# MADDA WALABU UNIVERSITY
# COLLEGE OF BUSINESS AND ECONOMICS
# DEPARTMENT OF ACCOUNTING AND FINANCE

# CHALLENGES OF DEPOSIT MOBILIZATION FOR PRIVATE COMMERCIAL BANKS IN ETHIOPIA: THE CASE OF EAST BALE AWASH BANK BRANCHS

**A THESIS SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE COLLAGE OF BUSINESS AND ECONOMICS MADDA WALABU UNIVERSITY, IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE IN MSC PROGRAM IN ACCOUNTING AND FINANCE**


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**Bale Robe, Ethiopia**

# Research Approval Sheet

I, Aman Geleto Shankule, hereby declare that: The thesis proposal titled as "challenges of deposit mobilization for private commercial banks in Ethiopia the case of Awash bank in East Bale Zone branches by me in partial fulfillment of the requirement for master's degree in department of Accounting and finance, Collage of Business and Economics, Madda Walabu University, Ethiopia. This research work is my original work in study area and to the best of my knowledge; it has not been submitted in study area for academic achievement (any degree or diploma). The ideas and views of the other researchers, authors and scholars in this study are properly expressed and acknowledged.

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Advisor Signature Date

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Department head Signature Date

## Declaration

I, the undersigned, declare that this study entitled “challenges of deposit mobilization for private commercial banks in Ethiopia the case of Awash bank in East Bale Zone branches (Ginnir, Gololcha and Sawena): I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or postgraduate program in this or any other institutions and that all sources of materials used for the thesis have been duly acknowledged.

Declared by: Name: Aman Geleto Shankule

Signature: _____

Date: _____

May, 2022

## Statement of Certification

This is to certify that Aman Geleto Shankule, have carried out this research work on the topic entitled challenges of deposit mobilization for private commercial banks in Ethiopia: the case of Awash bank Ginnir, Gololcha and Sawena branchs east bale zone, Oromia, and that the work is original in nature and is suitable for submission for the reward of the degree in Accounting and Finance.

Advisor Name




June,2022

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## Abbreviations and Acronyms

AB – Awash 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

LCB - 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 Bank S.C, Descriptive method particularly survey design approach was adopted for the study. The survey was conducted with staff individuals working in Awash Bank S.C at different positions using questionnaire. In addition, the study used unstructured review of documents. The study identifies that AB is registering a continuous deposit growth for the last few years. Individuals and business organizations are the major source of deposit for AB. The result of the study showed that saving habits, Inflation unstable, Competition among banks, Branch expansion, Profitability, Bank's Liquidity ratio and Interest rate has significant effect of deposit mobilization in the study area. Based on the result it was recommended that saving policy which is favoring customers to make deposits, front line staff can confidently adapt their marketing message to saving mobilization, expand its branches in order to increase saving mobilization, consider the level of competition, increase the deposit, providing excellent service for its customers and should build good will to be acceptable for the society that promote deposit mobilization.*

***Keywords:*** *Challenges, deposits mobilization, saving habits, Inflation unstable, Competition, Awash Bank, East Bale*

**CHAPTER ONE**

# 1. Introduction

This chapter presents the introductory part of the study by describing the background of the study, statement of the problem and continued with the research questions, objective of the study, significance of the study, scope of the study, and organization of the study.

## 1.1. Background of the study

Banks play a key role in improving economic efficiency by transforming funds from resource surplus unit to those with better productive investment opportunities. Banks also play key role in trade and payment System by significantly minimizing transaction cost and enhancing convenience (NCA, 2006). In monetized countries, like Ethiopia, whilst financial sector is dominated by banking industry, effective and efficient functioning of the banking industry has significant role in accelerating economic growth. To increase the role of banks in an economy, competition is a major driving force, without competition it is improbable to bring about efficiency and strengthen financial sector development. In other words, inadequate 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).

Financial resource are naturally provided from people's deposit which is the most important resources of commercial banks. Financial resources are naturally provided from people's deposit which is the most important resource of commercial banks. Thus, the amount of deposit a commercial bank should have at hand should be adequate for the bank to compete in the market and to satisfy the financial needs of its customers. 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 identified to be determined of deposits (Mohammad and Mahdi ,2010). 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 banks 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. the Derge regime (1975-1991), private banks were fully nationalized and left no room for competition. After the down fall of the Derge 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 ProclamationNo.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 banks sector to foreign participation (Abebaw 2011).The Ethiopian banking sector remains isolated from the impact of globalization.. The Government believes that liberalization my 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. Nevertheless, sources from National Bank of Ethiopia indicate that from deposits that should be mobilized by banks, only a few are mobilized (NBE annual Report 2019-2020). 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 liquidity (Dejene, B., 2019).

Thus, this study aims to investigate challenges of deposit mobilization of Awash bank in the case of East Bale Zone Awash Bank branches considering challenges deposit mobilization the study area branch expansion, inflation, profitability, bank's liquidity ratio, interest rate, poor saving habits and competition banks. Therefore, the researcher aims to conduct the study on the assessment of the trend and growth of deposit mobilization and recommend ways for improving the capacity to mobilize deposit on the case Awash Bank of Ginnir, Gololcha and Sawena branchs of Bale Zone, Oromia regional state, Ethiopia.

## 1.4. Research questions

The research was conducted on the title of Challenges in Deposit Mobilization for Private Banks (The Case of Awash Bank East Bale Branches) to answer the following questions: -

1. What are the major challenges of deposit mobilization East Bale Zone Awash bank branches?
2. What are the factors that can affect the volume of Awash Bank deposit mobilization?

## 1.4. Objective of the Study

### 1.4.1. General Objective

- To assess the challenges of deposit mobilization of Awash bank in the case of East Bale Zone Awash Bank branches.

### 1.4.2. Specific Objective

- To investigate the major challenges of deposit mobilization in a selected Awash bank Branches in East Bale Zone (AB)
- To examine the effect of factors those, affect deposit mobilization in a selected Awash bank Branches in East Bale Zone (AB)

## 1.5. Significance of the study

Studying the challenges in Deposit Mobilization for Private Banks (The Case of Awash 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. Scope of the study

The study was analyzing the challenges of deposit mobilization of Awash bank in the case of East Bale Zone Awash Bank branches. The researcher tried to make representative samples in dealing with the research population. On the other hand, the variable used in this research was delimited which is challenges of deposit mobilization of Awash bank for dependent variable and eight independent variables i.e., saving habits, Inflation unstable, Competition among banks, Branch expansion, Profitability, Bank's Liquidity ratio, Interest rate on deposit mobilization of AB.

## 1.7. Limitation of the study

Most of the study has its own limitations which are encounter at various stages. Even though the study was conducted with great effort by researcher there were some limitations. There were also some limitations expected such as shortage of finance, a small number of may not filled questionnaire are may face by the researcher as some limitations to conduct this study. However, the researcher was overcome this limitation to a great extent by supplementing interviews with focus group discussion and observation.

## 1.8. 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, and 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 methods of the study. The fourth chapter outlines data presentation, analysis, and interpretations; and finally, the fifth chapter deals with the summary, conclusion and recommendations.

# CHAPTER TWO

# 2. Literature Review

## 2.1. Theoretical Concepts

### 2.1.1. 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 the15th 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. According to (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 B.C. 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 this resource sufficiently to the most productive uses and investments in the real sector (Ayalew, 2009).

### 2.1.2. 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.

### 2.1.3. 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 1905between 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 in1943. Then, on 15th 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 1616, 1963as 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 Bancodi Roma S.C. and Bancodi 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 Ethiopian's initiative and started operation in 1964 with a capital of 2 million in association with National and Grind lay 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 building sand 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 20million, 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.

### 2.1.4. 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 disciple 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 depending 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 (Mahindra, 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.

### 2.1.5. 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.

## 2.1.6. 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.

## 2.1.7. 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.

### 2.1.7.1. 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 factors 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 loan able 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.

### 2.1.7.2. Inflation

As to Herald and Heiko (2009), inflation is one of the factors that determine 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. Baquiet al, 1987). According to M. A. Baqui et al (1987), inflation technically did not decrease deposit; however, it decreases the value of deposits.

### 2.1.7.3. 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).

#### 2.1.7.4. Population growth of the country

The twin objectives of commercial banks, i.e. acquiring deposits and advancing credit can not 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 loan able 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.

#### 2.1.7.5. 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).

#### 2.1.7.6. Economic growth

Economic performance is generally being measured through GDP (Gross Domestic Product), a variable that has also become the de factor 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.

#### 2.1.7.7. 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.

#### 2.1.7.8. 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.

### 2.1.8. Bank Specific Factors

#### 2.1.8.1. 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 cred it 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 in herently 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, fo r 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 depositors but the bank can not 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) maysignal 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 factor favoring 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.

#### 2.1.8.2. 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 andHeiko, 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.

#### 2.1.8.3. 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.

#### 2.1.8.4. 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.

#### 2.1.8.5. 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).

### 2.1.8.6. Reserves

According to Richard Goode and Richard S. Thom (1959), reserves that are fixed legally can influence the deposits that banks can hold. The requirements determine the maximum amount of loans and investments of the banking system this maintain the deposits. Thus, if the reserve requirement is 20% of deposits, loans and investment may not exceed 80% of deposits. Therefore, reserve requirements limit the total expansion of bank deposits that can occur on the basis of early increase in deposits. Reserve requirements also have the effect of limiting the deduction in bank credit and deposit which is enforces the banking system by early decrease in deposits. The commercial banks can obtain currency to pay out for customers only by lowering 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 supply day to day needs. They indicated that bank deposits are the primary 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 tosupport 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.

### 2.1.8.7. 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).

### 2.1.8.8. 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. Baquifurther 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 apart 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.

## 2.1.9. Background of Awash International Bank

Awash 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 13th Extraordinary Annual General Meeting of the shareholders of AB endorsed the increase of paid-up capital to Birr 3 billon and subscribed capital to 6 billion within the coming three years. (www.awashbank.com). Awash 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)

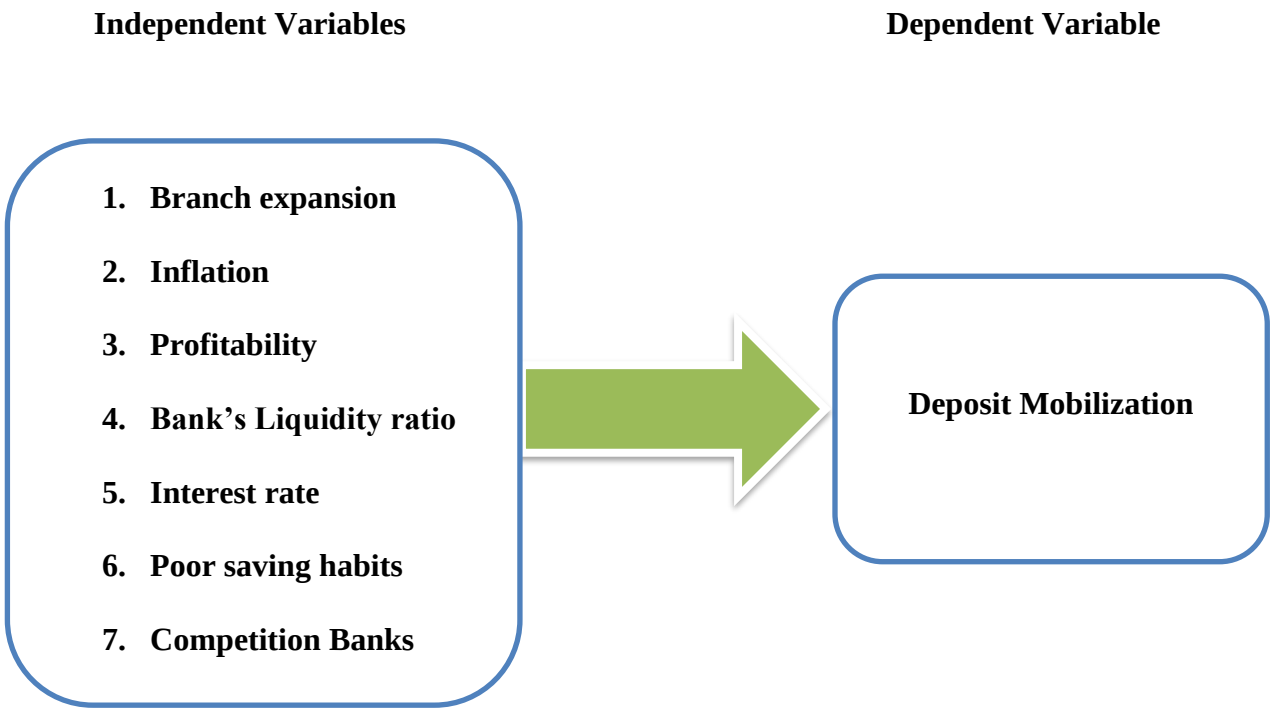
New Core Banking project was completed since July 2014 and currently, all branches are being embraced by the new system replacing the old one which referred as the "Bank Master". AB expects that the solution will provide an edge over competition by helping meet market demands with greater agility and the automated services of the Core banking solution will ensure faster processing front and back-office request and an improved turnaround time for customers. (AB Annual Report 2013/14) Similarly, the Bank started providing a card banking payment service, 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 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. AB installed 120 its own Automatic Teller Machines (ATM) and 500 Point of Sales (POS) terminals at convenient places for its customers. (www.awashbank.com).

## 2.2. Conceptual Framework

According to (Creswell, 2014) conceptual framework involves forming ideas about relationships between variables in the study and showing these relationships diagrammatically.

This study adopted the conceptual framework as shown in figure below which demonstrates the relationship between the dependent variable and the independent variables. The relationship between one dependent variable and nine independent variables is shown in the conceptual framework on the following figure.




Source: Own Formulated from Literature (2021)

## CHAPTER THREE

# 3. Research Methods

## 3.1. Description of the Study Areas

### 3.1.1. Location

East Bale Zone is one of the most populous zones in Oromia. The zone is made up of seven (7) districts and one (1) administrative town. Ginnir, Gololcha and Sawena are of branchs East Bale Zone. The study was conducted in three selected districts of East Bale Zone which are Ginnir branch, Jarra branch and Sawena banch on the Challenges of Deposit Mobilization on private commercial bank of Ethiopia the case of Awash bank. Ginnir Town is the Capital City of East Bale Zone and located in the Eastern part of Bale zone. Ginnir District is surrounded by the following Villages in all Directions: means in the west Lobocha Village, in the north Jame Village, in the east Dinnik River and Arda Tarre Village and in the south Chancho and Elani DoyoVilleges. Ginnir Town is one of the administrative parts of Bale zone which occupied about 38.75 $km^2$ or 3875 hectars which is about 0.06% out of the total area of Bale zone. Ginnir Town was established in 1878 E.C even before the capital city of Ethiopia Addis Ababa. Ginnir Town is located at a distance of 565 km from centers of a country called Addis Ababa

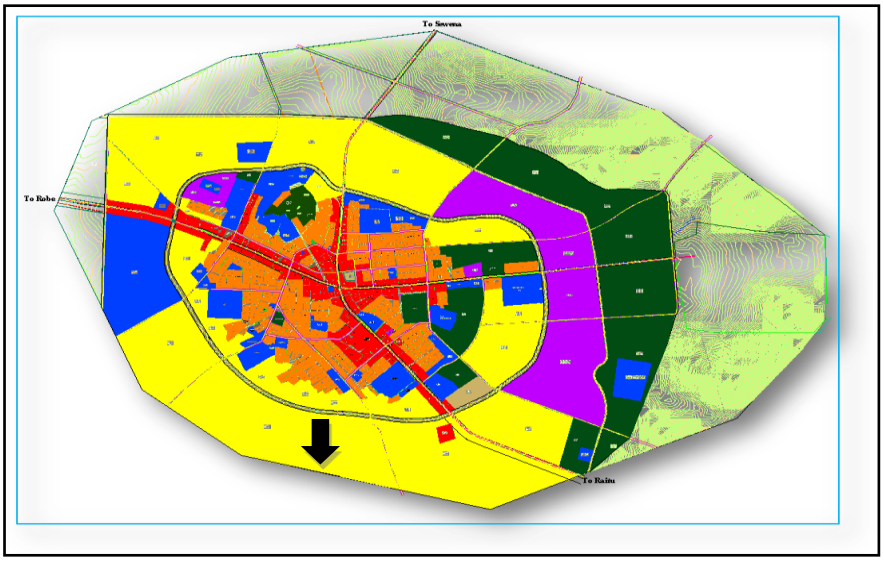



*Figure 1- map the study area.*

## 3.2. Research design

Both quantitative and qualitative data were collected in this study. In collecting the primary data, a cross sectional survey and interview method was employed; whereas a documentary method was used to collect a secondary data. The researcher chooses to conduct 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 AB 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. Source of data

The study uses both primary and secondary data. The primary data is collected from management and supervisory staffs of Awash Bank S.C branches. Questionnaires prepared are distributed in order to gather information from employees of Awash Bank S.C branches. Moreover, additional data were collected on various issues from annual bulletins of the National Bank of Ethiopia, annual reports of Awash Bank S.C, Proclamations and regulations related to banking and finance, directives issued by the Monetary Authority, and other relevant sources.

## 3.6. Sample Size and Sampling Technique

There are 83 target populations in the study area. The researcher was considered all as sample size because the number target population small. The target populations include 34 in Ginnir branch, 27 in Gololcha branch and 12 Sawena branch. In order to obtain representative data, survey technique was employed in this study.

## 3.7. 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 and percentages as per the convenience to the types of data to use for best interpretation and easy

understanding. The questionnaires were analyzed using descriptive analysis techniques. The researcher was use Excel software to analyze the questionnaires and describe the result.

## 3.8. Reliability test

Reliability and validity are two of the most vital factors that may be potentially considered in the process of evaluating or formulating a specific instrument kothari, (2004) Reliability is the extent to which a particular instrument is capable of measuring a set topic or reference phenomenon through population groups and time in a consistent manner Creswell, (2014). In this study also tested using Cranachs alpha test of reliability with coefficients range from 0.00 to 1 to indicate the reliability of the questioners concerning the variables hence according to George and Mallery (2003) suggest that the acceptable value between 0.6 and 0.7 and they additionally state the acceptable level hence the value of cronbachs alpha is between 0.9 and 0.7 excellent, 0.7 and 0.6 good ,0.6 and 0.5 questionable and below 0. 5 poor, there for, all variables reached the acceptable level.

As we can refer from the above table, the Cranach's alpha (internal consistency) of the questionnaire of 20 items was 0.708, which shows high internal reliability of items of the questionnaires Cronbach's alpha is the measure of internal consistency that is how closely related a set of items and challenges of deposit mobilization of awash bank in the case of East Bale Zone Awash Bank branches.

Table 3.1: Reliability of Questionnaire Items

| Cronbach's Alpha | N of Items |
|---|---|
| .708 | 20 |

Own field survey through SPSS22, (2022)

## 3.9. Ethical Consideration

The ethical issues for this research mainly related to all the data collected for challenges of deposit mobilization of Awash bank in the case of East Bale Zone Awash Bank branches. Participants' willingness to respond genuinely for provided questioners were communicated and after data collection participants response confidentiality and secrecy has guaranteed, confidentiality about the information obtained from the organization was guaranteed according

to the organization's policy. As much as possible ethical language was used in the questioners constructed and distributed to the respondents.

## 3.10. Gender consideration

Primarily, this study was emphasis to the involvement of females and males as part of the study. The researcher believes that for the research work was completed, it needs to have all around view which includes gender as one of the issues which can be directly as well as indirectly affected by the findings of the study.

# CHAPTER FOUR

# 4. Results and Discussions

In this chapter, data collected using survey method is analyzed. This section is containing descriptive statistical analysis is used to explain the demographic profile of the respondents results that discussing challenges of deposit mobilization of Awash bank in the case of East Bale Zone Awash Bank branches.

## 4.1. Survey distribution and response rates

This study was based on a survey of 73 respondents. The sample constitutes the target population which was survey method as the number of target population are small. Total of 73 of questionnaires were returned. To increase the research ethics, the researcher was included all resulting responses on the outcomes of data collected during the study and make interpretations. Questionnaires were distributed to AB staffs Ginnir, Gololcha and Sawena branch. The questionnaires were physically distributed to 73 employees.

Table 4.1. Sample size and returned questionnaires

| | |
|---|---|
| Target populations | 73 |
| Completed and Returned Questionnaires | 73 |
| Response Rate | 100% |

Source: Own Survey and computation (2022)

## 4.2. Demographic information of the respondents

Regarding the demographic information of the respondents' gender, age, level of education, and position of the employees in Awash Bank in East Bale Zone.

### 4.2.1. Gender of Respondents

Gender is one of demographic characteristics of the respondents to be analyzed their gender distribution. Accordingly, the researcher was gathered and presented the gender characteristics of the respondents in the following table.

Table 4.2: Gender distribution of Respondents

| Gender | Frequency | Percent | Valid Percent |
|---|---|---|---|
| Female | 29 | 39.7 | 39.7 |
| Male | 44 | 60.3 | 60.3 |
| Total | 73 | 100.0 | 100.0 |

Source: own computation from 2022 survey data

The gender of the respondents in the youths was as shown in table 4:3 of the total respondents 60.3% were male and 39.7% were female respondents. This indicate that the maximum employees in Awash Bank are males in the study area. This implies that the leading institution must to attention to men to create awareness.

### 4.2.2. Age of Respondents

Table 4.3: Age of respondents

| Age | Frequency | Percent |
|---|---|---|
| Less than 30 years | 17 | 23.3 |
| 31-40 Years | 47 | 64.4 |
| 41-50 Years | 9 | 12.3 |
| Total | 73 | 100.0 |

Source: own computation from 2022 survey data

About the age group of the respondents, about (31 - 40) years which makes 64.4% of the respondents, followed by less than 30 years which make up 23.3% of the total respondents. The remaining 12.3% of the total respondents were in the above age group between 41-50 years.

### 4.2.3. Education Level of respondents

Table 4.4: Educational level of respondents

| Educational level | Frequency | Percent |
|---|---|---|
| Diploma | 10 | 13.7 |
| Degree | 63 | 86.3 |
| Total | 73 | 100.0 |

Source: own computation from 2022 survey data

Concerning about the respondents' level of education, degree holder highest which is about 86.3% of the total respondents and followed by 13.7% of the respondents who had completed their diploma.

### 4.2.4. Position in Awash Bank

Table 4.5: Position in Awash Bank

| | Frequency | Percent |
|---|---|---|
| Department Manager | 3 | 4.1 |
| Division Manager | 3 | 4.1 |
| Branch manager | 3 | 4.1 |
| Assistant Branch manager | 3 | 4.1 |
| Customer officer | 61 | 83.6 |
| Total | 73 | 100.0 |

Source: own computation from 2022 survey data

Table 4.6 shows the share of the position in the study area in Customer officer 83.7% and followed by Merchandising which accounted as 37.3%.

## 4.3. Descriptive analysis of Survey results

Table 4.6. Job position of the Respondents

| Job Positions | Frequency | Frequency percentage |
|---|---|---|
| Branch Manager | 3 | 4.1% |
| Assistant Branch Manager | 3 | 4.1% |
| Supervisor | 3 | 4.1% |
| Senior Officer | 64 | 87.8% |
| Total | 73 | 100% |

Source: Own Survey and computation (2022)

The survey targets respondents with job positions of senior and middle level management

branch supervisors and Senior Officer. As indicated in the above table, 87.8% respondents Senior Officer. Moreover, 4.1% each of the respondents are Branch Manager, Assistant Branch Manager and Supervisor respectively.

## Work experience of the Respondents

Table 4.6. Work experience of the Respondents

| Work Experience | Frequency | Frequency percentage |
|---|---|---|
| 1 - 5 years | 41 | 56.2 |
| 6 - 10 years | 32 | 43.8 |
| **Total** | **73** | **100%** |

Source: Own Survey and computation (2022)

With regard to work experience, many of the respondents (56.2%) are highly experienced staffs who have work experience of 1 to 5 years in the banking industry. About 43.8% of the respondents have a banking experience of 6 to 10 years banking experience.

## 4.2. 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 branches 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 sold during the month; Number of re-activated or re-instated customer accounts which had been inactive before.

The researcher was identified the strengths and weaknesses of the current deposit mobilization efforts/practices of the bank and Strength that 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 AB. The activities broaden the marketing knowledge of staffs Weaknesses.

Table 4.7. Understanding and Commitment of staffs for deposit mobilization

| | Frequency | Percentage |
|---|---|---|
| Very good | 58 | 79.5 |
| Good | 15 | 20.5 |
| **Total** | **73** | |

Source: Own Survey and computation (2022)

Respondents are asked to evaluate the understanding and commitment of AB's staffs on deposit mobilization. 79.5% of the respondents evaluate as very good, 22% of the respondents evaluate the understanding and commitment of AB's staffs on deposit mobilization as good and 20.5% of them evaluate as good.

Table 4.8. Contribution of Recently Introduced Various New Products

| Effect of New Products on Deposit Mobilization | Frequency | Percentage |
|---|---|---|
| Very good | 11 | 15.1 |
| Good | 34 | 46.8 |
| Satisfactory | 18 | 26.7 |
| Poor | 10 | 13.7 |
| Total | 73 | 100% |

Source: Own Survey and computation (2022)

With the intension of expanding its product base, AB introduced various types of special deposit accounts including Smart Children's Account, Awash Salary Solution Account, Check Payment Solution Scheme, 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. 15.1% of the respondents reply that these new products have a very good contribution while 46.8% of them measure the contribution as good. Also, 26.7% of the respondents measure the contribution only as satisfactory. But, 13.7% of the respondents believe that the contribution of these new products for the deposit mobilization effort was poor. Awash Bank is better to promote awareness of the society pertaining to AB'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 AB provide 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; and Handling of staff salary.

Table 4.9. Volume of Deposits Grows because of Special Services

| | **Frequency** | **Percentage** |
|---|---|---|
| Yes | 67 | 91.8 |
| No | 6 | 8.2 |
| Total | 73 | 100% |

Source: Own Survey and computation (2022)

As can be seen in the above table, 91.8% of the respondents believed that because of the special services given to the corporate customer's volume of deposit were increasing; where as 8.2% of the respondents do not believe the increase in deposit was due to the special services rendered to those customers. It can see that segmentation of customer service has impact on deposit; therefore, the bank has to strengthen further.

Table 4.10. Customers' satisfaction Rating

| **Rating of Customers' Satisfaction** | **Frequency** | **Percentage** |
|---|---|---|
| Very good | 39 | 53.4 |
| Good | 31 | 42.5 |
| Poor | 3 | 4.1 |
| Total | 73 | 100% |

Source: Own Survey and computation (2022)

The researcher was the evaluation on the level of customers' satisfaction. 53.4% of them respond that the level of satisfaction is very good while 42.5% of the respondents say the level of satisfaction is good. However, 4.1% of the respondents believe that the level of customers' poor customers' satisfaction on AB'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 head office through the telephone numbers posted at the counter of all branches Reporting to Deposit Mobilization team members during their visit Leave the bank

Table 4.11 Major Cause for the variation in deposit among branches of AB

| **Major Cause for the variation in deposit** | **Frequency** | **Percentage** |
|---|---|---|
| Convenience of branch office/ location | 31 | 42.5 |
| Effort of the branch staffs | 33 | 45.2 |
| Most of the surrounding society of the branch are/are not identified target customers of AB | 9 | 12.3 |
| Total | 73 | 100 |

Source: Own Survey and computation (2022)

In relation to the main reason for the variation in deposit among branches of AB, 42.5% of the respondents believe that convenience and location of the branch are major reasons for the variation and 42.2% of the respondents relate the variation with the deposit mobilization efforts made by the branch staffs. Nevertheless, 9% of the respondents reasoned for availability or non-availability of identified target customers of AB 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 4.12. Time Taken for a Customer to Open a New Account

| **Time to open a New Account** | **Frequency** | **Percentage** |
|---|---|---|
| Less than 10 minutes | 16 | 21.9 |
| 10 to 30 minutes | 31 | 42.5 |
| More than 30 minutes | 26 | 35.6 |
| Total | 73 | 100 |

Source: Own Survey and computation ,2020

Pertaining to the time taken for a customer to open a new account, 21.9% of the respondents observed that it takes less than 10 minutes to open an account whereas 42.5% of them witness

that it needs 10 to 30 minutes to open the account. Yet, 35.6% of the respondent's witness that it takes more than 30 minutes to open a new account for a customer.

Table 4.13. Time Taken for a Withdraw from Account

| **Time to Withdraw from Account** | **Frequency** | **Percentage** |
|---|---|---|
| Less than 10 minutes | 36 | 49.3 |
| 10 to 30 minutes | 30 | 41.1 |
| More than 30 minutes | 7 | 9.6 |
| Total | 73 | 100 |

Source: Own Survey and computation (2022)

Concerning the time taken for a customer to Withdraw/ deposit cash from/to Account, 49.3% of the respondents observed that it takes less than 10 minutes to Withdraw/ deposit cash from/to Account whereas 41.1% of them witness that it needs 10 to 30 minutes to Withdraw/ deposit cash from/to Account. Yet, 9.6% of the respondents' witness that it takes more than 30 minutes to Withdraw/ deposit cash from/to Account.

Table 4.14. Main Reason for AB's Continuous Deposit Growth

| **Reason for Continuous Deposit** | **Frequency** | **Percentage** |
|---|---|---|
| Societies' preference to deposit their savings than other investment | 28 | 38.4 |
| AB have many branches and larger market share from private banks | 30 | 41.1 |
| Service given by the bank | 15 | 20.5 |
| Total | 76 | 100 |

Source: Own Survey and computation (2022)

As it is observed in the annual reports, AB 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. 38.4% of them pick the availability of many branches and 41.1% owning larger market share compared to other private banks where as 20.5% of 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 4.15. Major Depositors of Awash Bank S.C.

| Major Depositors of Awash Bank S.C. | Frequency | Percentage |
|---|---|---|
| Individual Customer | 37 | 50.7 |
| Business Organizations | 36 | 49.3 |
| Total | 73 | 100% |

Source: Own Survey and computation (2022)

As can be observed in the above table, major source of deposit contribution individual Customer deposit demand of AB is 50.7% of the respondent's view individuals as the major source of deposit for AB and 49.3% of them consider business organizations as major depositors.

Table 4.16. Competition with Other Private and Government Banks

| Competition with Other Private banks | Frequency | Percentage |
|---|---|---|
| Moderate | 31 | 42.5 |
| High | 42 | 57.5 |
| Total | 46 | 100% |

Source: Own Survey and computation (2022)

As indicated in the above table, majority of the respondents (57.5%) measure the competition with government and other private banks as stiff. 42.5% 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 4.17. Banks which pose more competition to AB

| Major Depositors of AB | Frequency | Percentage |
|---|---|---|
| Commercial Bank of Ethiopia | 30 | 41.1 |
| Dashen Bank | 10 | 13.7 |
| Abyssinia Bank | 9 | 12.3 |
| Cooperative Bank of Oromiya | 24 | 32.9 |
| Total | 73 | 100 |

Source: Own Survey and computation (2022)

Commercial Bank of Ethiopia is considered by 41.1% of the respondents as key competitor who poses more competition to AB. 32.9 % from Cooperative Bank of Oromiya and are also identified by 13.7% and 12.3% of the respondents respectively as major competitors Dashen Bank and Abyssinia Bank respectively as major competitor to AB.

### 4.1.1. AB's Deposit Mobilization Performance

Total deposits of the Bank, including L/C margin and deposits from Interest Free Banking (IFB), grew by Birr 33.8 billion (45.5 percent) and reached Birr 108.1 billion at the end of June,2021. Awash Bank is, of course, not only the first but also the only Ethiopian private bank to surpass the Birr 100 billion mark in total deposits at the end of the reporting period. This historic and commendable achievement of the Bank was mainly attributable to aggressive expansion of the customer base of the Bank, offering of different deposit products to different customer segments, and expansion of different digital and conventional service delivery channels, including full-fledged IFB branches.

During FY 2020/21 alone, about two million new customers have opened deposit accounts with Awash Bank. In addition, both mobile and internet banking services subscribers have reached over two million at the end of the report period. Moreover, deposit mobilized from Interest Free Banking line of business has witnessed encouraging performance and reached Birr 7.49 billion as at June 30, 2021; registering a net increment of Birr 3.54 billion (89.5 percent) over last year same period. Composition of deposits revealed that the more stable saving deposits accounted for 59 percent, followed by low-cost demand deposits (30 percent), time deposits (6 percent) and letter of credit margin (5 percent) (Annual Report, 2020/21).

Table 4.18 deposit composition by type (in Billions of Birr)

| **Description** | **Year** | | | |
|---|---|---|---|---|
| | **2019-2020** | **%** | **2020-2021** | **%** |
| Saving deposits | 44.9 | 60 | 63.3 | 59 |
| Demand deposits | 21.1 | 27 | 32.9 | 30 |
| Time deposits | 5.7 | 8 | 6.1 | 6 |
| L/C Margin | 3.7 | 5 | 5.8 | 5 |
| Total Deposits | 74.3 | 100 | 108.1 | 100 |

(AB Annual report 2019/20, 2020/21)

As a prior activity, deposit of AB has been growing during the last few years. For example, total deposits of AB have increased by Birr 33.7 billion (33.7 percent) to Birr 108.1 billion by the end of December 2021 compared with same period of the previous. AB 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 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.

AB was largely believed that the growth reflects the effect of concerted efforts of deposit mobilization, the planned branch expansion, and public confidence on the Bank.

Table 4.19 components of income (in Billions of Birrs)

| **Description** | **Year** | | | |
|---|---|---|---|---|
| | **2019-2020** | **%** | **2020-2021** | **%** |
| Interest Income | 7,873 | 77.1 | 9,916 | 72.1 |
| Fee & Commission Income | 1,603 | 15.7 | 2,620 | 19.1 |
| Other operating income | 733 | 7.2 | 1,209 | 8.8 |
| Total Income | 10,209 | 100 | 13,744 | 100 |

(AB Annual report 2019/20, 2019/21

The lion's share of the bank's income (77.1% in 2019/20) and (72.1% 2019/21) was coming from interest income, the remaining (22.9% and 27.9%) comes from non-interest income, 2019/20 and 2019/21 respecify. Interest income is the result of loans and advances that bank extended for their customers. The latter is in turn highly affected by deposit mobilized by the banks. This means that if the bank is not able to mobilize deposit, it will not be in a position of granting loans and advances up on requested by its customers. This shows that the bank's profitability is mainly dependent on the amount of deposit mobilized.

## 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. Number of branches of the Bank as at end of June 2021 reached 566. The significant branch expansion was undertaken by Commercial Bank of Ethiopia (CBE), followed by Oromiya Awash Bank, Cooperative Bank of Oromiya. The number of bank branches in east Bale Zone are three Ginnir branch, Gololcha branch and Sawena branch.

## 4.3. Challenge of Deposit Mobilizations

Table 4.20: Challenge of Deposit Mobilizations

| Statements | Obs | Mean | Std. Dev. | Pearson chi2(20) |
|---|---|---|---|---|
| Poor saving habits has effect on deposit mobilization | 73 | 3.410 | 0.879 | 0.002 |
| Inflation unstable has effect on deposit mobilization conditions | 73 | 3.000 | 1.452 | 0.000 |
| Competition among banks has effect on deposit mobilization | 73 | 3.383 | 1.287 | 0.038 |
| Branch expansion has effect on deposit mobilization | 73 | 4.383 | 0.757 | 0.000 |
| Profitability has no effect on deposit mobilization | 73 | 2.013 | 0.857 | 0.000 |
| Bank's Liquidity ratio has no effect on deposit mobilization | 73 | 1.123 | 0.439 | 0.000 |
| Interest rate has an effect on deposit mobilization | 73 | 3.575 | 0.497 | 0.000 |

Source: Own Survey and computation (2022)

Table 4.22 above shows that respondent response on the agreement or disagreement for the statement of Inflation unstable economic has effect on deposit mobilization conditions. The mean of 3.410 and standard deviation of 0.879 reflects that saving habits has effect on deposit mobilization. Therefore, saving habits significant effect of deposit mobilization in the study area. Table 4.22 above shows that respondent response on the agreement or disagreement for the statement of Inflation unstable has effect on deposit mobilization conditions. The mean of 3 and standard deviation of 1.452 reflects that Inflation unstable has effect on deposit mobilization. Therefore, Inflation unstable has significant effect of deposit mobilization in the study area.

Table 4.22 above shows that respondent response on the agreement or disagreement for the statement of Competition among banks has effect on deposit mobilization. The mean of 3.383 and standard deviation of 1.287 reflects that Competition among banks has effect on deposit mobilization. Therefore, Competition among banks has significant effect of deposit mobilization in the study area. Table 4.22 above shows that respondent response on the agreement or disagreement for the statement of Branch expansion has effect on deposit mobilization. The mean of 4.383 and standard deviation of 0.757 reflects that Branch expansion has effect on deposit mobilization. Therefore, Branch expansion has significant effect of deposit mobilization in the study area.

Table 4.22 above shows that respondent response on the agreement or disagreement for the statement of Profitability has no effect on deposit mobilization. The mean of 2.013 and standard deviation of 0.857 reflects that Profitability has effect on deposit mobilization. Therefore, Profitability has significant effect of deposit mobilization in the study area. Table 4.22 above shows that respondent response on the agreement or disagreement for the statement of Bank's Liquidity ratio has no effect on deposit mobilization. The mean of 1.123 and standard deviation of 0.439 reflects that Bank's Liquidity ratio has effect on deposit mobilization. Therefore, Bank's Liquidity ratio has significant effect of deposit mobilization in the study area. Table 4.22 above shows that respondent response on the agreement or disagreement for the statement of Interest rate has an effect on deposit mobilization. The mean of 3.575 and standard deviation of 0.497 reflects that Interest rate has effect on deposit mobilization. Therefore, Interest rate has significant effect of deposit mobilization in the study area.

# CHAPTER FIVE

# 5. Summary Conclusion and Recommendation

## 5.1 Summary of the Major Findings

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. Regarding Demographic information of the respondents**.** About 60.3% were male and 39.7% were female respondents. This indicate that the maximum employees in Awash Bank are males in the study area. This implies that the leading institution must to attention to men to create awareness. About 64.4% of the respondents, followed by less than 30 years which make up 23.3% of the total respondents. Concerning about the respondents' level of education, degree holder highest which is about 86.3% of the total respondents and followed by 13.7% of the respondents who had completed their diploma. Concerning to of the position in the study area in Customer officer 83.7% and followed by Merchandising which accounted as 37.3%. The survey targets respondents with job positions of senior and middle level management branch supervisors and Senior Officer. As indicated in the above table, 87.8% respondents Senior Officer. Moreover, 4.1% each of the respondents are Branch Manager, Assistant Branch Manager and Supervisor respectively. Most of the respondents (78.1%) are males and the rest 21.9% are females. Concerning Work experience of the Respondents many of the respondents (56.2%) are highly experienced staffs who have work experience of 1 to 5 years in the banking industry. About 43.8% of the respondents have a banking experience of 6 to 10 years banking experience.

## 5.2. Conclusion

Given the summary result of the descriptive analysis, the study had concluded the following to private banks by taking AB as evidence of the study. AB mobilize funds mainly from deposit. Shareholders' contribution and operational profit contribute some as a source of fund and so AB's profitability is mainly dependent on the amount of deposit mobilized. AB achieved in increasing the volume of deposits through activities of Resource Mobilization teams formed at the head office and branch level.

The researcher was to evaluated the understanding and commitment of AB's staffs on deposit mobilization. 79.5% of the respondents evaluate as very good, 22% of the respondents evaluate the understanding and commitment of AB's staffs on deposit mobilization as good and 20.5% of them evaluate as good. With this regard, respondents are asked on how they measure the contribution of these new products for deposit mobilization. 15.1% of the respondents reply that these new products have a very good contribution while 46.8% of them measure the contribution as good. Also, 26.7% of the respondents measure the contribution only as satisfactory. But, 13.7% of the respondents believe that the contribution of these new products for the deposit mobilization effort was poor.

As can be seen in the above table, most of the respondents, i.e. 91.8%, believed that because of the special services given to the corporate customers, volume of deposit is increasing. Only 8.2% 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. Respondents are asked about their evaluation on the level of customers' satisfaction. 53.4% of them respond that the level of satisfaction is very good while 42.5% of the respondents say the level of satisfaction is good. However, 4.1% of the respondents believe that the level of customers' poor customers' satisfaction on AB's services.

In relation to the main reason for the variation in deposit among branches of AB, 42.5% of the respondents believe that convenience and location of the branch are major reasons for the variation and 42.2% of the respondents relate the variation with the deposit mobilization efforts made by the branch staffs. Nevertheless, 9% of the respondents reasoned for availability or non-availability of identified target customers of AB 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. Pertaining to the time taken for a customer to open a new account, 21.9% of the respondents observed that it takes less than 10 minutes to open an account whereas 42.5% of them witness that it needs 10 to 30 minutes to open the account. Yet, 35.6% of the respondent's witness that it takes more than 30 minutes to open a new account for a customer.

Concerning the time taken for a customer to Withdraw/ deposit cash from/to Account, 49.3% of the respondents observed that it takes less than 10 minutes to Withdraw/ deposit cash from/to Account whereas 41.1% of them witness that it needs 10 to 30 minutes to Withdraw/ deposit cash from/to Account. Yet, 9.6% of the respondents' witness that it takes more than 30 minutes to Withdraw/ deposit cash from/to Account.

As it is observed in the annual reports, AB 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. 38.4% of them pick the availability of many branches and 41.1% owning larger market share compared to other private banks where as 20.5% of 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.

As can be observed in the above table, major source of deposit contribution individual Customer deposit demand of AB is 50.7% of the respondent's view individuals as the major source of deposit for AB and 49.3% of them consider business organizations as major depositors. As indicated in the above table, majority of the respondents (57.5%) measure the competition with government and other private banks as stiff. 42.5% 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. Commercial Bank of Ethiopia is considered by 41.1% of the respondents as key competitor who poses more competition to AB. 32.9 % from Cooperative Bank of Oromia and are also identified by 13.7% and 12.3% of the respondents respectively as major competitors Dashen Bank and Abyssinia Bank respectively as major competitor to AB.

All private banks including AB mobilize their funds from shareholder's contribution, 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 major challenge for private banks in Ethiopia following the growing demand for loans of the expanding business activities.

As a prior activity, deposit of AB has been growing during the last few years. For example, total deposits of AB have increased by Birr 33.7 billion (33.7 percent) to Birr 108.1 billion by

the end of December 2021 compared with same period of the previous. AB 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 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.

Generally, the challenges of deposit mobilization such as saving habits significant effect of deposit mobilization; Inflation unstable has significant effect of deposit mobilization in the study area. Competition among banks has significant effect of deposit mobilization; Branch expansion has significant effect of deposit mobilization; Profitability has significant effect of deposit mobilization; Bank's Liquidity ratio has significant effect of deposit mobilization in and Interest rate has significant effect of deposit mobilization in the study area.

## 5.3. Recommendations

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

- From the findings of this study regarding of practice of deposit mobilization, it can be concluded that deposit policy which is favoring customers to make deposits and the current interest rate is competitive. To mobilize voluntary deposit in sustainable basis, there are clear remaining gaps has been seen in this study in terms of governance, institutional culture, product design, incentives to potential savers & staff, build their capacity and confidence in voluntary deposit promotion.
- To conduct regular promotion; The Institution has to design comprehensive promotion materials with clear, simple and compelling message, so front line staff can confidently adapt their marketing message to deposit mobilization.
- Awash Bank has expand its branches in order to increase deposit mobilization and it has given priority for branch opening in the study area. The study, therefore, stated that the management of Awash Bank should consider increasing the number of branches especially in rural area to address the un-bankable societies & to make more opportunity available to potential savers and also break distance barrier which tends to discourage deposit.

- Expand their branches each sampled banks should consider the level of competition, deposit potential and existence of infrastructure and transport facilities.
- In the context of Ethiopia, the National Bank of Ethiopia set the minimum and maximum deposit rate. Setting this only will not be attractive unless the deposit rate offsets the inflation rate. Thus, for policy makers it is advisable to manage inflation to the extent of deposit rate otherwise it is hard to mobilize deposit from individuals. Therefore, National Bank of Ethiopia should increase the deposit rate if their plan is to mobilize more deposit than before.
- Since emergence of competitors has negative and statistically significant effect on total Commercial Bank of Ethiopia deposits. Awash Bank should win this competition by providing excellent service for its customers to mobilize more resource and use their good will to attract its customers and for those that do not have good will it is recommended that Awash Bank should build good will to be acceptable for the society.

## 5.4. Further Implications of the research

The study considered the challenges of deposit mobilization of Awash bank in the case of East Bale Zone Awash Bank branches. The results of this study should provide a suitable basis for further research in order to arrive at a generalized acceptable practice on challenges of deposit mobilization. However, there may be other variables not included in in this study that could possibly challenge the deposit growth of Awash Banks East Bale Zone Awash Bank branches. Thus, the researcher recommends for future researchers to conduct study by including more variables focusing on all branch of the bank.

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# APPENDEXES

## Appendix I

**Madda Walabu University**

**Collage of Business and Economics**

**Department of Accounting and Finance**

**RESEARCH QUESTIONNAIRE**

I, Aman Geleto, am pursuing my postgraduate study in M.Sc. in Accounting and Finance at Madda Walabu University. As part of my study, I am conducting a thesis entitled as "Challenges in Deposit Mobilization for Private Banks:The Case of Awash Bank S.C. Ginnir, Gololcha and Sawena as partial fulfillment. This questionnaire is prepared to directors and managers of Awash Bank S.C. The objective is to get an input for the accomplishment of Master of Accounting and finance Project Paper on the title of Challenges in Deposit Mobilization for Private Banks (The Case of Awash Bank S.C. Ginnir, Gololcha and Sawena). The information you provide is valuable for the success of the research paper and is only be used for academic purpose and the researcher assures you that its confidentiality will be kept and only used on statistical average.

No need of writing your name

**Part I – Demographic Information of the Respondents**

1. Sex
   i. Female ☐
   ii. Male ☐
2. Age
   i. Below 30 year ☐
   ii. 31-40 years ☐
   iii. 41-50 year ☐
   iv. 51 and abov ☐
3. What is your position in Awash Bank S.C?
   i. Department Manager ☐
   ii. Division Manager ☐
   iii. Branch manager ☐

iv. Assistant Branch manager ☐

v. Customer officer ☐

4. Work experience in the banking industry;

i. Below one year ☐

ii. 1-5 years ☐

iii. 6-10 years ☐

iv. 11 and above years ☐

## Part II Deposit Mobilization Issues

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

i. Very Good ☐

ii. Good ☐

iii. Satisfactory ☐

iv. Poor ☐

2. Recently, the bank has introduced various new products on deposit accounts.

How do you measure their contribution in the effort to mobilize deposit?

i. Very Good ☐

ii. Good ☐

iii. Satisfactory ☐

iv. Poor ☐

3. How do you rate your customers satisfaction?

i. Very Good ☐ iii. Satisfactory ☐

ii. Good ☐ iv. Poor ☐

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

i. Convenience of branch office/location ☐

ii. Availability of parking areas ☐

iii. Effort of the branch staffs ☐

iv. Most of the surrounding society of the branch are/are not identified target customers of AB ☐

Other reasons (specify)_____

5. How much time does it take for a customer to open a new account in your bank?
   i. Less than 10 minutes ☐ iii. More than 30 minutes ☐
   ii. 10 to 30 minutes ☐
6. How much time does it take for a customer to withdraw or deposit cash to his account?
   i. Less than 10 minutes ☐
   ii. 10 to 30 minutes ☐
   iii. More than 30 minutes ☐
7. As per the annual reports, total deposit of Awash Bank S.C. is continuously growing during the last five years. What is the main reason?
   i. Societies' preference to deposit their savings than other investment ☐
   ii. Awash Bank S.C. have many branches and larger market share from private banks ☐
   iii. The service given by the bank ☐
   iv. The goodwill of the bank ☐
   v. Other reasons (specify)_____
8. Who do you think are major depositors of Awash Bank S.C.?
   i. Individual customers ☐
   ii. Business organizations ☐
   iii. NGOs ☐
   iv. Government ☐
9. How do you measure the competition with other private and government owned banks?
   i. Weak ☐
   ii. Moderate ☐
   iii. Stiff ☐
10. Which banks pose more competition to AB in the study area?
   i. Commercial Bank of Ethiopia ☐
   ii. Construction and Business Bank ☐
   iii. Dashen Bank ☐

iv. Abyssinia Bank ☐

v. Cooperative Bank of Oromia ☐

**Part III Challenges of Deposit Mobilization**

3.1. Poor saving habits has effect on deposit mobilization

1. strongly disagree ☐
2. disagree ☐
3. neutral ☐
4. agree ☐
5. Strongly agree ☐

3.2. Inflation unstable economic has effect on deposit mobilization conditions

1. strongly disagree ☐
2. disagree ☐
3. neutral ☐
4. agree ☐
5. Strongly agree ☐

3.3. Competition among financial institutions has effect on deposit mobilization

1. strongly disagree ☐
2. disagree ☐
3. neutral ☐
4. agree ☐
5. Strongly agree ☐

3.4. Branch expansion has effect on deposit mobilization

1. strongly disagree ☐
2. disagree ☐
3. neutral ☐
4. agree ☐
5. Strongly agree ☐

3.5. Profitability has no effect on deposit mobilization

1. strongly disagree ☐
2. disagree ☐
3. neutral ☐
4. agree ☐
5. Strongly agree ☐

3.6. Bank's Liquidity ratio has no effect on deposit mobilization

1. strongly disagree ☐
2. disagree ☐
3. neutral ☐
4. agree ☐
5. Strongly agree ☐

3.7. Interest rate has an effect on deposit mobilization

1. strongly disagree ☐
2. disagree ☐
3. neutral ☐
4. agree ☐
5. Strongly agree ☐

**Thank You for Your Cooperation**

## APPENDIX II

## SECONDARY DATA

*Table 1: Deposit Composition by Type (In Billions of Birr)*

| Descriptions | Financial Year | | Growth | | Share (%) | |
|---|---|---|---|---|---|---|
| | 2019/20 | 2020/21 | Absolute | % | 2019/20 | 2020/21 |
| Saving deposits | 44.9 | 63.3 | 18.4 | 41 | 60 | 59 |
| Demand deposits | 20.1 | 32.9 | 12.8 | 64 | 27 | 30 |
| Time deposits | 5.7 | 6.1 | 0.5 | 9 | 8 | 6 |
| L/C Margin | 3.7 | 5.8 | 2.1 | 57 | 5 | 5 |
| Total deposits | 74.3 | 108.1 | 33.8 | 46 | 100 | 100 |

*Figure 1: Deposit Structure as at June 30, 2021*

*Figure 1: Deposit Structure as at June 30, 2021*

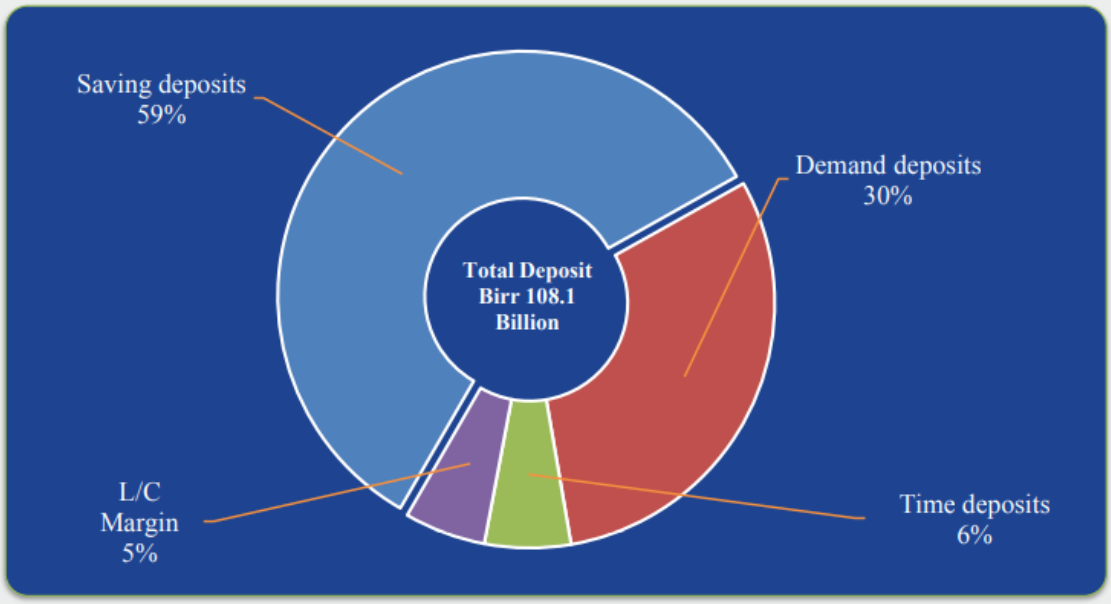



Table 3: Components of Income (In Millions of Birr)

| Descriptions | Financial Year | | Growth | | Share (%) | |
|---|---|---|---|---|---|---|
| | 2019/20 | 2020/21 | Absolute | % | 2019/20 | 2020/21 |
| Interest Income | 7,873 | 9,916 | 2,043 | 25.9 | 77.1 | 72.1 |
| Fee & Commission Income | 1,603 | 2,620 | 1,017 | 63.4 | 15.7 | 19.1 |
| Other Operating Income | 733 | 1,209 | 476 | 64.9 | 7.2 | 8.8 |
| Total Income | 10,209 | 13,744 | 3,535 | 34.6 | 100 | 100 |