .....  | 38        |
| 3.2 Type of Research Design .....   | 38        |
| 3.3 Sampling Design .....   | 39        |
| 3.3.1 Target Population .....   | 39        |
| 3.3.2 Sample Size .....   | 39        |
| 3.3.3 Sampling Technique .....  | 39        |
| 3.3.4 Sampling Procedure .....  | 40        |
| 3.4 Sources and Tools of Data Collection .....                                    | 40        |
| 3.5 Data Analysis and Interpretation .....  | 40        |
| <b>CHAPTER 4: Data Presentation and Analysis</b> .....                            | <b>42</b> |
| 4.1 Data Presentation and Discussion .....  | 42        |
| 4.1.1 AIB’s Deposit Mobilization Performance .....                                | 42        |
| 4.1.2 Branch Expansion for Deposit Mobilization .....                             | 45        |
| 4.1.3 Major Points on Deposit Mobilization Activities of AIB<br>(2010-2015) ..... | 46        |
| 4.2 Survey results .....  | 47        |
| <b>Chapter 5: Summary Conclusion and Recommendation</b> .....                     | <b>59</b> |
| 5.1 Summary .....   | 59        |
| 5.2. Conclusion .....   | 62        |
| 5.3 Recommendations .....   | 64        |
| Bibliography.....   | 66        |

**Addis Ababa University**  
**School of Graduate Studies**

This is to certify that the project prepared by Samuel Tesfahunegn H/Sellassie, entitled: Challenges in Deposit Mobilization for Private Banks, (The Case of Awash International Bank S.C.) and submitted in partial fulfillment of the requirements for the Degree of Executive Master of Business Administration complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Advisor

\_\_\_\_\_ signature \_\_\_\_\_ date \_\_\_\_\_

Internal Examiner

\_\_\_\_\_ signature \_\_\_\_\_ date \_\_\_\_\_

External Examiner

\_\_\_\_\_ signature \_\_\_\_\_ date \_\_\_\_\_

## **Acknowledgement**

I would like to thank my project advisor, Gemechu Waktola (PhD), for his patient and caring approach.

| <b>List of Tables</b>   | <b>Page</b> |
|---|-------------|
| Table 2.1. Private commercial banks in Ethiopia.....  | 18          |
| Table 4.1. Composition of Deposits.....   | 43          |
| Table 4.2. Composition of Income.....   | 45          |
| Table 4.3. Market Share of AIB.....   | 46          |
| Table 4.4. Sample size and returned questionnaires.....   | 47          |
| Table 4.5. Job position of the Respondents.....   | 47          |
| Table 4.6. Gender Distribution of the Respondents.....  | 48          |
| Table 4.7. Age Distribution of the Respondents.....   | 48          |
| Table 4.8. Work experience of the Respondents.....  | 49          |
| Table 4.9. Understanding and Commitment of staffs for deposit<br>Mobilization.....                                      | 51          |
| Table 4.10. Contribution of Recently Introduced Various New<br>Products of Deposit Accounts in Mobilizing Deposit.....  | 51          |
| Table 4.11. Volume of Deposits Grow because of Special Services<br>Provided for the Corporate Depositors/customers..... | 53          |
| Table 4.12. customers' satisfaction Rating.....   | 53          |
| Table 4.13. Major Cause for the variation in deposit among branches<br>of AIB.....                                      | 54          |
| Table 4.14. Time Taken for a Customer to Open a New Account.....  | 55          |

|   |    |
|---|----|
| Table 4.15. Time Taken for a Customer to Withdraw/ deposit cash<br>from/to Account.....     | 56 |
| Table 4.16. Main Reason for AIB’s Continuous Deposit Growth for<br>the last five years..... | 56 |
| Table 4.17. Major Depositors of Awash International Bank S.C.....                           | 57 |
| Table 4.18. Competition with Other Private and Government Banks.....                        | 57 |
| Table 4.19. Banks which pose more competition to AIB.....                                   | 58 |

#### **List of Figure**

#### **Page**

|  |    |
|--|----|
| Figure 4.1. Absolute Deposit Growth of Selected Private Banks,<br>2014/15..... | 44 |
|--|----|

#### **List of Appendices**

Appendix I. Questionnaire distributed to AIB Staffs

#### **Acronyms**

AIB - Awash International Bank s.c.

NBE - National Bank of Ethiopia

CBE - Commercial Bank of Ethiopia

DB - Dashen Bank

CBO - Cooperative Bank of Oromiya

BOA - Bank of Abyssinia

DR - Deposit Rate

LIQUIDITY - Liquidity of Commercial Banks

DIV - Dividends

## **ABSTRACT**

This study intends to identify the challenges in deposit mobilization for private banks in Ethiopia by concentrating the case on Awash International Bank s.c, Descriptive method particularly survey design approach was adopted for the study. The survey was conducted with staff individuals working in Awash International Bank s.c at different positions using questionnaire. In addition, the study used unstructured review of documents and records held by other commercial banks and NBE. The study identifies that AIB is registering a continuous deposit growth for the last few years. Individuals, business organizations and NGOs are the major source of deposit for AIB. The findings of the study show that AIB and other private banks are operating in a dynamic and highly competitive environment and there is high possibility of catch-up and by-pass among these banks. Also, private commercial banks should prepare for the inevitable stiff competition that will arise from local and with the eminent future entrant of foreign banks. By doing so, they can solve the paradox of the liquidity problem and the unbanked resources.



# **Chapter I: Introduction**

## **1.1. Background of the study**

Banks play a key role in improving economic efficiency by channeling funds from resource surplus unit to those with better productive investment opportunities. Banks also play key role in trade and payment system by significantly reducing transaction costs and increasing convenience (NCA, 2006). In less monetized countries, like Ethiopia, whilst financial sector is dominated by banking industry, effective and efficient functioning of the latter has significant role in accelerating economic growth. To enhance the role of banks in an economy, competition is an important driving force; without competition, it is improbable to bring about efficiency and foster financial sector development. In other words, insufficient banking services may result in substantial social losses on account of higher price, higher transaction cost, lower credit supply, lack of innovation and poor service quality. (Zerayehu, 2013)

According to Mohammad and Mahdi (2010), financial resources are naturally provided from people's deposit. Therefore, we can say that deposits are the most important resource of commercial banks. Thus the amount of deposit a commercial bank should have at hand should be enough to make the bank involve in the market and to satisfy the financial needs of its customers. Given this general facts, therefore, the bank is expected to mobilize its deposit. Managing deposits is not possible without knowing and controlling the factors affecting it. There are several factors that are claimed to be determinants of deposits.

As done by N. Desinga (1975), we can classify the variables which are claimed to have effect on commercial banks' deposit into two, namely exogenous and endogenous factors. Exogenous factors can further be divided into country specific factors and bank

specific factors for clarification purpose. Endogenous (Internal) factors can be controlled by the banking system. However, the Exogenous factors (The bank specific factors and the country specific factors) cannot be controlled by the banking system. The bank specific factors are factors that are specific to the banking system and the country specific factors are factors that are beyond the banking system.

In Ethiopia, during the pre-1975 imperial era, there had few banks (dominated by foreign ownership) and the absorptive capacity of the economy was too low even to accommodate moderate competition. In the Derg regime (1975-1991), private banks were fully nationalized and left no room for competition. After the down fall of the Derg regime in 1991, private banks were again allowed to operate in consistent with the ideology of market oriented economic policy under the proclamation of licensing and Supervision of Banking Business Proclamation No.84/1994. Accordingly, new private banks were established and their role and position in the industry have been flourished from time to time. Ethiopia appears unique compared to most African countries and many other developing countries because it has not yet opened its banking sector to foreign participation. (Gedey 1990, Abebaw 2011).

The Ethiopian banking sector remains isolated from the impact of globalization. The government believes that liberalization may result in loss of control over the economy and may not be economically beneficial. Ethiopia has no capital market and investing in shares of private companies is limited. A series of financial sector reforms has been introduced since 1994, after private banks were allowed to operate. But, the state-owned bank, Commercial bank of Ethiopia continues to dominate the market in terms of capital, deposit, profit and assets. (Abebaw 2011).

## **1.2. Statement of the Problem**

Financial development is crucial to economic growth and banks are the most important elements of the financial system. Banks as financial intermediaries are expected to provide a venue for people to save incomes not expended on consumption. It is from the savings they accumulate that they are expected to extend credit facilities to entrepreneurs and other industrialists. This function enables banks mobilize deposits which otherwise would have remained idle and unproductive in the hands of the surplus economic unit. The fund mobilized is then made available to the deficit unit for economically and socially desirable purposes.

Deposit mobilization is an integral part of banking activity. Mobilization of savings through intensive deposit collection has been regarded as the major task of banking in Ethiopia today.

However, sources from National Bank of Ethiopia indicate that from deposits that should be mobilized by banks, only a few are mobilized (NBE annual Report 2012/13). This indicates that from the money that can be deposited in the bank, most of it is not yet mobilized. And though such a case, it appears that in most of the years commercial banks are in a serious threat of illiquidity. (AIB Annual report 2012/13, 2013/14)

These show that, in addition to the current practices, the deposit mobilization practices of commercial banks in the country can be well developed and additional mechanisms can be identified to mobilize such deposit.

Therefore, the purpose of this study is, to evaluate the trend and growth of deposit mobilization and recommend ways for enhancing the capacity for mobilizing concentrating the case mainly on Awash International Bank S.C.

### **1.3. Research questions**

The research conducted on the title of Challenges in Deposit Mobilization for Private Banks (The Case of Awash International Bank S.C.) tried to answer the following questions:-

- ✓ What are the factors that can affect the volume of AIB's deposit?
- ✓ How did branch expansion and service quality related to AIB's deposit?
- ✓ What is the effect of awareness of the society, convenience of bank's office, deposit mobilization efforts on AIB's total deposit?
- ✓ What should be done to have a progressive deposit?

### **1.4. Objective of the study**

#### **1.4.1. General Objective**

- ✓ To identify and assess the challenges awaiting private commercial banks of Ethiopia with regard to deposit mobilization in the future and at the end to conclude and suggest.

#### **1.4.2. Specific objectives**

- ✓ To identify the factors that determines total deposit of Awash International bank s.c. (AIB).
- ✓ To assess the challenges and problems AIB is facing with respect to deposit mobilization.
- ✓ To have a bird's eye view about the business development issues like information technology, branch expansion and customer service related to AIB
- ✓ To determine the effect of awareness of the society, convenience of bank's office, branch expansion and service quality on total deposit of AIB.

## **1.5. Significance of the study**

Studying the challenges in Deposit Mobilization for Private Banks (The Case of Awash International Bank S.C.) has the following significances;

- ✓ The study will help commercial banks to manage their deposit by letting them know what affects it and which variable is the most important,
- ✓ It serves for further study in the sector and will help as additional input for concerned policy makers and future researchers,
- ✓ The study will add knowledge on the field of banking and financial resource studies.

## **1.6. Limitation and Delimitation of the study**

### **1.6.1. Limitation of the Study**

The study is conducted using the data of the past few years. The sample of the study is shortened and so it is the main limitation of the study in interpreting and using the result of the study. The other limitation of the study is the fact that it only considers Awash International Bank S.C. It is selected because it is a first private bank since the financial sector reform has been introduced in 1994 and its convenience to the researcher.

### **1.6.2. Delimitation of the Study**

This study is focused on the challenges of deposit mobilization for private commercial banks. It determines the factors that affect commercial banks' total deposit. There are around 16 private commercial banks in Ethiopia, However, this study is conducted using Awash International Bank S.C. as a base. AIB had about 200 branches around the country. The data needed for this study is collected from AIB and other stakeholders and the total deposit trend is the sum of all AIB's branches total deposit.

## **1.7. Organization of the study**

The final paper for the study is organized into five chapters including the introduction part of the study. The first chapter deals with the background of the study, statement of the problem, research questions, objectives of the study, the significance of the study and limitation and delimitation of the study. The second chapter, literature review, deals with the literatures on the concept of banking, major determinants for banks' Performance and preview of Ethiopian banking industry. It also briefly recites the importance of deposit, the types of deposit and factors affecting deposits of commercial Banks. The third chapter deals with the methodology of the study. The sources of qualitative and quantitative data of the study are indicated. The fourth chapter deals with analysis of the data and presentation of the output. In the fifth chapter the researcher concludes the findings of the study and recommends based on the conclusion made.

## **Chapter 2: Literature Review**

### **2.1. The concept of Banking**

Banking is one of the oldest professions in human history, it also flourished with civilizations. Since humans started, using money bank services were in use throughout history. Modern banking as we know it today was established in Italy and Greece in the 15<sup>th</sup> century. Today, banks are one of the most important institutions for a modern economy to work in any country. (Gedey, 1990)

Different historical sources states that the first foundations of the banking service in the world were put by goldsmiths and silversmiths. They have a safe box to put & they were the most trusted. They used to receive gold, silver and various jewelries to put with them. Therefore an individual or a merchant puts his wealth under their custody, for their service they charge a small amount of money and give the customer a receipt to guarantee their acceptance. Then they started using, money paying instrument what we now call this document as 'check'. However as time goes by , the goldsmiths and silversmiths observed that their customers wouldn't take their jewelry soon, and those clients, whenever they face the shortage of money, they started lending to this people and started to get profit from their service. They encouraged depositing and lending and rather than making the customers to pay a charge for depositing, they started to pay them interest and introduced the public to work with money. It is believed that, ancient Assyrians, Babylonians, Athenians, Romans and Abyssinians also used the banking service. (Gedey, 1990)

Some authorities, relying upon a broad definition of banking that equates it with any sort of intermediation activity, trace early banking as far back as ancient Mesopotamia, where

temples, royal palaces, and some private houses served as storage facilities for valuable commodities such as grain, the ownership of which could be transferred by means of written receipts. There are records of loans by the temples of Babylon as early as 2000 BC. Temples were considered especially safe depositories because, as they were sacred places watched over by gods, their contents were believed to be protected from theft. Companies of traders in ancient times provided banking services that were connected with the buying and selling of goods. (Britannica, 2010)

A broader definition of a bank is any financial institution that receives, collects, transfers, pays, exchanges, lends, invests, or safeguards money for its customers. This broader definition includes many other financial institutions that are not usually thought of as banks but which nevertheless provide one or more of these broadly defined banking services. These institutions include finance companies, investment companies, investment banks, insurance companies, pension funds, security brokers and dealers, mortgage companies, and real estate investment trusts. (Encarta, 2009)

Banks play a very important role in the economic development of every nation. They have control over a large part of the supply of money circulation. Banks are the main stimulus of the economic progress of a country. The financial sectors contribution to growth lies in the central role it plays in mobilizing savings and allocating these resources efficiently to the most productive uses and investments in the real sector. (Ayalew, 2009)

## **2.2. Determinants of Bank's Performance**

Different empirical evidences suggested that performance of financial institutions specifically banks are affected by internal and external factors. Andreas and Gabrielle (2009) stated that bank profitability is usually measured by the return on average assets and is expressed as a function of internal and external determinants. The internal determinants include bank-specific variables. The external variables reflect environmental variables that are expected to affect the profitability of banks. Internal



factors such as liquidity, capital adequacy ratio, asset size, asset quality, net-worth, earnings quality, loan performance, business risk, management quality, people, technology and operating environment are major determinant that are used to analyze the determinants of bank profitability. External macroeconomic and industry-specific factors include effective tax rate, real GDP growth, inflation, regulation and Bank concentration. Some of the stated internal and external determinants are discussed below.

## **I. Liquidity**

A bank or financial institution has to be liquid to meet payment obligations to depositors and creditors. This calls for a sound Asset Liability Management by the bank. Liquidity analysis considers the bank's ability to meet its obligations and is very critical for a bank to remain a going concern. The absence of liquidity can lead to failure of a bank. It also considers the proportion of liquid assets to total assets along with their deposit renewal rate (brickwork rating 2010). Abdus Samad (2001) and Pak and Huh (1995) used loan to deposit ratio to calculate the level of liquidity in their study.

Liquidity allows banks to meet depositors' and creditors' demand and so to maintain public confidence. There needs to be an effective asset and liability management system to minimize maturity mismatches between assets and liabilities and to optimize returns. As liquidity has inverse relationship with profitability, and banks must strike a balance between liquidity and profitability (Financial Management and Analysis of Projects 2006). According to Molyneux and Thornton (1992), and Guru (1999), there is a negative and significant relationship between the level of liquidity and profitability. In contrast, Bourke (1989) reports an opposite result, while the effect of credit risk on profitability of banks appears clearly negative.

Current and quick ratios are inappropriate for measuring banks liquidity as per Brickwork rating (2008). A loan-to-deposit ratio is more relevant. However, a bank's liquidity and solvency are directly affected by portfolio quality. Consequently, financial analysts

(investment officers) are carefully analyzing the bank's portfolio quality based on collectability and loan-loss provisioning. The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises a bank's return but also increases its liquidity risks and the inverse is true. Thus management of liquidity level for the banks because it affect the bank's profitability (Tobias and Themba 2011).

## **II. Bank size**

Total assets of the bank measure bank size. In most of the finance literature, the total assets of the banks are used as a proxy for bank size. Size is used to capture the fact that larger banks are better placed than smaller banks in harnessing economies of scale in transactions to the plain effect that they will tend to enjoy a higher level of profits. Consequently, a positive relationship is expected between size and profit (Indranarain 2009).

One of the most important questions in the literature is how to determine an optimal bank size in order to maximize bank profitability. According to Andreas and Gabrielle (2009), larger banks are likely to have a higher degree of product and loan diversification than smaller banks. In addition to the higher diversification potential, economies of scale can also arise from a larger size. Diversification reduces risks and economies of scale lead to increased operational efficiency. The growing banking size is positively related to bank profitability. However, they also argued that banks that have become extremely large exhibit a negative relationship between size and profitability due to agency costs, bureaucratic processes and other reasons related to a large firm size.

### **III. Bank concentration**

The bank concentration variable is defined as the ratio of the largest banks' assets to the total assets of the entire banking sector. Market structure in the banking industry measured by means of the bank concentration variable according to the structure conduct profitability of banks in highly concentrated markets earn monopoly rents, as they tend to collude (Gilbert 1984). As collusion may result in higher rates being charged on loans and lower interest rates being paid on deposits, a higher bank concentration have a positive impact on profitability. On the other hand, a higher bank concentration might be the result of a tougher competition in the banking industry, which would suggest a negative relationship between profitability and market concentration as stated in (Boone and Weigand 2000). As a result, the overall effect of market concentration on banking performance is again undetermined.

### **IV. Human capital**

The people in a bank are the most valuable resources and the major driving force for successes and failures. The quality of human resources employed by a bank greatly affects its profitability i.e, the recruitment process and training standard of the financial institution reflects the quality of the people in the organization, compensation package as per the industry norms and attrition rate in the financial institution which reflect the satisfaction among the employees towards their work and organization. (Brickwork ratings 2008).

The human capital in organizations is valuable because of the capabilities that the people have. As part of the strategic role, Human Resource managers are often seen as responsible for expanding the capabilities of the human resources in an organization. Currently, considerable emphasis is being focused on the competencies that the

employees in the organization have and will need the organization to grow in the future. Yet the mobility of human capital is less a threat to competitive advantage than it would first seem to be because once an organization integrates human capital with other complementary resources and uses this integration to create organizational capabilities, losing one or a few individuals may not lead to a loss of competitive advantage (John I Njugun 2009).

## **V. Management quality**

Performance will depend on the vision, capability, agility, professionalism, integrity, and competence of the Financial Institution's management. A sound management is crucial for the success of any institution. The quality of the management will determine the success of a bank or financial institution. The performance of a bank is largely dependent on the vision, competence, and integrity and risk appetite of the management (Financial Management and Analysis of Projects 2006). A positive relationship is expected between efficiency and profitability of banks. The analysis of the quality of a management is based on the experience of the management and their track record in terms of their vision and competence in running the bank.

The analysis of the management also factors in their integrity and the overall corporate governance standards in the bank. The risk appetite in terms of the bank's exposure to various categories of asset, adoption of technology and responsiveness to competition and growth strategy impacts the bank's profitability thus is considered during the analysis of bank profitability (Brickwork ratings 2008). Although, the relationship between expenditure and profits appears straightforward implying that higher expenses mean lower profits and the opposite, this may not always be the case. The reason is that higher amounts of expenses may be associated with higher volume of banking activities and therefore higher revenues (Tobias and Themba 2011).

## VI. Technology

European central bank (1999) stated that the information communication technology development had a strong influence on the structure and the activities of the banking sector. The elements that have changed are several, besides allowing transactions to be conducted more efficiently; technology allows banks to market their products more effectively. The technology deployed in banks affects its operational efficiency and determines its competitive position in the market (Brickwork ratings 2008).

As per Thomas Ogoro (2010), technological development removed repetitive and time consuming tasks, reduced human error and extended access to banking related facilities. Technology also provides customer information that it would be much more expensive to provide on a person-to-person basis. The dilemma still remains, however, as to how to maintain a satisfactory number of face-to-face interactions with the customers.

Information technology developments affect banking in two main ways. First, it contribute to the reduction of the costs associated with the management of information (collection, storage, processing and transmission) by replacing paper-based and labor-intensive methods with automated processes. Second, it modifies the ways in which customers have accesses to banks' services and products, mainly through automated channels (remote banking). Whereas improvements in the area of information management have been taking place for a long time, remote banking is a more recent phenomenon with developments occurring more progressively, especially in retail banking (European Central Bank 1999).

## **VII. Gross Domestic Product (GDP)**

Macroeconomic conditions affect banks' performance in a number of ways. Firstly, there will be a higher demand for bank credit in times of economic boom than in times of recession. According to Belayneh (2011), from microeconomic indicators, the only significant factor of bank profitability is real GDP growth. He stated that the current real economic growth of the country makes commercial banks to be more profitable. A high aggregate growth rate may strengthen the debt servicing capacity of domestic borrowers, and therefore, contribute to less credit risk. Alternatively, adverse macroeconomic conditions hurt banks by increasing the amount of non-performing loans. Thus, it is expected that an improvement in economic growth enhance banks' performance.

## **VIII. Regulation**

The banking industry is among the most heavily regulated industries in the world and Ethiopian banking industry is also one of the most heavily regulated industry. As quoted from Sudin Haron (1996), the main reason for regulation is to provide a sound, stable and healthy financial system, and Peltzman (1968) was among the first researchers to empirically test the effects of regulation on performance. Instead of profit, he used the bank's capital as a proxy for performance. Peltzman's findings indicated that a prohibition on interstate branching and legal restrictions on new entry had a significant impact on the market value of a bank's capital. Fraser and Rose (1972) also studied whether the opening of new institutions had any significant adverse effect on the growth and profitability of competing institutions. They found that, despite some evidence of slowing in the growth rate of deposits, the profitability of existing institutions was not adversely affected by the opening of new branches by their competitors.

### **2.3. Banking in Ethiopia**

Traditional financial system in Ethiopia has long history and paramount contribution to economic betterment and social wellbeing of the society. Traditional institutions organized with a sense of cooperation and risk sharing has enabled Ethiopians to experience saving and financial management within its cultural context. Equb and Edir are some of the informal financial institutions that shaped the social bond and interaction (Gebeyaw Aychile 2008).

Modern banking in Ethiopia was introduced after the agreement that was reached in 1905 between Emperor Minilik II and Ma Gillivray, representative of the British owned National Bank of Egypt. Following the agreement, the first bank called Bank of Abyssinia was inaugurated in Feb.16, 1906 by the Emperor. Within the first fifteen years of its operation, Bank of Abyssinia opened branches in different areas of the country in Harar (Eastern Ethiopia), Dire Dawa, Dessie and Djibouti. By 1931, Bank of Abyssinia was legally replaced by Bank of Ethiopia shortly after Emperor Haile Selassie came to power.

The new Bank, Bank of Ethiopia, a purely Ethiopian institution, was the first indigenous bank in Africa, and established by an official decree on August 29, 1931 with capital of £750,000. In 1941, another foreign bank, Barclays Bank, came to Ethiopia with the British troops and organized banking services in Addis Ababa, until its withdrawal in 1943. Then, on 15<sup>th</sup> April 1943, the State Bank of Ethiopia commenced full operation after 8 months of preparatory activities. In 1945 and 1949, the Bank was granted the sole right of issuing currency and deal in foreign currency. The Bank also functioned as the principal commercial bank in the country and engaged in all commercial banking activities. The National Bank of Ethiopia with more power and duties started its operation in January 1964. Following the incorporation as a share company on December 16, 1963 as per proclamation No.207/1955 of October 1963, Commercial Bank of Ethiopia took

over the commercial banking activities of the former State Bank of Ethiopia. It started operation on January 1, 1964 with a capital of Eth. Birr 20 million. In the new Commercial Bank of Ethiopia, in contrast with the former State Bank of Ethiopia, all employees were Ethiopians.

There were two other banks in operation namely Banco di Roma S.C. and Banco di Napoli S.C. that later reapplied for license according to the new proclamation each having a paid up capital of Eth. Birr 2 million. The first privately owned bank, Addis Ababa Bank Share Company, was established on Ethiopians initiative and started operation in 1964 with a capital of 2 million in association with National and Grindlay Bank, London which had 40 percent of the total share. In 1968, the original capital of the Bank rose to 5.0 million and until it ceased operation, it had 300 staff at 26 branches.

There were other financial institutions operating in the country like:

- Imperial Savings and Home Ownership public Association, which specialized in providing loans for the construction of residential houses and to individuals under the guarantee of their savings.
- Saving and Mortgage Corporation of Ethiopia whose aims and duties were to accept savings and trust deposits account and provide loans for the construction, repair and improvement of residential houses, commercial and industrial buildings and carry out all activities related to mortgage operations.
- Agricultural Bank that provides loan for the agricultural and other relevant projects established in 1945. But in 1951 the Investment Bank of Ethiopia replaced it. In 1965, the name of the bank once again hanged to Ethiopian Investment Corporation Share Company and the capital rose to Eth. Birr 20 million, which was fully paid up.



Following the declaration of socialism in 1974, the government extended its control over the whole economy and nationalized all large corporations. Organizational setups were taken in order to create stronger institutions by merging those that perform similar functions. Accordingly, the three private owned banks, Addis Ababa Bank, Banco di Roma and Banco di Napoli Merged in 1976 to form the second largest Bank in Ethiopia called Addis Bank with a capital of Eth. birr 20 million and had a staff of 480 and 34 branches. Then Addis Bank and Commercial Bank of Ethiopia S.C were merged by proclamation No.184 of August 2, 1980 to form the sole commercial bank in the country until the establishment of private commercial banks in 1994.

The Savings and Mortgage Corporation S.C. and Imperial Saving and Home Ownership Public Association were also merged to form the Housing and Saving Bank with working capital of Birr 6.0 million and all rights, privileges, assets and liabilities were transferred by proclamation No.60, 1975 to the new bank. The financial sector that the socialist oriented government left behind constituted only three banks and each enjoying monopoly in its respective market, the following was the structure of the sector at the end of the era: the National Bank of Ethiopia (NBE), the Commercial Bank of Ethiopia, and Agricultural and Industrial Development Bank.

Following the demise of the Dergue regime in 1991 that ruled the country for 17 years under the rule of command economy, the Ethiopian People's Revolutionary Democratic Front declared a liberal economy system. In line with this, Monetary and Banking proclamation of 1994 established the national bank of Ethiopia as a judicial entity, separated from the government and outlined its main function. Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 laid down the legal basis for investment in the banking sector. Currently private commercial banks in Ethiopia reached to sixteen as shown in the table below.

**Table 2.1.Private commercial banks in Ethiopia**

| <b>No</b> | <b>Private Commercial Banks</b> | <b>Establishment Year</b> |
|-----------|---------------------------------|---------------------------|
| <b>1</b>  | Awash International Bank        | 1994                      |
| <b>2</b>  | Dashen Bank                     | 1995                      |
| <b>3</b>  | Abyssinia Bank                  | 1996                      |
| <b>4</b>  | Wegagen Bank                    | 1997                      |
| <b>5</b>  | United Bank                     | 1998                      |
| <b>6</b>  | Nib International Bank          | 1999                      |
| <b>7</b>  | Cooperative Bank of Oromia      | 2004                      |
| <b>8</b>  | Lion International Bank         | 2006                      |
| <b>9</b>  | Oromia International Bank       | 2008                      |
| <b>10</b> | Zemen Bank                      | 2008                      |
| <b>11</b> | Bunna International Bank        | 2009                      |
| <b>12</b> | Birhan International Bank       | 2009                      |
| <b>13</b> | Abay Bank                       | 2010                      |
| <b>14</b> | Addis International Bank        | 2011                      |
| <b>15</b> | Dehub Global Bank               | 2012                      |
| <b>16</b> | Enat Bank                       | 2013                      |

Source: [www.nbe.gov.et](http://www.nbe.gov.et)

## 2.4. The Importance of Deposits

Deposit, is a main source for providing loans and so are important financial source of banks.

**Banks make profit using their deposits:** Mahendra (2005) said that deposits provide most of the raw materials for bank loans and thus represent the ultimate source of the bank's profits and growth. Banks make profit by using their deposits, therefore it is said that depositors can discipline banks. Maria and Sergio (2001), found that depositors discipline banks by withdrawing deposits and by requiring higher interest rates. For depository corporations mainly deposit money banks, their principal objectives is undertaking financial intermediation to make profit and increase their shareholders value (Sheku, 2005). They achieve their objectives mainly by attracting deposits and investing the money on profitable investment portfolio.

**Cheaper than raising equity:** Banks, as any other business organizations, funds from debt and/or equity. In the banks context raising equity is more expensive or costly than attracting deposits. Lorenzo et al (2010) states that, if the lending channel plays a role, the deposit growth should lead to an increase in the supply of loans due to the additional source of financing for banks. As demand for loan increases because of the development work done by individuals, businesses and government, banks should extend their deposit base. When a commercial bank creates a deposit by lending to a business man, it is clearly performing a function for which it is entitled to a return in the form of interest payments (Harold, 1946).

**Fund investment and/or development projects:** Debt is largely held by domestic commercial banks which are funded mainly from deposits. The government demand for bank assets enabled banks to continue to expand their deposit base rapidly and profitably

(Herald and Heiko, 2009). Individual investors and government are mainly depend on the deposits of banks to fund their investments and/or development projects.

Generally, the banking system can be viable only if it can mobilize deposits at the required rate. And this can be done only by making a bank deposit more attractive (V. V. Bhatt, 1970).

The ability of a bank's management and staff to attract checking and savings accounts from business and individuals is an important measure of the bank's acceptance by the public (Mahendra, 2005). Banks' management major concern is the variability of deposits for several reasons. George (1972) mentioned the reasons why the variability of banks' deposits is important as follows:-

- Deposit variability is frequently included as an important determinant of portfolio strategy. The more volatile a bank's deposits are the more liquid its mix of assets will be.
- To the extent deposit variability affects bank holdings of cash and excess reserves, variability affects the distribution of total member bank reserves within the banking system and thereby the path and speed of monetary policy actions.
- To the extent deposit variability affects the mix of banks' assets, it affects the availability of funds for loans and consequently the loan rate.
- To the extent deposit variability affects both the mix of earnings assets and the frequency of engaging in costly reserve adjustments, variability affects the profitability of individual banks.
- Deposit variability is an important factor influencing bank use of the Federal Reserve discount window and thereby affects discount administration.

## 2.5. Types of Deposits

Bank deposits are broadly classified into three types; (S. Venkatesan, 2012)

- Current deposits,
- Saving deposits and
- Term (Fixed) deposits.

**Current deposits:** It is a deposit generally used by businessman, industrialist and others to settle debts. These current deposits, on which cheques are issued, are also known as cash deposits or demand deposits. They are mostly non-interest bearing.

**Saving deposits:** Most people as a form of savings maintain these deposits so as to earn interest from the banks. The saving deposits are not only held to meet the needs of the present or the near future but are also kept by individuals as part of their total stock of wealth.

**Term (Fixed) deposits:** In this deposit, deposited money will be kept by bank for some specified terms to mature with a predetermined or negotiated interest rate. The money can be withdrawn only after a given period of time (or) term.

## 2.6. Factors Affecting Deposits of Commercial Banks

An important indicator of the success and efficiency of any credit agency, which is also a banking institution is, the extent to which it is able to mobilize the savings of the community in the form of deposit. But deposit mobilization is very difficult task. It depends up on various factors internal and external to the banking system (N. Desinga, 1975). External factors are the general economic environment of the region, the volume of business transaction of the region, the confidence of the people on the banking system, the banking habit of the people and the saving potential of the region. Even when external

factors are more conducive for deposit mobilization, banks may fail because of unfavorable internal factors such as location, type of building and window dressing (furniture, cheque books, vouchers, pay slips etc), which assure the customers about the physical fitness of a bank (N. Desinga, 1975).

N. Desinga (1975) classifies the variables which are claimed to have effect on commercial banks' deposit into two, namely exogenous and endogenous factors. Exogenous has further divided into country specific factors and bank specific factors for clarification purpose. Endogenous (Internal) factors can be controlled by the banking system. However, the Exogenous factors (The bank specific factors and the country specific factors) cannot be controlled by the banking system. The bank specific factors are factors that are specific to the banking system and the country specific factors are factors that are beyond the banking system.

### **I. Country Specific Factors**

The country's economic, social and political factors can affect commercial banks. According to Herald and Heiko (2009), country specific risks such as political, economic and financial risks may affect the propensity for depositors to place funds in the banking system. Any single bank operates under the rule and regulation of the country where it belongs, also different problems and shocks that has happened in the country has its own concern in the banks operation. Generally, banks' success in their operation is mainly depends on the environment where the business is undertaken. The researcher has identified ten country specific factors that have effect on the commercial banks deposits from the literature. These are saving interest rate or deposit rate, inflation, real interest rate, number of commercial banks available in the country, population growth, per capita income of the society, economic growth, consumer price index, gross domestic product (GDP) and shocks.

## **1. Saving interest rate (Deposit Interest rate)**

One of the most effective factors for deciding to deposit in banking system is the interest rate (Mohammad and Mahdi, 2010). Moreover, this article shows the impact of interest rate on the performance of the banking system to achieve the goals that are expected from the banking system. Herald and Heiko(2009), also mentioned interest as one of the determining factor for commercial banks deposits. Philip (1968), also states that the offering of attractive interest rate on bank deposits may be considered to have had a beneficial effect. Moreover, Mustafa and Sayera(2009) said that low deposit rates are discouraging saving mobilization. V. V. Bhatt (1970), said that the banking system is unlikely to be in a position to meet the demand for bank credit unless concerted policy is pursued to raise the rate of saving generally and the rate of saving in the form of deposits in particular.

Interest rate in the banking system is held as investment cost from the investor's point of view and opportunity cost from the depositor's point of view (Mohammad and Mahdi, 2010). Thus, capital market forces balance interest rates. In other words, the just and correct interest rate should be determined through market mechanism, that is, interest rate is balanced in supply and demand conditions in proportion with the inflation rate. Eustacius and David (1995) states that deposits are more interest rate sensitive and banks may choose to increase investments in interest rate sensitive assets and to decrease investments in loans. That is commercial bank deposits are interest rate sensitive, therefore as the interest rate changes the deposit of the commercial banks will change.

It is known that depositors bring money to the bank which the bank in turn lends it to borrowers. The gross earnings of the bank are determined by the volume and composition of loanable funds and the rates at which they are loaned. After losses and expenses of operation are deducted, the net earnings provide a margin out of which interest on

deposits can be paid. Because of the competition for these funds among bankers who desire to loan them at a profit, a bank must pay interest or lose deposits to a competitor. The payment of interest on deposits is explained in this wise, like any other interest rate. As to Erna and Ekki (2004),

Economists, mainly conventional ones, believe that depositors are attracted to deposit their money in banks because of the opportunity cost of holding cash in hand is high when the interest rate is also high (Romer, 2001, p. 346; Athukorala and Sen, 2004, p. 498). This can easily be explained by the utility maximization (cost minimization) premise, as a depositor will choose an action that will maximize their welfare or satisfaction. As to Richard (1971), regulation of the commercial banking industry affects the returns which commercial banks realize on their deposits and capital. That is although deposits are the source for profit of banks it is influenced by regulation of the country. Accordingly, the higher profit rate on demand deposits is to a large extent the result of the prohibition against the payment of interest on these deposits. Therefore, depositors are motivated by returns. Using an Adaptive Expectation Model (AEM), it is founded that depositors are indeed motivated by returns in Malaysia (Erna and Ekki, 2004). On the other hand, Erna and Ekki (2004) state that Ghafur's (2003) shows that the rate of interest does not have influence on the volume of the deposits. However, Rose (2001) said that banks increase their deposits by offering higher deposit rate. These are the articles that contradict to each other in identifying the relationship between the commercial banks deposits and saving interest rates or deposit rate.

## **2. Inflation**

As to Herald and Heiko (2009), inflation is one of the factor that determines commercial banks deposits. Fischer showed that in Latin America the effect of inflation on savings and time deposit to GDP was significantly negative (Mohammad and Mahdi, 2010).



The classical belief is that, because bank assets and liabilities are expressed in monetary terms and because these assets will normally grow in line with growth in money supply, banks are relatively immune from the effects of inflation (Devinaga, 2010). In brief, monetary policy works by controlling the cost and availability of credit. During inflation, the Central bank can raise the cost of borrowing and reduce the credit creating capacity of commercial banks. According to Devinga (2010), this will make borrowing more costly than before and thereby the demand for funds will be reduced. Similarly with a reduction in their credit creating capacity, the banks will be more cautious in their lending policies. Since the banks demand for fund decreases obviously the deposits will decrease. Banking system was affected by inflation in terms of deposit absorption and facilities grant (Mohammad and Mahdi, 2010). As to Mohammad and Mahdi (2010), in developed countries negative correlation between inflation and absorbed deposits and granted facilities has been documented. However, in developing countries the opposite is true. Inflation is seen as an economic problem in developed countries in the second half of 20th century.

Inflation with effect in economic growth, employment, income distribution and wealth as well as social and political conditions of a country can influence its entire dignity (Mohammad and Mahdi, 2010). Moreover Mohammad and Mahdi (2010) Banking system as an important effective factor in economic performance has also been under the influence of inflation. As to Mohammad and Mahdi (2010), as far as the effect of inflation on financial sector conceived the literature demonstrates that inflation affects the capacity of financial sector for optimal allocating of resources. That is as inflation rate increases, true yield rate of money and assets decrease; therefore deposits are no longer attractive. Also the increase of inflation rate has a negative effect on the performance of financial sector through the market credits and in turn, on the performances of banks and capital markets and finally on the long term economic growth (Mohammad and Mahdi, 2010).

With respect to the effect of inflation on savings, it can be mentioned that in general, all individuals who save a part of their incomes in banks are directly damaged by the inflation and their assets decrease in proportion with money value decrease (Mohammad and Mahdi, 2010). In that case as Mohammad and Mahdi (2010) describes people try to change their cashes and savings to more reliable and stable forms such as land, jewelry, antiques, art collections, foreign currencies that causes to definite decrease in commercial bank's total deposit. High inflation rates reduce the real value of deposits (M. A. Baqui et al, 1987). According to M. A. Baqui et al (1987), inflation technically did not decrease deposit; however, it decreases the value of deposits.

### **3. Real Interest Rate**

Real interest rate is nominal interest rate minus inflation rate. Mohammad and Mahdi(2010) said that in negative real interest rate condition, people withdraw their resources from banking system. According to Mohammad and Mahdi (2010), Some research supposed that decrease in real interest rate could decrease true demands for money (in its extensive definition including savings and time deposits). Therefore it states that the interest rate and deposit of the banks have positive relationship. According to Voon-Choong et al (2010), while interest rates risk is a major concern for banks due to the nominal nature of their assets and the asset-liability maturity mismatch (Hasan and Sarkar, 2002), some researchers emphasized that higher interest rates had positive impact on banks (Hanweck and Ryu, 2004; Hyde, 2007).

### **4. Population growth of the country**

The twin objectives of commercial banks, i.e. acquiring deposits and advancing credit cannot be attained without good banking habits of the people (Mahendra, 2005). Moreover Mahendra (2005) states that, the number of deposit accounts is more important because it ensures that the probability of account is more important because it ensures

that the probability of account holders withdrawing cash at a time decreases as the number of deposit account increase, thereby creating advantage for banks in terms of increasing the size of the loanable fund. So the higher number of deposit accounts the greater is the advantage to banks. The number of deposit accounts depends on the number of deposit account holders.

## **5. Per capita income of the society**

According to Jim (2008), per capita is the level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country. If households and firms desire to hold more money, deposits will increase (Evan, 2006). So, the relationship between income and deposits is positive. That is, as the income of the society increases the same happens for the commercial banks' deposits. Income is expected to have a positive effect on deposits (M. A. Baqui et al, 1987). Therefore as society's per capita income increases the same will happen for commercial banks deposits. Mahendra (2005) also indicates that income of the society matters for banks' deposit growth. Eshetu & Mammo (2009), Ethiopia is one of the poorest countries in the world with an estimated per capita income of just \$203(IMF 2007 cited by the Financial Standards Foundation).

## **6. Economic growth**

Economic performance is generally being measured through GDP (Gross Domestic Product), a variable that has also become the de facto universal metric for 'standards of living (Yanne et al, 2007). It is universally applied according to common standards, and has some undeniable benefits mainly due to its simplicity (Yanne et al, 2007).

According to Herald and Heiko (2009), growth is one of the determining factors for commercial banks deposits. GDP is calculated by adding up the value-added at each stage of production (deducting the cost of produced inputs and materials purchased from an industry's suppliers) (Jim, 2008). Erna and Ekki (2004) finds four variables, GDP,

number of Islamic bank's branch offices, profit sharing rate, and interest rate that are thought to have influence on the volume of deposits. So, GDP can influence the growth of commercial banks deposits.

## **7. Consumer price index**

According to Herald and Heiko (2009), price can also determine commercial bank deposit and it can be indicated by consumer price index. In literature there is an evidence for the influence of consumer price index on commercial banks deposit.

## **8. Shocks**

Aggregate shocks affect deposits and interest rates during crises, regardless of bank fundamentals and investors' responsiveness to bank risk taking increases in the aftermath crises (Maria and Sergio, 2001). Therefore, given all other variables the shocks happened in the economy can affect the banks' deposits.

# **II. Bank Specific Factors**

## **1. Liquidity of the banks**

The concept of liquidity in finance principally lies in two areas (ISMAL, RIFKI, 2010):-

- Liquidity of financial instruments in the financial market
- The liquidity related to solvency.

The former related to liquid financial markets and financial instruments, smooth transactions and no barriers. As to ISMAL, RIFKI, (2010), the latter discusses the obligation of banks to make payments to third parties (Fiedler, 2000:442). Some examples of this includes: setting up liquidity management policies, reserve liquidity, balancing assets and liabilities and preparing liquid financial instruments (ISMAL, RIFKI, 2010).

An important measure of liquidity is loan to deposit ratio. The loans to deposit ratio is inversely related to liquidity and consequently the higher the loans to deposit ratio the lower the liquidity and vice versa (Devinga, 2010).

Key liquidity indicators such as central bank credit to financial institutions, deposits as a share of monetary aggregates, loans to deposits ratios, are important for open market operations and liquidity management (Sheku, 2005). According to Voon-Choong et al (2010), the basic need for liquidity, asset, liability, capital adequacy, credit and interest rates risks management are now more challenging than before (Mishkin, 2007). The banks' liquidity management involves acquiring sufficient liquid asset to meet the bank's obligation to depositors (Voon-Choong et al, 2010). According to the findings of Dorothee and Andrea (2009) it is more profitable for savings banks to hold liquid assets than to invest in illiquid assets, such as medium-term interbank lending to other credit institutions.

According to the theories of financial intermediation, the two most crucial reasons for the existence of financial institutions, especially banks, are their provision of liquidity and financial services (ISMAL, RIFKI, 2010). According to ISMAL, RIFKI, 2010, Regarding the provision of liquidity, banks accept funds from depositors and extend such funds to the real sector while providing liquidity for any withdrawal of deposits, however the banks' role in transforming short term deposits into long term loans makes them inherently vulnerable to liquidity risk (Bank for International Settlements (BIS), 2008b:1). Individual, business and government will be willing to deposits their money in banks if they are certain that they are save to withdraw the money whenever they want, this is the question of liquidity of banks. The more liquid banks can attract the deposits.

Liquidity risk occurs in two cases;

- It arises symmetrically to the borrowers in their relationship with the banks, for example when banks decide to terminate the loans but the borrowers cannot afford it.

- It arises in the context of the banks' relationships with their depositors, for example, when depositors decide to redeem their deposits but the bank cannot afford it.

Liquidity risk is the possibility that depositors may withdraw some or all of their funds, and default risk is the possibility that borrowers may not repay all their debts when due (M. Shubik and M. J. Sobel, 1992).

Banks that are perceived as less risky maintain a high level of liquidity or have a lower concentration of assets, particularly to the government, may be expected to be able to attract more deposits than their peers (Herald and Heiko, 2009).

A higher degree of financial intermediation (proxied by the loan-to-assets ratios) may signal a bank's success in generating income as well as a need for it to attract more deposits to support its increased lending activities (Herald and Heiko, 2009). A higher liquidity buffers (measured by the ratio of liquid assets to deposits) tend to favor deposit demand (Herald and Heiko, 2009). Liquid banks as well as banks with a higher loan exposure are associated with higher deposit growth. Herald and Heiko (2009), states that the liquidity situation of the bank also plays a significant role in determining banks deposit growth. According to Nada (2010), Banks perceived as risky should have had more difficulty attracting deposits and making loans than banks perceived as safe. When banks fail to pay for its depositors then it faces liquidity risk that makes other depositors not to deposit in that particular bank.

## **2. Profitability of the bank**

Erna and Ekki (2004) find the long run relationship between commercial banks deposits and the profitability of the banks. Higher bank profits would tend to signal increased bank soundness, which could make it easier for these banks to attract Deposits (Herald and Heiko, 2009). However, the effect of bank profitability and bank size are found to be

insignificant once controlling for the other variables. So, the effect of profitability and banks size on commercial bank deposit is lower as compared with other variables.

### **3. Security of the bank**

Security of banks matters in mobilizing deposit. Riskier banks would be able to attract deposits only paying higher Interest rates. The security of banks has its own impact on its attractiveness for depositors. For example in the existence of deposit insurance the depositors no longer are concerned about the soundness of their banks because their deposits are insured in the event of bank failure. So the bank should secure its system so as to mobilize more deposit than before and to attract new depositors and maintain the exiting depositors.

### **4. Branches**

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 (M. A. Baqui et al, 1987). 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. According to Erna and Ekki (2004), 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 (Carlson and Mitcheer, 2006). Mark and Kris (2006), 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 (Gart, 1994, Hubbard, 1994). 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 (Mark and Kris, 2006). 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.

## **5. Bank size**

Among the factors prominently identified as affecting deposit variability one is bank size. Evidence indicates that the number and diversity of the ownership of individual deposit accounts as well as the distribution of deposits by type vary with bank size (George, 1972). Herald and Heiko (2009) founds that although insignificant once controlled by other variables bank size have an effect on deposits. Smaller banks has to generate less deposits in absolute terms to achieve the same deposit growth than large banks, thus possibly favoring smaller banks in achieving higher deposit growth. But a larger bank with economies of scale as well as larger branch network might be able to better attract deposits (Herald and Heiko, 2009).

## **6. Reserves**

Richard Goode and Richard S. Thom (1959), said that reserves that are fixed legally can influence the deposits that banks can hold. According to them reserve requirements determine the maximum amount of loans and investments that each commercial banks and the banking system as a whole may maintain in relation to deposits. Thus, if the



reserve requirement is 20 percent of deposits, loans and investment (of the bank's own choosing) may not exceed 80 percent of deposits. Therefore, reserve requirements limit the total expansion of bank deposits that can occur on the basis of any primary increase in deposits. Reserve requirements also have the effect of limiting the reduction in bank credit and deposits that is forced up on the banking system by a primary decrease in deposits. The commercial banks can obtain currency to pay out to customers only by drawing down their reserve deposits at the central bank or by using till money (Richard Goode and Richard S. Thom, 1959). Till money, according to Richard Goode and Richard S. Thom (1959) is the currency that banks keep on hand to satisfy day to day needs. They pointed out that bank deposits are a large part of the money supply in virtually all countries.

## **7. Transaction cost**

Important indicator of management's effectiveness in any bank are whether or not deposited funds have been raised at the lowest possible cost and whether enough deposits are available to fund those loans the bank wishes to make (Mahendra, 2005). This last point highlights the two key issues that every bank must deal with in managing its deposits (Mahendra, 2005):-

- ✓ Where can the bank raise funds at the lowest possible cost,
- ✓ How can management ensure that every bank always has enough deposits to support the volume of loans and other financial services demanded by the public?

## **III. Internal Factors**

In the literature three internal factors are identified that can affect the growth of commercial banks deposits. They are awareness of the society for using banks to deposit their money, convenience of Bank's office and service in the banks.

## **1. Awareness of the society**

According to M. A. Baqui et al (1987), some analysts argue that demand for deposits is influenced by education level which in turn increases the awareness of the rural people about banking services (Mauri; Von Pischke). Since the study of M. A. Baqui et al (1987) conducted by taking rural area as its base it is obvious that it considers the awareness as a factor of deposit mobilization. It was also found that literacy as a proxy for awareness about banking, positively influence deposits.

## **2. Convenience of Bank's office**

Road and vehicles directly influence interest bearing deposits because of the reduction in depositors' transaction costs through reduced time spent in travelling to and from banks (M. A. Baqui et al,1987). Banks can mobilize more deposit when they make themselves closer to their customers (depositors).

## **3. Services**

It is known that banks are service giving organizations and the service delivery can affect their business undertakings. M. A. Baqui et al (1987) stated that there is some empirical evidence demonstrating the positive influence of services rendered to depositors. Baqui further suggested two innovations to be tested to provide incentives to depositors:-

- ✓ Additional benefit like prize bounds could be given to depositors for maintaining deposits for particular period.
- ✓ As recommended by Nathan (1986a), one category of deposits might be specifically tied to future loans. Bank customers might be encouraged to participate in a savings program that, for example, provides machinery or housing after a predetermined amount of savings has been accumulated.

Services in the bank should be attractive enough for the depositors so as to mobilize deposits. If the banks could offer these services, the savers would be inclined to keep a part of their saving in the form of deposits (V. V. Bhatt, 1970).

The followings are services that V. V. Bhatt (1970) claims to use to mobilize deposits:-

- ✓ Door-to-door collection of small saving in the form of deposits.
- ✓ Offering land revenue or insurance premium: If the banks offer to pay land revenue or insurance premium out of the interest earned on deposits, some persons may be inclined to put deposits of such amounts as would earn enough interest to meet their land revenue or insurance premium liability. To attract deposits these types of services are worth providing.
- ✓ An investment service: Some savers have neither the inclination nor the time to select an appropriate portfolio of financial investment. Banks can select the portfolio of investments on their behalf, keep the securities in safe custody, collect Interest/dividend income and even fill income-tax forms; with such services offered, some savers would be inclined to keep their liquid funds in the form of deposits.
- ✓ Some persons like farmers get their incomes say once or twice in a year, while their expenditure is spread over the whole year. If banks could collect deposits from them at the harvesting season, and assure them regular withdrawals during the year, farmers may be inclined to keep deposits with the banks. This scheme would ensure safety of their funds, prudence in their management and certainty of regular monthly means to meet their current liabilities. In addition they would earn some interest. With a sympathetic and persuasive approach, farmers could be attracted to such a scheme.
- ✓ While giving loans to farmers and small sector, the banks could provide them with facility of purchases from recognized dealers instead of giving cash. In this case, the dealers could send the bills to the banks, which would debit the accounts of the loan receivers. Some banks have introduced agri-cards with such a purpose in

mind. If such facilities are provided to others also, the customers would use bank money rather than currency for making payment and once they form this habit, they would be induced to keep their transaction balances in the form of deposits rather than in the form of currency.

According to V. V. Bhatt (1970) these are some of the new deposit schemes which, if introduced, could raise the rate of saving as well as the rate of growth of bank deposits. To the extent to which the rate of saving is raised, the growth rate of the economy would be higher. To the extent to which the deposit growth rate is raised, the community would have more effective control over the allocation of financial resources for Plan purposes.

## **2.7 Background of Awash International Bank s.c.**

Awash International Bank s.c was established as a first private bank after the dawn fall of the Dergue regime and introduction of market economic policy in 1991.

Initially, it was established by 486 founder shareholders with a paid-up capital of Birr 24.2 million. It was licensed on November 10, 1994, and started banking operations on February 13, 1995. The number of shareholders and paid up capital have been increasing continuously and currently its capital stood at Birr 1.5 billion. However, the 13<sup>th</sup> Extraordinary Annual General Meeting of the shareholders of AIB endorsed the increase of paid-up capital to Birr 3 billion and subscribed capital to 6 billion within the coming three years. ([www.awashbank.com](http://www.awashbank.com)). Awash International Bank s.c is also the first private bank to build its own head quarter and other buildings in different areas. (Annual Management Report – Engineering Department, 2014/15). Currently, the Bank has total of 205 branches of which 104 branches are located in Addis Ababa while the remaining 101 branches are located in regional towns. (Annual Management Report – Branch Affairs Directorate, 2014/15)

New Core Banking project was completed since July 2014 and currently, all branches are being embraced by the new system replacing the old one which referred as the “Bank Master”. AIB expects that the solution will provide an edge over competition by helping meet market demands with greater agility and the automated services of the Core banking solution will ensure faster processing front and back office request and an improved turnaround time for customers. (AIB Annual Report 2013/14)

Similarly, the Bank started providing a card banking payment services, Automatic Teller Machine (ATM) in collaboration with other private banks under auspice of a share company named “Premier Switch Solutions (PSS) for the operation of joint and management of Automatic Teller Machine (ATM) and Point of Sale (POS) terminals. In similar development, Awash International Bank has been certified as a principal member for accepting Master Card branded Card by Master Card International as of March 2014 Visa card as of August 2015. The Bank also announces to be on the verge of starting to provide Debit Card, Credit Card and prepaid Card services. AIB installed 120 its own Automatic Teller Machines (ATM) and 500 Point of Sales (POS) terminals at convenient places for its customers. ([www.awashbank.com](http://www.awashbank.com)).

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

The previous chapter presents literatures on the concept of banking, major determinants for banks' Performance and preview of Ethiopian banking industry. It also briefly narrates the importance of deposit, the types of deposit and factors affecting deposits of commercial Banks. This chapter discusses the methodology employed for the study.

#### **3.1. Data**

The study uses both primary and secondary data. The primary data is collected from management and supervisory staffs of Awash International Bank S.C. Questionnaires prepared are distributed in order to gather information from employees of Awash International Bank S.C. The number of questionnaires distributed is 60.

Moreover, additional data is collected on various issues from annual bulletins of the National Bank of Ethiopia, annual reports of Awash International Bank S.C, Proclamations and regulations related to banking and finance, directives issued by the Monetary Authority, and other relevant sources.

#### **3.2 Type of Research Design**

The researcher chooses to conduct an applied research which is directly related to his career. The primary objective of this study is to identify the challenges in deposit mobilization for private banks in Ethiopia taking AIB as a model bank through a descriptive analysis and to recommend ways for betterment.

From the perspective of this specific objective, the type of research design undertaken in this research study is descriptive and explanatory type. Therefore, the data collection methodology employed in this study includes both primary and secondary sources of data in order to get adequate and relevant information about the subject matter.

### **3.3 Sampling Design**

#### **3.3.1 Target Population**

The data obtained through interview from AIB's Branch Affairs Directorate and the President Office personnel shows that currently there are 202 branches, 8 Directorate Offices, 9 departments, 21 divisions, 3 vice presidents and the president. Moreover, as per NBE's 2013/14 report, there are 16 private banks in the industry.

As the primary objective of this study is focused on the deposit mobilization activities of private banks and mainly on AIB, the staffs that are included in the sample are the once which have better experience in operational and deposit mobilization activities and believed to be better sources of information for the study. For this reason, staffs of AIB have been taken as a target population for the study.

#### **3.3.2 Sample Size**

The Sample size of the study is 202 branches, 8 directorate Offices, 9 departments, 21 divisions, 3 vice presidents and the president Office of Awash International Bank s.c.

#### **3.3.3 Sampling Technique**

In order to obtain representative data, non probability purposive sampling tools (convenience sampling and judgment sampling) technique was employed in this study.

### **3.3.4 Sampling Procedure**

The sampling procedure employed was that from the target population of branches, divisions, departments, directorate offices and the executive offices of Awash International Bank s.c, 4 directors, 3 department managers, 7 division managers, 26 branch managers, 12 assistant branch managers and 8 supervisors who are believed to have a better exposure and experience to deposit mobilization activities were selected as a sample for the study.

### **3.4 Sources and Tools of Data Collection**

The study used both primary and secondary source of data. In the same way quantitative and qualitative data was also used. In order to address the research objectives, primary data was collected from each sample office managers and directors using questionnaires.

In line with this, secondary data was gathered from:

- Literatures and previous studies in the sector and experience of other countries,
- Studies, Reports, newsletters and Journals of Awash International Bank s.c, National Bank of Ethiopia, Commercial Bank of Ethiopia, and other private banks.
- Any other related Journals and Articles.

### **3.5 Data Analysis and Interpretation**

As the study uses a descriptive analysis method, the data collected was presented, organized, analyzed and interpreted using descriptive statistical tools such as frequency, cumulative frequency, percentages and pie charts as per the convenience to the types of data to use for best interpretation and easy understanding.



The questionnaires are analyzed using descriptive analysis techniques. The researcher uses Excel software to analyze the questionnaires and describe the result. Accordingly 46 questionnaires are analyzed and interpreted using the statistic result that the excel displays.

In order to show the trend of total deposit of AIB, the researcher uses deposit figures collected from annual reports of AIB and NBE from the year 2009GC up to 2015G.C and interpreted.

## **Chapter IV**

### **Data Presentation and Analysis**

The previous chapters present orientation of the study, the literature review and the research methods adopted in the study. As discussed in the preceding chapters, this study is aimed at evaluating the trend and growth of deposit mobilization activities of Awash International Bank S.C. and so, to recommend ways for enhancing the deposit mobilization activities

#### **4.1 Data Presentation and Discussion**

##### **4.1.1. AIB's Deposit Mobilization Performance**

All private banks including AIB mobilize their funds from shareholders contribution, their operational profit and customers' deposit. From these sources, the largest proportion is deposit. Therefore, deposit mobilization is a major task for banks and is becoming a decisive factor for private banks in Ethiopia following the growing demand for loans of the expanding business activities of the country and after the issuance of NBE directive with regard to 27% bill purchase. This directive instructs all private banks to purchase government bond on 27% of all loan disbursements. (NBE Directive no: MFA/NBEBILLS/001/2011)

AIB mobilize deposit mainly in three forms, i.e. demand deposit, fixed deposit and saving deposit. Saving deposit is an interest bearing. The minimum interest on saving deposit is fixed by the national bank of Ethiopia (NBE). Demand 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 demand. 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 should give to the depositor. Commercial 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.

In terms of composition of deposits, the largest proportion of deposit is Saving deposit. for instance, with respect to the composition of deposits at the end of June 2015, saving deposits amounted to Birr 10.3 billion, accounting for the lion's share of deposits (63.6 percent), followed by demand deposits (22.5 percent), time deposits (7.2 percent) and margins held on letters of credit (6.7percent).

Table 4.1. Composition of Deposits (In '000 Birr)

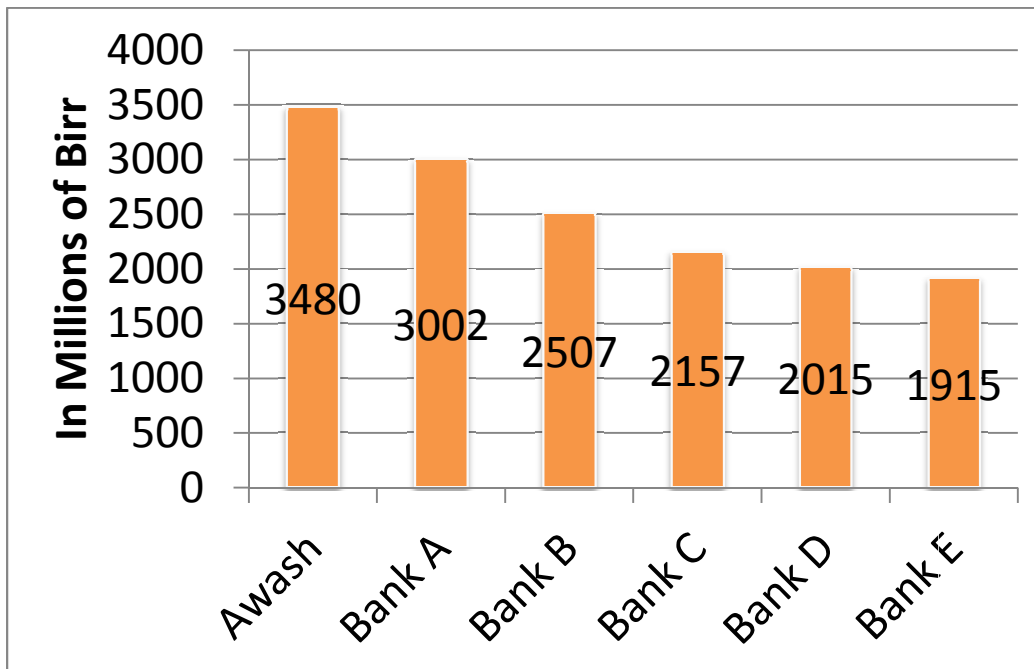
| Description           | Financial Year     |                     |                     |
|-----------------------|--------------------|---------------------|---------------------|
|                       | 2011/12            | 2012/13             | 2013/14             |
|                       | A                  | B                   | C                   |
| Saving deposits       | 6,565,012.1        | 8,505,559.9         | 10,250,098.8        |
| Demand deposits       | 2,158,287.9        | 3,289,689.1         | 3,628,751.4         |
| Fixed deposits        | 481,057.7          | 749,959.6           | 1,160,865.3         |
| L/C Margin            | 360,182.4          | 559,587.9           | 1,078,117.6         |
| <b>Total Deposits</b> | <b>9,564,540.1</b> | <b>13,104,796.5</b> | <b>16,117,833.1</b> |

(AIB Annual report 2011/12, 2012/13, 2013/14)

As a prior activity, deposit of AIB has been growing during the last few years. For example, total deposits of AIB has increased by Birr 3 billion (23percent) to Birr 16.1 billion by the end of June 2014 compared with same period of the previous year and also has increased by 3.48 billion to Birr 19.6 billion by the end of June 2015. AIB largely believed that the growth reflects the effect of concerted efforts of deposit mobilization,

the planned branch expansion of the Bank and the growing public confidence in the Bank. The recorded growth in deposits is considered as a commendable achievement and the best performance among peer banks amidst stiff competition among commercial banks through branch expansion, provision of diversified services and products and offering of attractive rates and charges. (AIB Annual report 2012/13, 2013/14)

Figure 4.1 Absolute Deposit Growth of Selected Private Banks, 2014/15



(AIB's Business Development Department: Report 2014/15)

Concerning the composition of income, the lion's share of income (63 percent) was accounted for by interest income, followed by commissions and service charges (24%), gains on foreign exchange dealings (11%) and other income (2%). (AIB Annual report 2013/14).

Interest incomes are the result of loans and these loans are given from the mobilized deposit. This shows that AIB's profitability is mainly dependent on the amount of deposit mobilized.

Table 4.2. Composition of Income

(In '000 Birr)

| Description                        | Financial Year     |                    |                    |
|------------------------------------|--------------------|--------------------|--------------------|
|                                    | 2011/12            | 2012/13            | 2013/14            |
|                                    | A                  | B                  | C                  |
| Interest Income                    | 668,692.9          | 890,192.1          | 1,218,157.0        |
| Commission and Services Charges    | 251,323.8          | 322,727.2          | 451,410.3          |
| Gains on Foreign Exchange Dealings | 166,912.0          | 171,464.0          | 206,133.0          |
| Other Income                       | 23,802.1           | 35,317.9           | 45,467.8           |
| <b>Total Income</b>                | <b>1,110,730.8</b> | <b>1,419,701.2</b> | <b>1,921,168.2</b> |

#### 4.1.2 Branch Expansion for Deposit Mobilization

Banks use branches as a means for deposit mobilization. And so, as banks increase their number of branches and widen the geographical coverage, they can mobilize more deposits. During the 2013/14 fiscal year, all commercial banks opened 480 new branches raising the total branch network in the country to 2,208 from 1,728 of the previous fiscal year. As a result, bank branch to population ratio declined from 1:49,826 people to 1:39,402 in 2013/14. The significant branch expansion was undertaken by Commercial Bank of Ethiopia (CBE) with 124 branches, followed by Oromiya International Bank (44 branches), Awash International Bank (38 branches), Cooperative Bank of Oromiya (31 branches), Dashen Bank and Bunna International Bank (30 branches each), Berhan International Bank (26 branches), and United Bank (24 branches). The share of public banks in total branch network slightly went down to 45.4 percent at the end of 2013/14 from 50.3 percent of 2012/13 fiscal year signifying the steady growth in private banks. The number of bank branches in Addis Ababa, the capital city and major business center

of the country, increased by 29.4 percent over last year, indicating the booming economic activities in the city. (NBE annual Report 2013/14).

During the 2014/15 fiscal year, CBE alone opened about 124 branches and 460 new branches were opened by private banks. AIB opened 52 new branches during the 2014/15 period. (AIB's Business Development Report - 2014/15)

#### **4.1.3. Major Points on Deposit Mobilization Activities of AIB (2010-2015)**

- Average Year-to-year growth=21%, owing to increase in all components of deposits, except letter of credit margin
- Time deposits and saving deposits depicted significant growth of 66 and 20% respectively.
- As compared to plan of 2014/15, it registered a short fall of 3.5 % (Birr 699.6 million) largely associated with a short fall of saving deposits (4.5% or Birr 586.8 million) and L/C margin (33.4% or Birr 495 million)
- Share of time deposit increased to 9.9 percent from 5 percent in 2011/12.
- AIB maintained its deposit market share, amidst decline in market share of peer banks, for instance from 26 percent in 2010 to 17 percent for some bank in 2015.
- The gap between the leader from private banks and AIB declined to Birr 1.3 billion in 2014/15 from over birr 4 billion in 2009/10.
- The gap between AIB and its follower widened to over Birr 6 billion in 2014/15 from less than Birr a billion Birr in 2009/10.

Table 4.3. Market Share of AIB, In Percent

| Particulars        | June 2010 | June 2015 |
|--------------------|-----------|-----------|
| Deposits           | 16        | 16        |
| Loans and Advances | 15        | 17        |
| Branch Network     | 16        | 13        |

(AIB's Business Development Report - 2014/15)

The implication is that AIB is operating in a dynamic environment and there is high possibility of catch-up and by-pass. (AIB’s Business Development Report, 2014/15, AIB Annual Report 2009/10, 2010/11, 2011/12, 2012/13, 2013/14, 2014/15)

## 4.2 Survey results

Questionnaires were distributed to AIB staffs with job positions ranging from directors, Department managers, Branch managers, Assistant branch managers and supervisors. The questionnaires were physically distributed to 60 employees.

Table 4.4. Sample size and returned questionnaires

|                                       |               |
|---------------------------------------|---------------|
| Sample Size                           | 60            |
| Completed and Returned Questionnaires | 46            |
| <b>Response Rate</b>                  | <b>76.67%</b> |

Source: Own Survey and computation

Out of the 60 questionnaires distributed, 46 were completed by the respondents and were collected. Therefore, the response rate was 76.67 percent.

Table 4.5. Job position of the Respondents

| Job Positions            | Frequency | Frequency percentage | Cumulative Frequency |
|--------------------------|-----------|----------------------|----------------------|
| Director                 | 3         | 7%                   | 7%                   |
| Department Manager       | 2         | 4%                   | 11%                  |
| Division Manager         | 5         | 11%                  | 22%                  |
| Branch Manager           | 22        | 48%                  | 70%                  |
| Assistant Branch Manager | 9         | 20%                  | 89%                  |
| Supervisor               | 5         | 11%                  | 100.00%              |
| Total                    | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

The survey targets respondents with job positions of senior and middle level management positions and branch supervisors. As indicated in the above table, major respondents are branch managers (almost half) and 20% are assistant branch managers. Moreover, 11% each of the respondents are division managers and branch supervisors. Also, 7% and 4% of the respondents are directors and department managers respectively

Table 4.6. Gender Distribution of the Respondents

| Sex    | Frequency | Frequency percentage | Cumulative Frequency |
|--------|-----------|----------------------|----------------------|
| Male   | 35        | 76%                  | 76%                  |
| Female | 11        | 24%                  | 100%                 |
| Total  | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

The above table shows that most of the respondents (76%) are males and the rest 24% are females.

Table 4.7. Age Distribution of the Respondents

| Age            | Frequency | Frequency percentage | Cumulative Frequency |
|----------------|-----------|----------------------|----------------------|
| Below 30 years | 7         | 15%                  | 15%                  |
| 31 - 40 years  | 27        | 59%                  | 74%                  |
| 41 - 50 years  | 12        | 26%                  | 100%                 |
| 51 and above   | 0         | 0%                   | 100%                 |
| Total          | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

With respect to age, all respondents are below 50 years of age and the majority of the respondents (59%) are between 31 and 40 years. 26% of the respondents are between 41 and 50 years and 15% of the respondents are staffs with below 30 years.



Table 4.8. Work experience of the Respondents

| Work Experience    | Frequency | Frequency percentage | Cumulative Frequency |
|--------------------|-----------|----------------------|----------------------|
| Below one year     | 0         | 0%                   | 0%                   |
| 1 - 5 years        | 4         | 9%                   | 9%                   |
| 6 - 10 years       | 14        | 30%                  | 39%                  |
| 10 - 15 years      | 9         | 20%                  | 59%                  |
| 16 years and above | 19        | 41%                  | 100%                 |
| Total              | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

With regard to work experience, many of the respondents (41%) are highly experienced staffs who stay more than 16 years in the banking industry. 20% of the respondents have a banking experience of 10 to 15 years, 30% with 6 to 10 years of banking experience and 9% of the respondents are AIB staffs with 1 to 5 years banking experience.

## II. Deposit Mobilization Issues

The first question raised to respondents with regard to deposit mobilization is about the mechanisms that the bank use to encourage/ motivate deposit mobilization efforts made by branches. With this regard, respondents states that there are resource mobilization teams formed at the head office and branch level. These teams exert relentless effort to increase the volume of deposits. The Head office resource mobilization committee supports the teams at branch level and evaluates and rank branches monthly on the basis of activities of the branch teams and deposit result.

Major criteria set for evaluating deposit mobilization performance of branches include;

- Deposit growth measured as compared to the previous month balance, the branches' budget for the month and balance of previous year same period;

- Number of accounts growth during the month;
- Number of ATM cards (Awash card) sold during the month;
- Number of re-activated or re-instated customer accounts which had been inactive before.

As elucidated by respondents, AIB classifies its branches in to four classes and one special branch based on the number of customers and volume of transactions. Therefore, branches compete with in their respective classes and city branches (Addis Ababa area) and outline branches (branches outside Addis) compete separately.

Based on the cumulative results of branches for the whole budget year, AIB acknowledges best performer branches and branch managers by rewarding them during its annual management meeting.

Respondents also identify the strengths and weaknesses of the current deposit mobilization efforts/practices of the bank;

- Strength
  - ✓ It encourages branches to exert their efforts consistently for deposit growth
  - ✓ Through the effort of reactivating inactive accounts, it helps to recall loyal customers of the bank;
  - ✓ Being net increase in number of accounts as a performance criterion, it helps to widen the customer base of AIB;
  - ✓ The activities broaden the marketing knowledge of staffs
- Weaknesses
  - ✓ In evaluating branches, it considers only branches' month end deposit balance;
  - ✓ It doesn't consider location advantages/disadvantages of branches

Table 4.9. Understanding and Commitment of staffs for deposit mobilization

|              | <b>Frequency</b> | <b>Frequency percentage</b> | <b>Cumulative Frequency</b> |
|--------------|------------------|-----------------------------|-----------------------------|
| Very good    | 14               | 30%                         | 30%                         |
| Good         | 10               | 22%                         | 52%                         |
| Satisfactory | 13               | 28%                         | 80%                         |
| Poor         | 9                | 20%                         | 100%                        |
| <b>Total</b> | <b>46</b>        | 100%                        |                             |

Source: Own Survey and computation

Respondents are asked to evaluate the understanding and commitment of AIB's staffs on deposit mobilization. 30% of the respondents evaluate as very good, 22% of the respondents evaluate the understanding and commitment of AIB's staffs on deposit mobilization as good and 28% of them evaluate as satisfactory. However, 20% of the respondents evaluate that the understanding and commitment of AIB's staffs on deposit mobilization is poor.

Table 4.10. Contribution of Recently Introduced Various New Products of Deposit Accounts in Mobilizing Deposit

| <b>Effect of New Products on Deposit Mobilization</b> | <b>Frequency</b> | <b>Frequency percentage</b> | <b>Cumulative Frequency</b> |
|---|------------------|-----------------------------|-----------------------------|
| Very good   | 5                | 11%                         | 11%                         |
| Good  | 13               | 28%                         | 39%                         |
| Satisfactory  | 12               | 26%                         | 65%                         |
| Poor  | 16               | 35%                         | 100%                        |
| <b>Total</b>  | <b>46</b>        | 100%                        |                             |

Source: Own Survey and computation

In May 2014, with the intension of expanding its product base, AIB introduced various types of special deposit accounts including Smart Children's Account, Awash Student Solution Account, Awash Salary Solution Account, Check Payment Solution Scheme (CPSS), Investment Solution Account and Provident Fund Solution Account. These accounts have special features such as higher interest rate, gift, term loan facility and protection of cheque bouncing.

With this regard, respondents are asked on how they measure the contribution of these new products for deposit mobilization. 11% of the respondents reply that these new products have a very good contribution while 28% of them measure the contribution as good. Also, 26% of the respondents measure the contribution only as satisfactory. But, 35% of the respondents believe that the contribution of these new products for the deposit mobilization effort was poor.

What has been done in Awash International Bank S.C.to promote awareness of the society pertaining to AIB's services?

- Use of advertisements on TV, radio, newspapers, magazines;
- Sponsoring films, TV dramas, documentaries and various events;
- Donations

The ability to attract and retain big depositors has a decisive role to the deposit growth of a bank. And so, special consideration and handling to these corporate depositors should be given. Respondents mention what they identify as special services that AIB provides for corporate depositors. These are;

- Presenting gifts and postcards during holidays;
- Higher interest rate for deposits with fixed term;
- Cash collection directly from the customers' office;
- Handling of staff salary,

Table 4.11. Volume of Deposits Grows because of Special Services  
 Provided for the Corporate Depositors/customers

|       | Frequency | Frequency percentage | Cumulative Frequency |
|-------|-----------|----------------------|----------------------|
| Yes   | 35        | 76%                  | 76%                  |
| No    | 11        | 24%                  | 100%                 |
| Total | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

As can be seen in the above table, most of the respondents, i.e. 76%, believed that because of the special services given to the corporate customers, volume of deposit is increasing. Only 24% of the respondents do not believe the increase in deposit due to the special services rendered to those customers.

The survey also confirms that 95% of the respondents with job positions at a branch level, i.e. branch manager, assistant branch manager and supervisors, believe the growth of deposit as a result of the special services given to the corporate customers.

Table 4.12. customers' satisfaction Rating

| Rating of Customers' Satisfaction | Frequency | Frequency percentage | Cumulative Frequency |
|-----------------------------------|-----------|----------------------|----------------------|
| Very good                         | 13        | 28%                  | 28%                  |
| Good                              | 15        | 33%                  | 61%                  |
| Satisfactory                      | 10        | 22%                  | 83%                  |
| Poor                              | 8         | 17%                  | 100%                 |
| Total                             | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

Respondents are asked about their evaluation on the level of customers' satisfaction. 28% of them respond that the level of satisfaction is very good while 33% of the respondents say the level of satisfaction is good. However, 22% of the respondents believe that the level of customers' satisfaction is only satisfactory and 17% of the respondents say that there is poor customers' satisfaction on AIB's services.

As explicated in the questionnaire, customers express their satisfaction/ dissatisfaction to the bank using the below listed mechanisms.

- Suggestion boxes,
- Direct reporting to branch supervisors,
- Direct reporting to HO through the telephone numbers posted at the counter of all branches
- Reporting to Deposit Mobilization team members during their visit
- Leave the bank

Table 4.13 Major Cause for the variation in deposit among branches of AIB

|  | Frequency | Frequency percentage | Cumulative Frequency |
|--|-----------|----------------------|----------------------|
| Convenience of branch office/ location   | 13        | 28%                  | 28%                  |
| Availability of parking areas  | 7         | 15%                  | 43%                  |
| Effort of the branch staffs  | 14        | 30%                  | 74%                  |
| Most of the surrounding society of the branch are/are not identified target customers of AIB | 8         | 17%                  | 91%                  |
| Other reasons  | 4         | 9%                   | 100%                 |
| Total  | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

In relation to the main reason for the variation in deposit among branches of AIB, 28% of the respondents believe that convenience and location of the branch are major reasons for

the variation and 15% gives the main reason to availability of parking areas. 30% of the respondents relate the variation with the deposit mobilization efforts made by the branch staffs. Nevertheless, 17% of the respondents reasoned for availability or non availability of identified target customers of AIB in the surrounding areas of the branch.

Furthermore, 9% of the respondents consider age of the branch and availability of big businesses and other organizations in the surroundings for the deposit variation among branches.

Table 4.14. Time Taken for a Customer to Open a New Account

| Time to open a New Account | Frequency | Frequency percentage | Cumulative Frequency |
|----------------------------|-----------|----------------------|----------------------|
| Less than 10 minutes       | 7         | 15%                  | 15%                  |
| 10 to 30 minutes           | 28        | 61%                  | 76%                  |
| More than 30 minutes       | 11        | 24%                  | 100%                 |
| Total                      | 46        | 100%                 |                      |

Source: Own Survey and computation

Pertaining to the time taken for a customer to open a new account, 15% of the respondents observed that it takes less than 10 minutes to open an account whereas 61% of them witness that it needs 10 to 15 minutes to open the account. Yet, 24% of the respondents witness that it takes more than 30 minutes to open a new account for a customer.

Table 4.15. Time Taken for a Customer to Withdraw/ deposit cash from/to Account

| Time to Withdraw from Account | Frequency | Frequency percentage | Cumulative Frequency |
|-------------------------------|-----------|----------------------|----------------------|
| Less than 10 minutes          | 21        | 46%                  | 46%                  |
| 10 to 30 minutes              | 17        | 37%                  | 83%                  |
| More than 30 minutes          | 8         | 17%                  | 100%                 |
| Total                         | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

Concerning the time taken for a customer to Withdraw/ deposit cash from/to Account, 46% of the respondents observed that it takes less than 10 minutes to Withdraw/ deposit cash from/to Account whereas 37% of them witness that it needs 10 to 15 minutes to Withdraw/ deposit cash from/to Account. Yet, 17% of the respondents witness that it takes more than 30 minutes to Withdraw/ deposit cash from/to Account.

Table 4.16. Main Reason for AIB's Continuous Deposit Growth for the last five years

| Reason for Continuous Deposit Growth                                 | Frequency | Frequency percentage | Cumulative Frequency |
|--|-----------|----------------------|----------------------|
| Societies' preference to deposit their savings than other investment | 2         | 4%                   | 4%                   |
| AIB have many branches and larger market share from private banks    | 16        | 35%                  | 39%                  |
| Service given by the bank  | 13        | 28%                  | 67%                  |
| Goodwill of the bank   | 15        | 33%                  | 100%                 |
| Other reasons  | 0         | 0%                   | 100%                 |
| Total  | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation



As it is observed in the annual reports, AIB is registering a continuous deposit growth for the last consecutive fiscal years. With this regard, the reason for the continuous growth is asked to the respondents. 35% of them pick the availability of many branches and owning larger market share compared to other private banks where as 33% of the respondents select good will of the bank as a reason. 28% consider service quality of the bank as a main reason for the growth. Two respondents take societies' preference to deposit their savings than investing their money in another business as a reason for the growth.

Table 4.17. Major Depositors of Awash International Bank S.C.

| Major Depositors of AIB | Frequency | Frequency percentage | Cumulative Frequency |
|-------------------------|-----------|----------------------|----------------------|
| Individual Customers    | 21        | 46%                  | 46%                  |
| Business Organizations  | 17        | 37%                  | 83%                  |
| NGOs                    | 8         | 17%                  | 100%                 |
| Government              | 0         | 0%                   | 100%                 |
| Total                   | <b>46</b> | 100%                 |                      |

Source: Own Survey and computation

As can be observed in the above table, government organizations, which are major source of deposit, have no contribution in fulfilling deposit demand of AIB. 46% of the respondents view individuals as the major source of deposit for AIB and 37% of them consider business organizations as major depositors. NGOs regarded as major depositors by 17% of the respondents.

Table 4.18. Competition with Other Private and Government Banks

| Competition with Other Private and Government Banks | Frequency | Frequency percentage | Cumulative Frequency |
|---|-----------|----------------------|----------------------|
| Weak  | 3         | 7%                   | 7%                   |
| Moderate  | 17        | 37%                  | 43%                  |
| Stiff   | 26        | 57%                  | 100%                 |
| Total   | <b>46</b> | 100%                 |                      |

As indicated in the above table, majority of the respondents (57%) measure the competition with government and other private banks as stiff. 37% of the respondents believe that there is a moderate competition with other private banks and government banks. On the other hand, three respondents measure the competition as weak.

Table 4.19. Banks which pose more competition to AIB

| Major Depositors of AIB        | Frequency | Frequency percentage | Cumulative Frequency |
|--------------------------------|-----------|----------------------|----------------------|
| Commercial Bank of Ethiopia    | 18        | 39%                  | 39%                  |
| Construction and Business Bank | 1         | 2%                   | 41%                  |
| Dashen Bank                    | 5         | 11%                  | 52%                  |
| Abyssinia Bank                 | 1         | 2%                   | 54%                  |
| Wegagen Bank                   | 2         | 4%                   | 59%                  |
| United Bank S.C.               | 1         | 2%                   | 61%                  |
| Nib International Bank         | 3         | 7%                   | 67%                  |
| Cooperative Bank of Oromiya    | 8         | 17%                  | 85%                  |
| Other Private Banks            | 7         | 15%                  | 100%                 |
| <b>Total</b>                   | <b>46</b> | <b>100%</b>          |                      |

Commercial Bank of Ethiopia is considered by 39% of the respondents as key competitor who poses more competition to AIB. Cooperative Bank of Oromiya and Dashen Bank are also identified by 17% and 11% of the respondents respectively as major competitors who posed more competition to AIB. 7% identifies Nib International Bank as a major competitor. Wegagen Bank is also identified as a major competitor to AIB by 4% of the respondents. Construction and Business Bank, Abyssinia and United bank are identified as a major competitor each by 2% of the respondents. The other private banks are considered by 15% of the respondents as major competitor to AIB.

## Chapter 5

### Summary Conclusion and Recommendation

#### 5.1 Summary

The main objective of this project is by taking the case of Awash International Bank s.c, to identify the challenges in deposit mobilization for private banks in Ethiopia and go through with a descriptive analysis. As a result of the analysis made, the following are the summary of the findings.

- AIB mobilize funds from shareholders contribution, operational profit and customers' deposit. From these sources, the largest proportion is deposit
- AIB's profitability is mainly dependent on the amount of deposit mobilized.
- AIB uses to encourage/ motivate deposit mobilization efforts made by branches by using resource mobilization teams formed at the head office and branch level. These teams work to increase the volume of deposits. The Head office resource mobilization committee supports the teams at branch level and evaluates and rank branches monthly on the basis of activities of the branch teams and deposit result.
- Major criteria set for evaluating deposit mobilization performance of branches include;
  - ✓ Deposit growth measured as compared to the previous month balance, the branches' budget for the month and balance of previous year same period;
  - ✓ Number of accounts growth during the month;
  - ✓ Number of ATM cards (Awash card) sold during the month;
  - ✓ Number of re-activated or re-instated customer accounts which had been inactive before.
- AIB acknowledges best performer branches and branch managers by rewarding them during its annual management meeting.

- AIB's current deposit mobilization efforts/practices have the following strengths,
  - ✓ It encourages branches to exert their efforts consistently for deposit growth
  - ✓ Through the effort of reactivating inactive accounts, it helps to recall loyal customers of the bank;
  - ✓ Being net increase in number of accounts as a performance criterion, it helps to widen the customer base of AIB;
  - ✓ The activities broaden the marketing knowledge of staffs
- AIB's current deposit mobilization efforts/practices have the following weaknesses,
  - ✓ In evaluating branches, it considers only branches' month end deposit balance;
  - ✓ It doesn't consider location advantages/disadvantages of branches
- The understanding and commitment of AIB's staffs on deposit mobilization is partially good.
- AIB introduced various types of special deposit accounts including Smart Children's Account, Awash Student Solution Account, Awash Salary Solution Account, Check Payment Solution Scheme (CPSS), Investment Solution Account and Provident Fund Solution Account. But these new products do not contribute much for deposit mobilization.
- AIB uses the following mechanisms to promote awareness of the society pertaining to its services?
  - ✓ Use of advertisements on TV, radio, newspapers, magazines;
  - ✓ Sponsoring films, TV dramas, documentaries and various events;
  - ✓ Donations
- AIB, in order to attract and retain big depositors, provides special services for corporate depositors. These are;
  - ✓ Presenting gifts and postcards during holidays;
  - ✓ Higher interest rate for deposits with fixed term;
  - ✓ Cash collection directly from the customers' office;

- ✓ Handling of staff salary,
- Because of the special services given to the corporate customers, volume of deposit is increasing.
- Majority of AIB's customers are satisfied with AIB's services.
- Customers express their satisfaction/ dissatisfaction to the bank using the below listed mechanisms.
  - ✓ Suggestion boxes,
  - ✓ Direct reporting to branch supervisors,
  - ✓ Direct reporting to HO through the telephone numbers posted at the counter of all branches
  - ✓ Reporting to Deposit Mobilization team members during their visit
  - ✓ Leave the bank
- In most of the cases, account opening, cash deposit and cash withdrawal takes more than 10 minutes.
- AIB is registering a continuous deposit growth for the last few years because of the availability of many branches, owning larger market share compared to other private banks, good will of the bank, service quality of the bank and in some cases, societies' preference to deposit their savings than investing their money in another business.
- Individuals, business organizations and NGOs are the major source of deposit for AIB.
- AIB is operating in a dynamic and highly competitive environment and there is high possibility of catch-up and by-pass among banks.
- Commercial Bank of Ethiopia is key competitor who poses more competition to AIB. Cooperative Bank of Oromiya and Dashen Bank are also major competitors who posed more competition to AIB. Nib International Bank and Wegagen Bank also poses a moderate competition to AIB.

## 5.2. Conclusion

Given the summary result of the descriptive analysis, the study had concluded the following to private banks by taking AIB as evidence of the study.

- AIB mobilize funds mainly from deposit. Shareholders' contribution and operational profit contribute some as a source of fund and so AIB's profitability is mainly dependent on the amount of deposit mobilized.
- AIB achieved in increasing the volume of deposits through activities of Resource Mobilization teams formed at the head office and branch level and by;
  - Setting major criteria for evaluating deposit mobilization performance of branches which include;
    - ✓ Deposit growth measured as compared to the previous month balance, the branches' budget for the month and balance of previous year same period;
    - ✓ Number of accounts growth during the month;
    - ✓ Number of ATM cards (Awash card) sold during the month;
    - ✓ Number of re-activated or re-instated customer accounts which had been inactive before.
  - By acknowledging best performer branches and branch managers and rewarding them during its annual management meeting.
- AIB's current deposit mobilization efforts/practices have the following strengths,
  - ✓ It encourages branches to exert their efforts consistently for deposit growth
  - ✓ Through the effort of reactivating inactive accounts, it helps to recall loyal customers of the bank;
  - ✓ Being net increase in number of accounts as a performance criterion, it helps to widen the customer base of AIB;
  - ✓ The activities broaden the marketing knowledge of staffs

- AIB's current deposit mobilization efforts/practices have the following weaknesses,
  - ✓ In evaluating branches, it considers only branches' month end deposit balance;
  - ✓ It doesn't consider location advantages/disadvantages of branches
- The understanding and commitment of AIB's staffs on deposit mobilization is partially good.
- AIB introduced various types of special deposit accounts including Smart Children's Account, Awash Student Solution Account, Awash Salary Solution Account, Check Payment Solution Scheme (CPSS), Investment Solution Account and Provident Fund Solution Account. But these new products do not contribute much for deposit mobilization.
- AIB uses the following mechanisms to promote awareness of the society pertaining to its services?
  - ✓ Use of advertisements on TV, radio, newspapers, magazines;
  - ✓ Sponsoring films, TV dramas, documentaries and various events;
  - ✓ Donations
- AIB, in order to attract and retain big depositors, provides special services for corporate depositors and because of the special services given to the corporate customers, volume of deposit is increasing.
- Majority of AIB's customers are satisfied with AIB's services and express their satisfaction/ dissatisfaction to the bank using the below listed mechanisms.
  - ✓ Suggestion boxes,
  - ✓ Direct reporting to branch supervisors,
  - ✓ Direct reporting to HO through the telephone numbers posted at the counter of all branches
  - ✓ Reporting to Deposit Mobilization team members during their visit
  - ✓ Leave the bank

- In most of the cases, account opening, cash deposit and cash withdrawal takes more than 10 minutes.
- AIB is registering a continuous deposit growth for the last few years.
- Individuals, business organizations and NGOs are the major source of deposit for AIB.
- AIB is operating in a dynamic and highly competitive environment and there is high possibility of catch-up and by-pass among banks.
- Commercial Bank of Ethiopia, Cooperative Bank of Oromiya and Dashen Bank are identified as key competitors who pose more competition to AIB.

### **5.3. Recommendations**

Based on the findings and conclusions made, the following are recommended for AIB in order to achieve its target of mobilizing deposit and inclusion of unbanked resources.

- AIB should develop a procedure on standard service delivery time to facilitate delivery of fast and quality services to its customers.
- AIB should work in acquainting customers with the newly introduced various types of special deposit accounts.
- In evaluating branches for their performance in deposit mobilization, AIB should consider average of the month deposit balance instead of month end deposit balance. Moreover, it should take location advantages/disadvantages of branches in to consideration.
- Since the main source of fund for banks is deposit, they should give more attention and effort to mobilize deposit.
- AIB should go beyond the expectation of its customers by providing technology based state of the art services. Services such as internet banking, mobile banking and other similar services should be adopted in order to catch up with banks who already adopted it.
- AIB should go through promotional effort and awareness creation campaigns to have well informed society.



- AIB should have convenient office environment with hard working employees to attract depositors.
- AIB should also go after the customers' preference and compete with other commercial banks to attract more depositors.
- Since high interest rate has a positive effect in attracting deposit, AIB should consider increasing the deposit rate.
- Since branch expansion has positive and significant effect on total deposit of commercial banks, AIB should also work more on branch expansion in order to increase their deposit.

## Bibliography

Abdus, S. & M. and Kabir, H., 2001, "The performance of Malaysian Islamic Bank During 1984-1997: An Exploratory Study". *International Journal of Islamic Financial Services*, Vol. 1 No.3.

Abebaw Kassie G. and Depaack K. 2011, "What drives the performance of commercial banks in Ethiopia" *international journal of research in commerce and management* Panjab Univesity, Chandigarh - 160 014, volume no: 2 (2011), issue no. 7 (july) *ISSN 0976-2183*

Andreas Dietricha and Gabrielle Wanzenriedb, 2009, "What Determines the Profitability of Commercial Banks- New Evidence from Switzerland" *Institute of Financial Services IFZ*, Lucerne University of Applied Sciences, Grafenauweg 10, 6304 Zug, Switzerland.

AIB, Annual Report For Financial Year Ended 30 June 2014

AIB, Annual Report For Financial Year Ended 30 June 2013

AIB, Annual Report For Financial Year Ended 30 June 2012

AIB, Annual Management Report For June 2014 and June 2015

Belayneh Hailegeorgis, 2011, "Determinants of Commercial Banks Profitability: An empirical study on Ethiopian Commercial Banks" Addis Ababa University.

Bourke, P., 1989, "Concentration and other determinants of bank profitability in Europe, North America and Australia". *Journal of Banking and Finance* 13, 65- 79.

Daniel C. Giedeman(2005). *Branch Banking Restriction and Finance Constraints in Early 65*, No. Twentieth Century America. Cambridge University Press, The Journal of Economics History, Vol. 1, PP 129-151.

Devinaga Rasiah(2010). *Theoretical Framework of Profitability as Applied to Commercial Bank in Malaysia*. European Journal of Economics, Finance and Administrative Sciences, Multimedia University, Faculty of Business and Law, Melaka, Malaysia.

Dorothee Holl and Andrea Schertler(2009). "Why do savings banks transform sight deposits into illiquid assets less intensively than the regulation allows?" Discussion Paper.

Erna Rachmawati & Ekki Syamsulhakim(2004). “Factors Affecting Mudaraba Deposits in Indonesia. Working Paper in Economics and Development Studies” Padjadjaran University, Indonesia.

Encyclopedia Britannica (2010), *Ultimate reference Suite*, version 2010

Eshetu Bekele & Mammo Muchie(2009). “Promoting Micro Small & Medium Enterprises(MSMEs) for sustainable rural livelihood” Diiper Research Series, Working Paper No.11, ISS 1902-8679.

European Central Bank (ECB), 1999, “*The effects of technology on European banking system*”

Eustacius N. Betubiza and David J. Leatham(1995). “Factors Affecting Commercial Bank Lending to Agriculture” Southern Agricultural Economics Association.

Evan Gatev, Til Schuermann and Philip E. Strahan(2006). “Managing Bank Liquidity Risk: How Deposit-Loan Synergies Vary With Market Conditions” Federal Reserve Bank of New York.

Fraser, Donald R. and Peter S. Rose, 1972, “Bank Entry and Bank Performance”, *Journal of Finance*, Vol. 21, No. 1, pp. 65-78.

Gebeyaw Aychile, 2008, ”Financial Performance of National Bank of Ethiopia Workers “Savings and Credit Association with special emphasis to adjustments (NBE WSACA)”

Gedey, B. (1990) *Money, Banking and Insurance in Ethiopia*, Addis Ababa: Berhanena Selam Printing Press, Addis Ababa (in Amharic).

George G. Kaufman(1972). *Deposit Variability and Bank Size*. The journal of financial and pp quantitative analysis, Vol. 7, No. 5, University of Washington School of Business Administration, 2087-2096.

Guru, B.K., J. Staunton and B. Balashanmugam, 1999, “*Determinants of Commercial Bank Profitability in Malaysia*”, Paper presented at the 12th Annual Australian Finance and Banking Conference, Sydney, Australia, 16-17 December.

Harold L. Seligman(1946). *The Problem of Excessive Commercial Bank Earnings* Oxford University Press, The Quarterly Journal of Economics, Vol. 60, No. 3, pp. 365 -389

Herald Finger and Heiko Hesse(2009). “Lebanon-Determinants of commercial banks Deposits in a Regional Financial Center” IMF Working paper , WP/09/195

Indranarain Ramlall (2009). Bank-Specific, Industry-Specific and Macroeconomic Determinants of Profitability in Taiwanese Banking System: Under Panel Data Estimation; *International Research Journal of Finance and Economics* ISSN 1450-2887 Issue 34 (2009) © EuroJournals Publishing, Inc. 2009

ISMAL, RIFKI(2010). "THE MANAGEMENT OF LIQUIDITY RISK IN ISLAMIC BANKS: THE CASE OF INDONESIA" Doctoral Thesis, Durban University, Available at Durban E-Theses Online: <http://etheses.dur.ac.uk/550/>

Jim Stanford(2008). "A "How-To" Guide: Finding and Interpreting GDP Statistics" Canadian Centre for Policy Alternatives.

Lorenzo Cappiello, Arjan Kadareja, Christoffer Kok Sorensen and Macro Protopapa (2010) "Do Bank Loans and Credit Standards Have an Effect on Output? A Panel Approach for Euro Area" Working Paper Series, European Central Bank.

M. A. Baqui Khalily, Richard L. Meyer, Leroy J. Hushak(1987). *Deposit Mobilization in Bangladesh : Implications for Rural Financial Institutions and Financial Policies*. The Bangladesh Development Studies, Vol. 15, No. 4, pp. 85-117

M. Shubik and M. J. Sobel(1992). *On Matching Book: A Problem in Banking and Corporate Finance*. INFORMS, Management Science, Vol. 38, No. 6, pp. 827-839

Mahendra Varman P.(2005). "Impact of Self-Help Groups on Formal Banking Habits" Economic and Political Weekly. Vol. 40, No. 17, pp. 1705-1713

Maria Soledad Martinez Peria and Sergio L. Schmukler(2001). *Do Depositors Punish Banks for Bad Behavior? Market Discipline, Deposit Insurance, and Banking Crises*, The Journal of Finance, Vol. 56, No. 3, pp. 1029-1051, Blackwell Publishing for the American Finance Association.

Mark Carlson and Kris James Mitcheer(2006). *Branch Credit Banking, Bank Banking, Competition, and Financial Stability*. Ohio State University, Journal of Money, and Vol. 38, No. 5, pp. 1293-1328

Mohammad Namazi and Mahdi Salehi(2010). *The Role of Inflation in Financial Repression: Evidence from Iran*. IDOSI Publications, World Applied Sciences Journal 11(6): 653-661.

Molyneux, P. and J. Thornton (1992). The determinants of European bank profitability, *Journal of Banking and Finance* 16 (6), 1173-1178.

Mustafa K. Mujari and Sayera Younus(2009). "An Analysis of Interest Rate Spread in Bangladesh" The Bangladesh Development Studies.

N. Desinga Rao, 1975. "Deposit Mobilization by Co-operative Banks: A Comparison Economic and Political Weekly" No. 29, pp. 1098-1100

Nada Mora(2010). *Can Banks Provide Liquidity in a Financial Crisis?* Federal Reserve Bank Of Kansas City, Economic Revision.

NBE - Annual Report 2013-14

NBE - Annual Report 2012-13

NCA (2006). "Competition in Nordic Retail Banking", Report No. 1/2006, Nordic Competition Authorities - Mentioned in Zerayehu Sime Eshete, Kagne Wolde Tesome, Teshome Ketama Abebe, "Competition in Ethiopian Banking Industry" African Journal of Economics Vol. 1 (5), pp. 176-190, December 2013, www.internationalscholarsjournals.org © International Scholars Journals-

Pak, H. S. & Sung, K. H. (1995). Comparative analysis of Korean bank's performance. *Journal of Accounting*, California State University, Vol. Fall 1995, pp. 143-150.

Peltzman Sam (1968). "Bank Stock Prices and the Effects of Regulation of the Banking Structure", *Journal of Business*, Vol. 41, No. 4, October, pp. 413-430.

Philip Thomas(1968). "Interest Rate Practices of Commercial Banks: Case for Official Regulation" Economic and Political Weekly, Vol. 3, No. 20, PP 789-792.

Richard E. Bond(1971). *Deposit Composition and Commercial Bank Earnings*.Blackwell Publishing, The Journal of Finance, Vol. 26, No. 1, pp. 39-50

Richard Goode and Richard S. Thorn(1959). "Variable Reserve Requirements against Commercial Bank Deposits" Staff Papers - International Monetary Fund, Vol. 7, No. 1, pp. 9-45

Romer, 2001, p. 346; Athukorala and Sen, 2004, p. 498

Rose W. Ngugi(2001). An empirical analysis of interest rate spread in Kenya. African Economic Research Consortium, Nairobi

S. Venkatesan, An Empirical Approach to Deposit Mobilization of Commercial Banks in Tamilnadu, *IOSR Journal of Business and Management (IOSR-JBM)*, ISSN: 2278-487X. Volume 4, Issue 2 (Sep-Oct. 2012), PP 41-45

Sheku A.F. Bangura(2005). "Statistical Information and the Banking Sector" For Presentation at the Fourth meeting of the Committee on Development Information(CODI-IV)-Sub-Committee on Statistics, Plenary Session 1: Information in Key Economics Sector, United Nations Conference Centre(UNCC),Addis Ababa, Ethiopia.

Sudin Haron (1996). Competition and other external determinants of the profitability of Islamic banks, *Islamic economic studies* Vol. 4, no. 1,

Thomas Ogoro Ombati, Peterson Obara Magutu, Stephen Onserio Nyamwange, and Richard Bitange Nyaoga (2010). Technology and Service Quality in the banking industry; *African Journal of Business & Management (AJBUMA)*

Tihitina Ayalew (2009), *Legal Problems in Realizing Non-Performing Loans of Banks in Ethiopia*, A Thesis Submitted to School of Graduate Studies of Addis Ababa, University in Partial Fulfillment of the Requirements for Degree of LLM in Business Law. December, 2009 Addis Ababa University, Addis Ababa

Tobias Olweny and Themba Mamba Shipho (2011). Effects of Banking Sectoral Factors on the Profitability of Commercial Banks in Kenya, *Economics and Finance Review* Vol. 1(5) pp. 01 – 30, July, ISSN: 2047 – 0401

Voon-Choong, Yap, Hway-Boom, Ong, Kok-Thim, Chan and Yueh-Sin, Ang(2010). *Factors Affecting Banks' Risk Exposure: Evidence from Malaysia*. European Journal of Economics, Finance and Administrative Sciences.

V. V. Bhatt(1970). “Some Aspects of Deposit Mobilization” Economic and Political Weekly, Economic and Political Weekly, Vol. 5, No. 36, pp. 1495-1497.

Yanne Goosens, Philipp Schepelmann and Isabel Van de Sand (2007). “Alternative Progress indicators to Gross Domestic Product (GDP) as a means towards sustainable development” European Parliament.

[www.brickworkratings.com](http://www.brickworkratings.com)

[www.nbe.gov.et](http://www.nbe.gov.et)

[www.awashbank.com](http://www.awashbank.com)

Zerayehu Sime Eshete, Kagne Wolde Tesome, Teshome Ketama Abebe, “Competition in Ethiopian Banking Industry” African Journal of Economics Vol. 1 (5), pp. 176-190, December 2013, [www.internationalscholarsjournals.org](http://www.internationalscholarsjournals.org) © International Scholars Journals

**Addis Ababa University**  
**School of Graduate Studies**

**Executive Master of Business Administration**

This questionnaire is prepared to directors and managers of Awash International Bank S.C. The objective is to get an input for the accomplishment of EMBA Project Paper on the title of Challenges in Deposit Mobilization for Private Banks (The Case of Awash International Bank S.C.). The information you provide is valuable for the success of the research paper and will only be used for academic purpose. It shall also be kept confidential.

❖ No need of writing your name

**I. Personal Information**

1. Sex

Female\_\_\_\_\_

Male\_\_\_\_\_

2. Age

Below 30 years\_\_\_\_\_

31-40 years\_\_\_\_\_

41-50 years\_\_\_\_\_

51 and above\_\_\_\_\_

3. What is your position in Awash International Bank S.C?

- Director\_\_\_\_\_
- Department Manager\_\_\_\_\_
- Division Manager\_\_\_\_\_
- Branch manager\_\_\_\_\_
- Assistant Branch manager\_\_\_\_\_
- Supervisor

4. Work experience in the banking industry;

- Below one year\_\_\_\_\_
- 1-5 years\_\_\_\_\_
- 6-10 years\_\_\_\_\_

- 10-15 years\_\_\_\_\_
- 16 and above years\_\_\_\_\_

## II. Deposit Mobilization Issues

1. What mechanisms does the bank use to encourage/ motivate deposit mobilization efforts made by branches?

---



---



---

2. How do you evaluate the understanding and commitment of staffs for deposit mobilization?

Very Good\_\_\_\_\_ good\_\_\_\_\_ Satisfactory\_\_\_\_\_ Poor\_\_\_\_\_

3. Recently, the bank has introduced various new products on deposit accounts. How do you measure their contribution in the effort to mobilize deposit?

Very Good\_\_\_\_\_ good\_\_\_\_\_ Satisfactory\_\_\_\_\_ Poor\_\_\_\_\_

4. What has been done in Awash International Bank S.C.to promote awareness of the society pertaining to AIB's services?

---



---



---



---

5. What special services do the bank provides for corporate depositors/customers?

---



---



---

6. Does the volume of deposits grow because of such special services provided for the corporate depositors?

Yes\_\_\_\_\_

No\_\_\_\_\_



7. How do you rate your customers satisfaction?

Very Good\_\_\_\_\_ good\_\_\_\_\_ Satisfactory\_\_\_\_\_ Poor\_\_\_\_\_

8. What tools or techniques do customers have to express their satisfaction/  
dissatisfaction?

---

---

---

9. What are the strengths and weaknesses of the current deposit mobilization  
efforts/practices of the bank;

Strength\_\_\_\_\_

---

---

Weakness\_\_\_\_\_

---

---

10. What is the major cause for the variation in deposit among branches of Awash  
International Bank S.C.?

- Convenience of branch office/location \_\_\_\_\_
- Availability of parking areas\_\_\_\_\_
- Effort of the branch staffs\_\_\_\_\_
- Most of the surrounding society of the branch *are/are not* identified target  
customers of AIB\_\_\_\_\_
- Other reasons (specify)\_\_\_\_\_

11. How much time does it take for a customer to open a new account in your bank?

- Less than 10 minutes\_\_\_\_\_
- 10 to 30 minutes\_\_\_\_\_
- More than 30 minutes\_\_\_\_\_

12. How much time does it take for a customer to withdraw or deposit cash to his account?

- Less than 10 minutes\_\_\_\_\_
- 10 to 30 minutes\_\_\_\_\_
- More than 30 minutes\_\_\_\_\_

13. As per the annual reports, total deposit of Awash International Bank S.C. is continuously growing during the last five years. What is the main reason?

- Societies' preference to deposit their savings than other investment\_\_\_\_\_
- Awash International Bank S.C. have many branches and larger market share from private banks\_\_\_\_\_
- The service given by the bank\_\_\_\_\_
- The goodwill of the bank\_\_\_\_\_
- Other reasons (specify)\_\_\_\_\_

14. Who do you think are major depositors of Awash International Bank S.C.?

- Individual customers\_\_\_\_\_
- Business organizations\_\_\_\_\_
- NGOs\_\_\_\_\_
- Government\_\_\_\_\_

15. How do you measure the competition with other private and government owned banks?

Weak\_\_\_\_\_ Moderate\_\_\_\_\_ Stiff\_\_\_\_\_

16. Which banks pose more competition to AIB?

- Commercial Bank of Ethiopia\_\_\_\_\_
- Construction and Business Bank\_\_\_\_\_
- Dashen Bank\_\_\_\_\_
- Abyssinia Bank\_\_\_\_\_
- Wegagen Bank\_\_\_\_\_
- United Bank\_\_\_\_\_

- Nib International Bank\_\_\_\_\_
- Cooperative Bank of Oromia\_\_\_\_\_
- Other Private banks\_\_\_\_\_

Thank You for Your Cooperation.