



St. MARY'S UNIVERSITY COLLEGE
SCHOOL OF GRADUATE STUDIES

**FACTORS AFFECTING DEPOSIT MOBILIZATION IN
PRIVATE COMMERCIAL BANKS: THE CASE OF AWASH
INTERNATIONAL BANK S.C.**

BY
SISAY ASSEFA MADEBO
ID No: SGS1/0114/2004

SEPTEMBER, 2013
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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY
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APPROVED BY BOARD OF EXAMINERS

_____	_____
Dean, Graduate Studies	Signature & Date
_____	_____
Advisor	Signature & Date
_____	_____
External Examiner	Signature & Date
_____	_____
Internal Examiner	Signature & Date

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Ato Abebe Yitayew (Assi. Professor). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Sisay Assefa

Name

Signature & Date

ENDORSEMENT

This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

Advisor

Signature & Date

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ACRONYMS

AIB	Awash International Bank
ATMs	Automated Teller Machines
CBE	Commercial Bank of Ethiopia
E.C	Ethiopian Calendar
G.C	Gregorian Calendar
GDP	Gross Domestic Product
LC	Letter of Credit
NBE	National Bank of Ethiopia
S.C	Share Company

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ABSTRACT

The main business for banks is accepting deposits and granting loans. The more the loans the banks disburse the more profit they make. Also, banks do not have a lot of their own money to give as loans. They depend on customer deposits to generate funds for granting loans to other customer this process is known as deposit mobilization. The aim of this paper is to examine and assess deposit mobilization of private commercial banks. Those having two years and above experience senior Addis Ababa area branches and head office employee were selected for data collection. The research has used questionnaire and structured interview discussion for employees and the management of Awash International Bank Share Company. The result shows that the reconstruction of Addis Ababa roads, Aggressive branch expansion of CBE, the current condominium house construction program, peoples attitude towards using private banks and poor parking area are strongly influence the deposit mobilization process of Awash International Bank S.C. Opening of additional branches, aggressive promotion and upgrading service deliverance can boost the deposit balance of a bank positively. The study suggest the management of the bank should arrange and apply incentive program such as coupon prizes to attract more depositors, open additional branches near to the customers, promote excellent services and other mores are discussed in the research.

Key word/Phrases: Commercial banks, Deposit mobilization,

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also non banking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day (Kapila, 2001).

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

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 exogenous as well as endogenous, to the banking system (Desinga, 1975). Exogenous 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 exogenous factors are more conducive for deposit mobilization, banks may fail because of unfavorable endogenous 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 (Desinga, 1975).

Desinga (1975) classified the variables which are claimed to have effect on the commercial banks deposits into two, namely exogenous and endogenous factors. Exogenous has further divided into country specific factors and bank specific factors for clarification purpose. Endogenous factors can be controlled by the banking system; however the exogenous 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.

Ethiopia appears unique compared to its East African neighbors (Kenya, Tanzania and Uganda) regarding the banking sector and to many other developing countries since they have not yet opened their banking sector to foreign participation (NBE, 2013). In addition, the Ethiopian banking sector remains isolated from the impact of globalization. Although Ethiopian policy makers understand the potential importance of financial liberalization, it is widely believed that liberalization may result in loss of control over the economy and may not be economically beneficial (NBE, 2013). Ethiopia has no capital market and investing in shares of private companies is very limited. The beginning of modern banking in Ethiopia was started in 1995 E.C during the foundation of the bank of Abyssinia. After the introduction of the new economic policy by the transitional government of Ethiopia in November 1991, the blue print was laid for the transition from centrally planned economic system to market economic system in which the critical role of the private sector in development is fully recognized (NBE, 2013). In the banking industry, the policy was translated in to action through the issuance of the licensing and supervision of banking business proclamation No 84/94, which allowed the Ethiopian private sectors to establish privately owned banks (NBE, 2013). Now a day, private commercial banks are booming to mobilize the financial resources of the country. Among these Awash International Bank is the first private bank established in 1994 after the fall of the Derg Regime.

Mobilization of financial resources and lending these resources to business firms or individual traders engaged in nearly all economic sectors. As a commercial bank, Awash International bank renders various services to its customers among which collecting

deposit and lending money are the principal business activities which makes the bank profitable.

1.2 Statement of the Problem

Privately owned commercial banks are being affected by the provision to buy a 27% National Bank of Ethiopia's Bills based on the amount of loans to be disbursed in connection with the Mega projects in Ethiopia. Due to this, banks' liquidity positions have been adversely affected. The profitability issues of banks need to have a great attention through deposit mobilization endeavors so as to make them capable to provide loans and advances facilities to their customers.

Besides this, aggressive expansion of Commercial Bank of Ethiopia (CBE) to each and every corner of the country has made the banking industry to have stiff competition among each other. With the limited banking trend and low income of the society, the issue of customer's service excellence has to get a remarkable attention.

Most importantly, all commercial banks have the needs to mobilize resources without any restrictions in Ethiopia. Deposit is one of the resources banks highly motivated to mobilize and the most liquid money that is found in the treasury of the bank and which is ready to be borrowed in need of the fund. A deposit of the bank may be affected by different factors. A deposit is most useful Liabilities of the bank and it is relevant to find out factors affecting the deposit of a bank and determine the relationship between them. However, most commercial banks were not successful in controlling and managing their deposit as they were not aware of the factors that can affect the deposit.

To the researcher knowledge, no research of the same type has been done in the past at Awash International Bank. Hence, filling the knowledge gap, this study examines the deposit mobilization in private commercial banks, identifies factors affecting the deposit of private commercial bank and suggests the possible way out.

1.3 Basic Research Questions

- What are the possible variables/factors that can affect deposit mobilization of Awash International Bank S.C.?
- What are the possible methods that can help the understudying bank to promote their deposit balance?

- How does the implementation of the 27% purchase of government bill at lower interest rate affect the deposit mobilization?
- How does the aggressive branch expansion of CBE affects the deposit mobilization process of AIB?
- What is the effect of the current condominium house construction program and the related minimum saving requirements on the deposit mobilization process of the bank?

1.4 Objectives of the Study

This research is intended to address two distinct objectives namely general objective and specific objectives that aimed to be meet at the end of the study.

1.4.1 General Objective

The general objective of this study was to examine deposit mobilization and assess the general factors affecting deposit mobilization in private commercial banks.

1.4.2 Specific Objectives

The specific objectives of this study were:

- to identify the major factors that is affecting the deposit mobilization process of AIB.
- to determine the impact of current condominium house construction program and the related minimum saving requirements on the deposit mobilization of AIB.
- to determine the impact of aggressive expansion of CBE on the deposit mobilization of AIB.
- to determine the impact of 27% purchase of government bill at lower rate on AIB.

1.5 Significance of the Study

This research focuses on the factors affecting the deposit mobilization in private commercial banks. Commercial banks including Awash International Bank s.c. are expected to benefit from this study.

The followings are the major significance of the present study,

- It helps the management of Awash International Bank S.C. and other private commercial banks in identifying the factors affecting the deposit mobilization process of the bank and enables them take proper adjustments to alleviate such problems.
- The findings of this study would be used as an input for various scholars, who are going to make further studies on similar issues or area.

1.6 Scope of the Study

This study was limited to the area branches of Awash International Bank S.C. situated in Addis Ababa. Outlying area branches of Awash International Bank S.C. and other private banks were not included in the study due to budget and time constraints. Hence, the data were collected from selected area branches of Awash International Bank S.C. were being undertaken for two years and above services in the bank.

1.7 Organization of the Research Report

The paper is organized in to five chapters; the first chapter is an introduction for the study which introduces the overall study. This part consists of introduction or back ground of the study, problem statement, objectives, significance and scope of the study.

The second chapter focuses on review of literatures in which previous studies were consulted. In this chapter general concepts and definitions, basic issues and empirical evidences of factors affecting deposit mobilization were discussed in detail. The major areas and results of previous studies have also been presented.

The third chapter, research design and Methodology, emphasizes on the design of the study and the methodologies used. In this chapter; source of data, data collection, sample size & sampling techniques and selection of study organizations are discussed.

The fourth chapter is devoted to data presentation, analysis and interpretation in which the collected primary and secondary data analyzed and organized in meaningful manner so as to meet the objectives of the study.

The fifth and last chapter is concerned with summary, conclusion and recommendations. Here the findings of the study are summarized, conclusions clearly presented and recommendations are provided for the findings of study.

CHAPTER TWO

RELATED LITRATURE REVIEW

This chapter focuses on basic concepts and its uses that were discussed by different authors on the research topic. Basically definitions, historical backgrounds, types, components and regulations, and concepts that affect deposit mobilization process.

2.1 The Development of Bank in Ethiopia

A bank is a financial institution that provides banking and other financial services to their customers (Kapila, 2001). A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also non banking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day.

The history of banking in Ethiopia goes back to the year 1905 E.C. when the bank of Abyssinia was first established with a capital of \$500,000.00. It was the foundation of this bank that marked the beginning of modern banking In Ethiopia. The government of Ethiopia and the national bank of Egypt jointly owned it under a 50 years franchise agreement.

The liquidation of Abyssinia bank in the year 1931 due to inefficiency and poor profit orientation was followed by the establishment of Bank of Ethiopia with a capital of \$750,000.00 the first indigenous bank in the country.

The new economic policy introduce in November 1991 G.C. by the transitional government of Ethiopia laid the blue print for the transition from centrally planned economic system to market economic system in which the critical role of the private sector in development is fully recognized. In the banking industry, the policy was translated in to action through the issuance of the licensing and supervision of banking business proclamation No 84/94, which allowed the Ethiopian private sector to establish privately owned banks. Following this Awash International Bank is the first private bank established after the fall of the Derg Regime in November 1994 G.C., with a paid up capital of birr 24.2 million by 486 shareholders. It started operation through five branches

in February 1995 G.C. From the 1st year operation, it has registered profits and growth both in its customer and asset base.

In 1995 G.C. the bank's deposit were Birr 146 million, Loan & Advances 129 million, From 1995 G.C. onwards, these financial indicators have shown a significant increase and in the fiscal year that ended June 30/2012, the bank has registered 13.1 billion in total assets, birr 9.2 billion in deposits, Birr 5.4 billion in loan and advances. Currently Awash International bank has created employment opportunities for 3,750 Ethiopians. Now a day's the bank have 107 branches in different towns of the country.

2.2 The Role of Banks in Financial Systems

Financial sector is broad which consists of the banking sector and other financial institution (such as insurance corporations and pension funds, brokers, public exchange and securities markets etc), however in the context of African continent the banking industry carries the greater share of the financial system (Sheku, 2005). Most of the business relies on banking sector as a source of financing (Medhat, 2004). Banks have historically been viewed as playing role in financial markets for two reasons. One is that they perform a critical role in facilitating payments. Commercial banks, as well as other intermediaries, provide services in screening and monitoring borrowers; and by developing expertise as well as diversifying across many borrowers, banks reduce the costs of supplying credit (Katherine, 2004). Thus in their role as lenders, banks are often not merely buying someone's debt, rather they are providing significant financial services associated with extending credit to their customers and to the extent that investors want to hold banks liabilities, banks can fund borrowers directly. The main providers of additional financing are domestic commercial banks (Herald *and Heiko*, 2009).

2.3 Commercial Bank Deposits

Depositors keep their money in banks for a motive to undertake some activities in the future. According to Bhatt (1970), there are motives to save money, the followings are the example of some motives:-

- To own house
- To provide for children's education and marriage
- To provide for old age

- To bequeath property to children
- To provide for emergency expenditure

Commercial Bank deposits are major liabilities for commercial banks. Kelvin (2001) said that deposits of commercial banks account for about 75% of commercial bank liabilities. Due to the fact that commercial banks are using this liability to lend it and gain return on it their deposits are using them do their business. Therefore, banks will be better if they are mobilizing more deposits. However, as Desinga (1975) indicates deposit mobilization is a very difficult task. The cost of intermediation for mobilizing deposits is also very important part of overall intermediation cost of the banking system as Shaw (1995) indicates. Despite all these deposits play an important role in the banking system, whether cooperative or commercial. Deposits provide limits to the working capital of the bank concerned. The higher the deposits, the higher will be the funds at the disposal of a bank to lend and earn profits (Desinga, 1975). Therefore to maximize its profit the bank should increase its deposit. Mahendra (2005) had also mentioned deposits as a foundations up on which banks thrive and grow and unique items on a bank's balance sheet that distinguish them from other type of business organizations.

Commercial banks mainly depend on the funds deposited with them by the public to lend it out to others in order to earn interest income (Davinaga, 2010). Deposits are of three kinds, namely:

- Current or demand deposits
- Fixed or Time deposits / Term deposits.
- Savings deposits

Hence, the competition for deposits is really a competition for profits. Commercial banks compete for deposits in order to become profitable and thus to be able to supply more funds to the public. However such financial growth is profitable only if the commercial bank does not incur additional expenses to obtain and retain cash (Davinaga, 2010).

2.4 The Importance of Deposits for Banks

2.4.1 Deposits as a Source of Fund for Loan

Herald and Heiko (2009) states deposits are the main source of banks to provide loan. This deposit is mainly provided by people as Mohammad and Mahdi (2010). However deposits can also be provided by business organizations, NGOs, government and so on. Therefore, whether deposits are from individuals, businesses and government they are important financial source of banks.

2.4.2 Attracting Deposit is 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).

2.4.3 Banks Make Profit Using their Deposits

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

2.4.4 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.

2.5 Factors Affecting Commercial Banks Deposits

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 exogenous as well as endogenous, to the banking system (Desinga, 1975). Exogenous 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 exogenous factors are more conducive for deposit mobilization, banks may fail because of unfavorable endogenous 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 (Desinga, 1975).

Desinga (1975) classified the variables which are claimed to have effect on the commercial banks deposits into two, namely exogenous and endogenous factors. Exogenous has further divided into country specific factors and bank specific factors for clarification purpose. Endogenous factors can be controlled by the banking system; however the exogenous 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.

2.5.1 Exogenous Factors

These are factors that are from country and banks that can affect the growth of commercial banks deposits. There are discussed as follows:-

2.5.1.1 Country Specific Factors

The country's economic, social and political factors can affect the 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, a bank success in their operation is mainly depends on the environment where the business is undertaken.

a) Saving Interest Rate/Deposit Rate

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

b) Inflation

As to Herald and Heiko (2009), inflation is one of the factors that determine commercial banks deposits. Mahdi 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). High inflation rates reduce the real value of deposits (Baqui *et al*, 1987). According to Baqui *et al* (1987), inflation technically did not decrease deposit; however it decreases the value of deposits.

c) 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.

d) Population Growth of the Country

The twin objectives of commercial banks, i.e. acquiring deposits and advancing credit cannot be attained without good banking habits of the people (Mahendra, 2005). Moreover Mahendra (2005) states that, the number of deposit accounts is more important because it ensures that the probability of account is more important because it ensures that the probability of account holders withdrawing cash at a time decreases as the number of deposit account increase, thereby creating advantage for banks in terms of increasing the size of the 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.

e) 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 *et al*, 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 bank' deposits. Therefore as society's per capita income increases the same will happen for commercial banks deposits.

f) Economic Growth

Economic performance is generally being measured through GDP (Gross Domestic Product), a variable that has also become the de facto universal metric for 'standards of living (Yanne *et al*, 2007). It is universally applied according to common standards, and has some undeniable benefits mainly due to its simplicity (Yanne *et al*, 2007). According to Herald and Heiko (2009), growth is one of the determining factors for commercial banks deposits. GDP is calculated by adding up the value-added at each

stage of production (deducting the cost of produced inputs and materials purchased from an industry's suppliers).

g) 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, however this area was rarely studied.

h) 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.

2.5.1.2 Bank Specific Factors

a) Liquidity of the Banks

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 (Evan, 2006). The banks' liquidity management involves acquiring sufficient liquid asset to meet the bank's obligation to depositors (Voon-Choong *et al*, 2010). 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.

b) Profitability of the Bank

Erna and Ekki(2004) finds the long run relationship between commercial banks deposits and the profitability of the banks. Higher bank profits would tend to signal increased bank soundness, which could make it easier for these banks to attract deposits

(Herald and Heiko, 2009). However, the effect of bank profitability and bank size are found to be insignificant once controlling for the other variables. So, the effect of profitability and banks size on commercial bank deposit is lower as compared with other variables.

c) 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.

d) 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 (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.

e) 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. A smaller bank has to generate less deposit in absolute terms to achieve the same deposit growth than large banks, thus possibly favoring smaller banks in achieving higher deposit growth.

f) Reserves

Richard Goode and Richard S. Thom (1959), said that reserves that are fixed legally can influence the deposits that banks can hold. According to them reserve requirements determine the maximum amount of loans and investments that each commercial banks and the banking system as a whole may maintain in relation to deposits. Thus, if the reserve requirement is 20 percent of deposits, loans and investment (of the bank's own choosing) may not exceed 80 percent of deposits. Therefore, reserve requirements limit the total expansion of bank deposits that can occur on the basis of any primary increase in deposits. Reserve requirements also have the effect of limiting the reduction in bank credit and deposits that is forced up on the banking system by a primary decrease in deposits.

g) 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).

2.5.2 Endogenous Factors

In the literature three endogenous 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.

a) Awareness of the Society

According to 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. Since the study of 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.

b) 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 (Baqui *et al*,1987). Banks can mobilize more deposit when they make themselves closer to their customers (depositors).

c) Services in the Bank

It is known that banks are service giving organizations and the service delivery can affect their business undertakings. Baqui *et al* (1987) stated that there is some empirical evidence demonstrating the positive influence of services rendered to depositor.

2.6 Approaches to Attract Cash Depositor

Kumar (2000) stated that, these are some of the more important expected changes in banking industry operations in the near future. Most banks will adopt at least a few of these policies to maintain enough cash deposit and profitability. Perform a savings account comparison to take advantage of improved bank rates and terms. Take advantage of the positive changes in this group and closely examine their new income ideas. Always compare your institution with its competitors to learn of the best and most cost-effective offers.

- ❖ Go beyond interest rates to attract new customers. Most banks will not be able to beat the interest rates offered on a national level. One of the most difficult things for a bank to communicate to potential customers is the quality of customer service offered. Use testimonial-based advertisements to highlight the benefits of customer service. This is particularly important for long-term loan relationships such as mortgages. If customers believe that a loan officer at your bank will be attentive to their individual needs, they may be more likely to overlook differences in interest rates (Kumar, 2000).
- ❖ Increase customer access to funds by expanding ATM networks and improving online banking offerings. ATMs and online banking are less expensive than training and paying tellers. But building an ATM network is expensive, particularly if you're not a franchise of a larger national bank. Many smaller banks have gotten around this issue by subsidizing fees paid to out-of-network ATMs. This allows smaller banks to offer the same ease of access as larger banks at a relatively low cost (Kumar, 2000).
- ❖ Create time-limited marketing incentives to attract new deposits. Offer to pay termination and transfer fees from old banks. Offer cash payments for deposits over a certain amount. To maximize effectiveness, limit the offer to a period of 60 days or less and emphasize that fact in advertisements. Offer tiered rewards depending

on the level of deposit made. In most cases, customers will stay with a bank that they have opened an account with for years (Kumar, 2000).

- ❖ Measure the effectiveness of your marketing. Try to run only a few marketing initiatives at any one time so you can more easily measure their effectiveness. Repeat promotions that have measurable results, and curtail the campaigns that fail. Consider how profitable a campaign was per dollar amount (Kumar, 2000).

- ❖ Offer higher interest rates on savings accounts and lower interest on loans to existing customers with high bank balances. It's much less expensive to keep a customer that you already have than to attract a new one. Tiered accounts create incentives for your customers to keep their business with you rather than shop around elsewhere (Kumar, 2000).

- ❖ Adding "rewards" features to transaction accounts (checking, money market accounts, etc.).The success of rewards credit cards is sparking interest in offering similar features to other deposit and transaction accounts. Individuals should examine these offers from their current institution and competing programs from other banks. Compare money market rates and "rewards" to find the best program for you (Kumar, 2000).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 The Research Design

A survey was made in Awash International Bank S.C. to examine deposit mobilization and assess factors affecting deposit mobilization in private commercial banks. The data were collected from the bank documents and employees working in different AIB city branches and head office.

The subject of the study was senior employees of Awash International Bank S.C. working in different area branches and head office located in Addis Ababa. The respondents should have at least two years of service in the bank assuming that they could have enough experience to the deposit mobilization of the bank practice. Accordingly 100 senior employees, who were serving the bank for at least two years were selected.

3.2 Sources of Data

The study was undertaken based on the data obtained from primary and secondary sources. The Primary data was collected using structured and unstructured questionnaires and formal interview. The questionnaires were distributed to 100 senior employees of the bank, whose job grade were 10 and above. In addition to the questionnaires, structured interview were made with Directorate of Branches Affairs and Manager of Branch Expansion Division.

The relevant secondary data for this study were obtained from the company's annual reports, unpublished company documents, books, and websites.

3.3 Data Collection

As discussed above in the sources of data section, questionnaires were distributed to 100 employees of the City Branches and Head office. Data was collected from a total of 84 employees.

Data from interview discussion made with the Branches Affair directorate and Branch Expansion Manager was collected by taking notes of the events of the discussion based on the interview discussion questions designed.

3.4 Population, Sample Size and Sampling Techniques

Awash International bank has launched a total of 64 area branches in Addis Ababa till 30th of June 2013. Out of these only 38 area branches have started operation before two years. AIB categorized all city branches into classes 1 to 4 based on numbers of staff, customer flow and deposit amount. These categorization were also served as a bases for selection of 4 branches from each classes, to this effect simple random sampling techniques were applied to select those branches which qualifying the minimum requirements and equal opportunity given to branches in each classes. From those selected branches senior staffs including Branch manager and Ass. Branch manager were purposively selected this due to senior staffs are believed to have enough knowledge about deposit mobilization practice of the bank. Of all the Addis Ababa branches, the below depicted ones where entered in to operation before two years

Table 1. Number of Branches in Addis Ababa starting operation before two years and Selected Branches with their Respective Number of Staffs

Class	Number of Branches qualifying the criteria	Number of Selected branches	Number of Managers	Number of senior staffs	Total staff Selected from each class
1	8	4	8	18	26
2	5	4	8	14	22
3	9	4	8	9	17
4	16	4	8	7	15
Total	38	16	32	48	80

26 questionnaires to class one, 22 to class two, 17 to class three and 15 to class four were distributed, total of 32 to Managerial and 48 to senior staffs.

As to Head Office, there are total of 651 staffs (42 Managerial and 609 non managerial). Of the total staffs, 20% are believed to have worked more than two years in the bank. A total of 20 questionnaires, 10 to Managers and 10 to senior staffs were distributed. Totally, 100 questionnaires were distributed to employees in the selected area branches and the head office.

Table 2. Selected Branches and Head Office Respondents with their Respective Position

No.	Position	No. of Respondents	Questionnaires	Interview
1	Director	3	✓	✓
2	Division Manager	7	✓	✓
3	Branch Managers	16	✓	
4	Assistant Branch Managers	16	✓	
5	Supervisor	24	✓	
6	Senior Officer	34	✓	
	Total	100	100	

Table 2 indicates, out of 100 questioners prepared, 42 were distributed to managers (Director, Division Manager, B. Manager and Ass. B. Manager) and the remaining 58 were for non managers but senior employees of the bank. This implies the student researcher attempt to address the employees who have direct relationship with the banks deposit mobilization practice.

3.5 Data Analysis

Data collected from respondent employees through questionnaire and interview discussions are analyzed and interpreted so as to arrive at meaningful findings.

The researcher used Microsoft Excel soft ware to code and analyzes the collected responses from questionnaires. After proper editing, data was coded; entered to the software and then it was made ready for analysis. Descriptive statistical techniques are adopted for analysis of data collected from questionnaire responses of respondents. In so doing frequency tables and percentages were applied. This helps to thoroughly analyze and interpret the questions one by one in order to reach meaningful results.

Data collected from interview discussion was organized as per the questions designed and are incorporated in the data discussion and interpretation part of the study. Conclusions and recommendation were drawn based on the data analysis and interpretation.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Data Presentation and Analysis

Out of the total, 20 questionnaires distributed to the Head Office staffs and 80 questionnaires distributed to branch staffs of AIB, only 16 and 68 respectively were properly filled and returned back. Therefore, the number of respondents for this study was reduced to 84. Summary of the number of questionnaires distributed and collected from employees of the bank was given in table 1.

In addition to the results obtained through questionnaire, results from structured interview with the Branch Affairs Director and Branch Expansion Manager of the bank were presented and analyzed in this chapter.

Table 3. Summary of Questionnaire Distribution and Collection Rate

No.	Position	Questionnaire distributed	Questionnaire collected	Percentage of collection
1	Director	3	2	67%
2	Division Manager	7	6	86%
3	Branch Managers	16	13	81%
4	Assistant Branch Managers	16	15	94%
5	Supervisor	24	21	88%
6	Senior Officer	34	27	79%
	Total	100	84	84%

As indicated in the table above, from a total of 100 employees for whom questionnaire was distributed 84 respondents (84%) response is collected and the remaining 16 (16%) is not collected due to different reasons. The next table, Table II, shows the profile of the respondents.

4.1.1 Profile of Respondents

Table 4. Profile of Respondents

Description	Frequency	Percentage (%)
Sex		
<input type="checkbox"/> Male	51	61%
<input type="checkbox"/> Female	33	39%
Total	84	100%
Age		
<input type="checkbox"/> Below 25 years	6	7%
<input type="checkbox"/> 26-35 years	24	29%
<input type="checkbox"/> 36-45 years	36	43%
<input type="checkbox"/> 46-55 years	14	16%
<input type="checkbox"/> Above 55 years	4	5%
Total	84	100%
Academic Qualification		
<input type="checkbox"/> High School Complete	0	0%
<input type="checkbox"/> Diploma	19	23%
<input type="checkbox"/> Degree	55	65%
<input type="checkbox"/> Master's and above	10	12%
Total	84	100%
Work Experience		
<input type="checkbox"/> 2-5 years	5	6%
<input type="checkbox"/> 5-10 years	32	38%
<input type="checkbox"/> 11-15 years	36	43%
<input type="checkbox"/> Above 15 years	11	13%
Total	84	100%
Position In Bank		
<input type="checkbox"/> Director	2	3%
<input type="checkbox"/> Division Manager	6	7%
<input type="checkbox"/> Branch Manager	13	15%
<input type="checkbox"/> Ass. Branch Manager	15	18%
<input type="checkbox"/> Supervisor	21	25%
<input type="checkbox"/> Senior Officer	27	32%
Total	84	100%

According to table 4, it is observed that out of the 84 respondents 51 (61%) of respondents were males and the remaining 33 (39%) were females. This shows that majority of the respondents were males. This might be due to smaller number of female employees in the bank, compared to males.

6 (7%) are below age 25 years, 24 (29%) are between age 26-35, 36 (43%) are between age 36-45, 14 (16%) are between age 46-55 and the remaining 4 (5%) are above 55. This helps to see the view of employees from different age categories on the deposit mobilization process of the bank as employees' age category has its own influence on the view they have regarding the practice. The wider and diversified the age group, the wider and diversified are the views of the employees on the issue under consideration.

0 (0%) are High School Complete, 19 (23%) Diploma holder, 55 (65%) Degree holder and the remaining 10 (12%) are Masters and above. The fact that majority of respondents are having degree would help respondents understand and fill the questionnaires correctly so that the findings would be viable.

5 (6%) are 2-5 years experience, 32 (38%) are 5-10 years experience, 36 (43%) are 11-15 years and the remaining 11 (13%) are above 15 years experience. This indicates that the respondents are well experienced and able to contribute their effort to the deposit mobilization process of the bank. Hence, data collected from them is reliable.

2 (3%) are Directors of the bank, 6 (7%) of the respondents are Division Manager, 15 (15%) are Branch Manager, 15 (18%) are Assistant Branch Manager 21 (25%) of the respondents are Supervisor and the remaining 27 (32%) are senior Officers of the bank. From this, we can infer that most of the respondents have a relatively senior and management staffs of the bank.

4.1.2 The Employees of the Bank Being Depositors

Table 5. Status of Being Depositor

Particulars	Frequency	Percentage (%)
Yes	73	87%
No	11	13%
Total	84	100%

It was reported that 73 (87%) respondents were both the employees and the depositors of AIB and the remaining 11 (13%) respondents were only employees of the bank (Table 5). This indicates that the majority of the staffs are part of the deposit mobilization process, and are expected to boost the deposit level of the bank.

4.1.3 Combination of Depositors of the Bank

Table 6. Lists of the Bank’s Depositor Combination

Types	Frequency	Percentage (%)
Individuals	37	44%
Business Organization	28	33%
Governmental Organization	10	12%
All	9	11%
Total	84	100%

According to table 6, 37 (44%) of the respondents respond that Awash International Bank collects its deposit from individual customers, 28 (33%) of them says it is mobilizing its deposit from business organizations, 10 (12%) of the respondents says that the government organizations are the main depositor of the bank and 9 (11%) of the respondents says that the bank is mobilizing its deposits from all the above mentioned. This indicates that the deposits of Awash International Bank mainly from individuals. The deposit build by small groups of people will have high risk of declining of balances when one of them are withdrawing their money, Awash bank to this effect minimize this risk due to the bank build their deposits mainly on individuals depositors .

4.1.4 Distribution of Branches

Table 7. Distribution of Branches in City and outlying

Particulars	Frequency	Percentage (%)
Yes	23	27%
No	61	73%
Total	84	100%

Table 7, indicates that 23 (27%) of the respondents have believed that the branches were fairly distributed; and the majority of the respondents 61 (73%), have not believed the distribution of branches in city and outlying are fair. This indicates that there are more branches have opened in Addis Ababa this due to mostly the economic transaction of the country done here in Addis Ababa.

4.1.5 Major Reasons for the Increase of Banks Deposit Balance

Table 8. Major Factors for Boosting Deposit Balances of the Bank

Particulars	Frequency	Percentage (%)
Aggressive Branch Expansion	52	62%
Aggressive Promotion	18	21%
Promote Customer handling Culture	12	14%
Others	2	3%
Total	84	100%

Table 8 indicates, the majority of the respondents, 52 (62%), believe that aggressive branch expansions are major factors to boost deposit balances of the bank; 18 (21%) of the respondents agreed, aggressive promotion brings more depositors to the bank and major factors for increasing of bank deposit balances; 12 (14%) of the respondents agreed promoting customer handling cultures are the major factors for increasing deposit balances of the bank and the remaining 2 (3%) believes there are other factors to boost deposit balance such as upgrading Technology and extending bank closing hours. This implies nearing to the customer by opening additional branches is the major factor to increase the deposit balance of the bank.

4.1.6 Interest Rate Scheme

Table 9. Different Interest Rate Scheme Provided by the Bank

Particulars	Frequency	Percentage (%)
Yes	72	86%
No	12	14%
Total	84	100%

According to table 9, 72 (86%) of the respondents knows that AIB has different interest rate scheme to attract and entertain different requests of depositors; and 12 (14%) of the respondents, lack the information about the different interest rate scheme of the bank. This

shows that some of the employees of the bank lack relevant information which can help to attract more customers to the bank by providing basic and unique information.

4.1.7 Factors Affecting Deposit Mobilization

Table 10. Factors Affecting the Deposit Mobilization process of the Bank

Particulars	Frequency	Percentage
The Current Infrastructures Reconstruction	29	35%
Government Intervention towards Private Bank	17	20%
People Attitude towards Private Bank	15	18%
Branch Office Location and Poor Parking Area	12	14%
Computation with other Private and Gov. Bank	11	13%
Others	0	0%
Total	84	100%

The above table, Table 10, shows that The majority of the respondents, 29 (35%), believe that the current infrastructure reconstruction of the city are the major factors affecting the deposit mobilization process; 17 (20%) of the respondents agreed, government intervention affect mainly the deposit mobilization process; 15 (18%) of the respondents agreed people attitude towards using private banks are highly influence the deposit mobilization process; 12 (14%) of the respondents agreed the branch location and poor parking areas are reason for poor deposit mobilization and the remaining 11 (13%) believes computation with other private and governmental banks. The results indicate that the negative impact of the reconstruction of Addis Ababa roads on the deposit mobilization process and this urges the bank to search option to alleviate such abnormalities.

4.1.8 The 27% Bill Purchase and Deposit Mobilization

Table 11. The Impact of 27% Government Bill Purchase on Deposit Mobilization Process of the Bank

Particulars	Frequency	Percentage (%)
Yes	21	25%
No	63	75%
Total	84	100%

As per the collected response in table 11 above, 21 of them (25%) of the respondents said there is direct relationship with bill purchase and deposit mobilization; and the remaining 63 (75%) of the respondents, the majority, believed that the purchase of government bill

has no impact on the deposit mobilization process of the bank. This indicates there is no direct relationship between the deposit mobilization process and 27% bill purchase. Since the purchase of bills done when the loan issued, therefore it reduce the loan-able fund of the bank which collected through deposit mobilization.

4.1.9 Condominium Construction and Deposit Mobilization

Table 12. The Impact of Condominium Construction on Deposit Mobilization Process

Particulars	Frequency	Percentage (%)
Yes	71	85%
No	13	15%
Total	84	100%

The above table, Table 12, shows 71 (85%) of the respondents, agreed the construction of condominium house program directly affect the deposit mobilization process of the bank. Since most depositors of the banks are individuals and these individuals transfer their balance to CBE for the sake of minimum deposit requirements, so the deposit balances of the bank are affected; and 13 (15%) of the respondents, believed that the construction doesn't affect the deposit mobilization process of the bank.

4.1.10 Bank Commission and Service Charges

Table 13. The Impact of Commission and Service Charges on Deposit Mobilization Process

Particulars	Frequency	Percentage (%)
Yes	29	35%
No	55	65%
Total	84	100%

According to table 13, 29 (35%) of the respondents, believed the existing commission and service charges affect the deposit mobilization process of the bank; and Majority of the respondents, 55 (65%) of the respondents agreed the deposit mobilization process not affected by the banks commission and service charges tariff. This implies the current bank's commission and service charge tariff applied were comparable and reasonable with other private banks and not affect the deposit mobilization process.

4.1.11 People Awareness towards Using Private Banks

Table 14. The Efforts of the Bank to promote People Awareness towards Using Private Bank

Particulars	Frequency	Percentage (%)
Yes	43	52%
No	41	48%
Total	84	100%

From Table 14 shown above, it is observed that 43 (52%) of the respondents, said the bank promote very well to develop people awareness towards using private bank; and a relatively larger proportion, 41 (48%) of the respondents, not satisfied by the current efforts of the bank to develop people's awareness towards using private bank. This implies the current awareness creation activity of the bank needs further efforts to motivate those people not using banks at all.

4.1.12 Aggressive Branch Expansion of CBE

Table 15. Aggressive Branch Expansion of CBE and its Impact on Deposit Mobilization of AIB

Particulars	Frequency	Percentage (%)
Yes	68	81%
No	16	19%
Total	84	100%

As shown in Table 15, 68 (81%) of the respondents believed the aggressive expansion of CBE affects the deposit mobilization of the bank; and however, 16 (19%) of the respondents agreed the expansion of CBE doesn't affect the deposit mobilization process. This indicates CBE open their branches near to customers and collect deposit with minimum cost and efforts. These CBE activities affect directly other private banks movement towards deposit mobilization.

4.2 Presentation of Data from Secondary Sources

4.2.1 The Performance of Deposit, Loans and Advances

To analyzing credit performance, evaluation of "loans and advances" is the central part of the process; it is also equally important that evaluating the performance of deposit mobilization efforts in order to analyze the credits. Awash international Bank has a consistent growth record in both deposit and loans and advance. Following table shows this trend:

Table 16. Deposits, Loans and Total Assets in Billion of Birr

Year	Total Deposits	Loans and Advances	Total Assets	Loan and advances as % of Total Deposit
2007/08	3.42	2.4	4.78	70%
2008/09	4.96	2.56	7.13	52%
2009/10	6.46	3.15	9.02	49%
20110/11	8.05	3.99	11.09	50%
2011/12	9.57	5.51	13.13	58%

Source: (AIB, 2008, 2009, 2010, 2011, 2012)

From table 16 shown above, it is observed that total loans and advances of the Bank markedly rose to Birr 5.51 billion in 2011/12 from about Birr 3.99 Billion a year earlier, partly reflecting the positive impact of the removal of credit ceiling by the National Bank of Ethiopia and partly due to the growing credit demand in the country associated with economic growth. To proper managements of the increasing loan requests, aggressive works required to increase the deposit level accordingly. As a result, the Bank's loan/deposit ratio improved to 58 percent from 50 percent the previous financial year

Total deposits of the bank reached over Birr 9.56 billion as at 2011/12, higher than those of last year by 19%. This is mainly due to the aggressive deposit mobilization efforts and its widespread branch network.

Table 17. Composition of Total Deposit/ Deposit Mobilization in Billion of Birr

Year	Total Deposits	Saving	Demand/ Current	Fixed/ Time	L/C Margin	No. Of Branches
2007/08	4.47	2.92	1.01	0.22	0.31	56
2008/09	5.3	3.65	1.13	0.18	0.34	64
2009/10	6.46	4.66	1.38	0.61	0.35	70
2010/11	8.04	5.65	2.01	0.82	0.3	86
2011/12	9.56	6.57	2.16	0.48	0.29	107

Source: (AIB, 2008, 2009, 2010, 2011, 2012)

According to table 17, Total deposits of the Bank, including margins held on letters of credit, reached over Birr 9.56 billion as at 2011/12, higher than those of last year by 19%. With the exception of L/C margin, all types of deposits exhibited substantial improvement over the corresponding period of last year. Of the total deposits, savings deposits accounted for the major portion (68.6%), followed by demand deposits (22.56%), margins held on letters of credit (2.9%) and time deposits (5.9%).

Composition of deposit, AIB mobilizes its funds from the profit of its operation and deposit of the customers. From these sources the largest proportion is deposit. The bank collects deposit in three forms, i.e. demand deposit, fixed deposit and saving deposit. Among these form of deposits the largest proportion of deposit is on the form of saving deposit. Demand deposit is non interest bearing deposit that Awash bank collects mainly from merchants with the deal that they can withdraw their money on demand. Fixed deposit is the contract between the bank and its customers, i.e. the bank negotiates with the customer about the date of the withdrawal and the interest the bank should give to the depositor. The last one, saving deposit is mainly used by the bank and the depositors. The minimum interest on saving deposit is fixed by the national bank of Ethiopia(NBE) and can't give interest less than the minimum interest rate fixed by the national bank.

4.3 Presentations of Data from Interview

Results concerning the deposit of the bank, branch expansion, networking of the branches, union for card banking system, and challenges for deposit mobilization were obtained through interview with Branches affair Director and Branch Expansion and Coordination Division Manager of AIB. And the summary of the interviews are presented here below.

4.3.1 Deposit of the Bank

The Bank planned to mobilize significant amount of deposits, mainly due to the concerted efforts both at the Head Office and branch levels, growing public confidence in the Bank and widespread distribution of branch network. To this effect deposit mobilization committee established at head office level and the committee regularly visit all branches in Addis Ababa monthly bases and at least once in quarter for outlying branches. In addition to the visit, all branches established their committee at branch level and report their deposit mobilization efforts monthly to head office controlling organs. As per the effort made by the branches awards will be forwarded for those best performed branches by deposit mobilization effort.

4.3.2 Branch Expansion

As per the Branch Expansion and Coordination Manager, the financial year 2011/12 witnessed a historic expansion in branch network. Accordingly, more than twenty new branches were opened during the last period, thus bringing the total number of AIB's branches to 107 as at June 30, 2013. This makes AIB the leading private bank in terms of branch network. AIB effectively expanded its physical presence and diversified its customer base thus enabling more people to have access to the Bank's products and services. And by current year the bank planned to open more than 25 branches and expect to reach the branches number 140 at the end of the year. These all enables the bank to increase its deposit substansaly.

4.3.3 Networking of the Branches

In the discussion with Branch Expansion and Coordination Manager more than one third of outlying branches and all branches in Addis Ababa were able to provide on-line banking services. And the bank plan to online the remaining branches with the coming year; in addition to that, the Bank has been working on a project aimed at replacing the existing CORE banking system (Bank master) with a new one. To this effect, it has established an IT Project Management Office, entrusted with ensuring a successful implementation of

various banking applications. The project is expected to be completed during the financial year 2012/13.

4.3.4 Union for Card Banking System

According to the discussion with the Branch Affairs Director, the Bank is already implement card banking in coordination with other two banks namely NIB International Bank S.C. and United Bank S.C.; and have established a share company known as “Premiere Switch Solutions S.C.”, and started operation last year and expected to reach customers by using these three banks ATM terminals located at different area in Addis Ababa and also believed to helps the deposit mobilization process of the bank.

4.3.5 Challenges for deposit mobilization

As per the discussion made with the director some of the main challenges for deposit mobilization processes are:

- ✓ The inflationary situation,
- ✓ The Government condominium houses Construction program and the related deposits requirements,
- ✓ The current reconstructions of Addis Ababa roads
- ✓ The National Bank of Ethiopia’s Directive that obliges domestic private commercial banks to purchase NBE bills amounting to 27% of their credit disbursements at 3% annual interest rate (which is actually below the minimum deposit rate). Obviously, this will gradually erode the liquidity position of commercial banks by obliging them to purchase NBE bills of five years maturity with short term deposits,
- ✓ There by leading to asset-liability mismatch, unless corrective measures are taken.
- ✓ This current monetary policy leaves limited space for banks to accommodate the growing demand for credit from different sectors of the economy.
- ✓ Aggressive branch expansion of CBE

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is concerned with the highlights of the study findings and conclusions that are derived from the data analyses and discussions. Recommendations are provided at the end based on the findings and conclusions drawn from the study.

5.1 Summary of Findings

- ✓ Majority of the respondents are depositors of the bank in addition to employee and also some of the respondents still not deposit their money in the bank.
- ✓ Large number of respondents believes that the deposit of Awash International Bank come from more of Individuals depositor.
- ✓ Majority of employees of the bank have believed that the distribution of branches in city and outlying are not fairly opened.
- ✓ Large numbers of respondents believes that aggressive branch expansion is the major reason to increase the deposit balances.
- ✓ Almost all respondents indicated that AIB has different interest schemes to entertain different customers' needs.
- ✓ Most respondents believe the current reconstruction of the Addis Ababa roads are the major problems for deposit mobilization process.
- ✓ Large number of employees responded that the 27% government bill purchase doesn't affect the deposit mobilization efforts of the bank. Instead it lowers the loan-able fund of the bank.
- ✓ Large number of employee believes the current condominium house construction program affect the deposit mobilization process of the bank.
- ✓ Most of the respondents believe that the current commission and service charge tariff doesn't affect the deposit mobilization process of the bank.

- ✓ Large proportion of the respondents agreed the bank promotions towards motivating people to use private banks are not attractive or not done well.
- ✓ Majority of the employees believe the aggressive expansion of CBE affect the deposit mobilization of the bank.
- ✓ The secondary data shows, amount of both total deposit and loan increased during the past five years from 2007/08 to 2011/12.
- ✓ Deposit mobilization committee established at head office level and also at branch level to facilitate and monitor the deposit mobilization process.
- ✓ More than 20 branches opened last year and planned to open more than 25 branches by the current fiscal year.
- ✓ More than one third of outlying and all branches in Addis Ababa are providing on-line banking services.
- ✓ The bank implement card banking with coordination of other two banks namely United bank and NIB bank.

5.2 Conclusions

After careful analysis of factors affecting deposit mobilization at Awash International Bank the following conclusions are made.

The main factors that affect the deposit mobilization process of Awash International bank are the here and their reconstruction of Addis Ababa roads, the direct and indirect government intervention or control on private banks activities, people attitude towards using private banks, branch office location and poor parking areas and competition with other privates bank are some of the factors that can hinder the growth of the deposit balances of the bank. The existing commission and service charge tariff are not affect the deposit mobilization process.

The possible factors which contribute to the growth of the deposit balances of Awash International Bank's are aggressive branch expansion, aggressive promotion or advertisement, promoting service quality, updating and going with the developing technology and extending the working hours.

The 27% government bill purchase doesn't affect directly the deposit mobilization process, it affect unconstructively the loan-able balance of the bank. The current activities of CBE by branch expansion as well as aggressive promotional complain directly or indirectly affect the deposit mobilization process of private banks. In addition, the current promotional activities of Awash International bank to develop people awareness towards using private banks are not attractive and required additional efforts.

The deposit of Awash International Bank largely collected from individual depositors. The current condominium houses constriction programs directly or indirectly affect the deposit mobilization process of the bank because the minimum saving requirement goes solely to CBE which might from different private banks individual depositor.

The total deposit balance of the bank bigger year to year and the related loan and advance balances also increase with the pace of deposit balance. The bank collects deposit in three forms, i.e. demand deposit, fixed deposit and saving deposit. Among these form of deposits the largest proportion of deposit is on the form of saving deposit which is fixed interest bearing deposit. Awash International bank applied different interest rate scheme to entertain different requests of depositors and encourage potential depositors to deposit their money in Awash bank than other banks.

Branch expansion is an important strategy for deposit mobilization, it significantly increases deposit to this effect AIB opened more than 20 branches last year. The bank opened more branches in Addis Ababa than outlying this mainly due to the economic center of the city. More than one third of outlying branches and all city branches were able to provide on-line banking services, in addition the bank implement card banking system with coordination with other two private banks.

5.3 Recommendations

In connection with the summary of finding and conclusions drawn above, the following recommendations are provided to address the gaps identified by the study.

- ✓ Since the main source of funds for Awash International bank is deposit, therefore the bank should give due emphasis to its deposit and strive to increase it.
- ✓ The bank should provide excellent service for its customers to mobilize more deposits since the capital and expansion of CBE are high challenges for AIB.
- ✓ AIB should arrange and apply Incentives programs such as coupon prizes for those depositing above a fixed amount of money which was effective when applied by CBE previously.
- ✓ Awash International banks should go through promotional effort and awareness creation campaign to have well informed society who has awareness of the banking system and are interested in keeping their money in banks.
- ✓ Awash international bank should use their good will being the first private bank after the fall of Derg regime to attract more new depositors and preserve the existing depositor at comfortable level.
- ✓ Awash International bank should have convenient office environment with hard working employees to satisfy the existing customers need and as well as to attract new depositors.
- ✓ Since the current reconstruction of roads would be the main challenges for banks and dissatisfy the customers, the bank should place ATM machine at different common areas to reduce such abnormality.
- ✓ Awash International bank should also control the customers' preference and compete with other commercial banks to attract more depositors in turn to mobilize more deposits through controlling the market or through expanding their market share.
- ✓ Since branch expansion has positive and significant effect on total deposit of commercial banks, Awash International bank should also expand their branches in order to increase their deposit.
- ✓ The bank should aware the staffs first about the importance of depositing their money at the bank in order to increase the motivation and participation of staffs in deposit mobilization process.

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ANNEXES A

Questionnaire for employees

St. Mary's University College

School of Graduate Studies

MBA Program

Questionnaire to be filled by Awash International Bank Employees

Dear respondent,

The purpose of this questionnaire is to collect first hand information for a study being conducted on the topic, "**Factors Affecting Deposit Mobilization in Private Commercial bank case study in Awash International Bank S.C.**" as partial fulfillment of Master's of Business Administration (MBA) program at St Mary's University College. To this end, I kindly request you to provide me genuine information, to the best of your knowledge, so that the findings of the study would be legitimate. The study is purely academic research. Therefore, for sure, all your responses will be kept confidential. I would like to thank you for your willingness, effort and sharing precious time to fill the questionnaire and returning it the earliest possible.

Instruction: Please use tick mark (√) or mark (X) in the boxes provided to choose from the options given and answer in writing where appropriate. You don't have to write your name.

Part I: Respondent's Profile

1. Gender: Male Female
2. Age: Below 25 25-35 36-45 46-55
Above 55
3. Academic Qualification:
 High School Complete Diploma Degree Master's and
above
4. How many years have you been working in the bank?
 2-5 years 5-10 years 11-15 Years Above 15 years

5. Position In the bank

- | | |
|---|--|
| <input type="checkbox"/> Director | <input type="checkbox"/> Division Manager |
| <input type="checkbox"/> Branch Manager | <input type="checkbox"/> Ass. Branch Manager |
| <input type="checkbox"/> Supervisor | <input type="checkbox"/> Officer |

6. In Addition to the employee of the bank, are you depositor of the bank?

- Yes No

7. Name of area Branch _____

Part II: General Information

1. The major depositor of the bank

- Individuals
 Business Organization
 Governmental Organization
 All
 Others _____

2. Do you think the branch distribution in city and outlying fairly opened?

- Yes No

3. From the listed, which factors contribute more to increase the deposit amount of the bank?

- Expanding Branch Opening/ Aggressive branch Expansion
 Aggressive advertisement
 Increase Customer handling culture
 Others _____

4. Do have in your bank different interest rate scheme to attract new depositor/ customer?

- Yes No

5. What factors from the listed affect the deposit mobilization of your bank?

- The current Infrastructures reconstruction
 Government Interventions towards privately owned banks

- People attitude towards private banks
- Branch office location and poor parking area
- Computation with other private and governmental bank
- Other _____

6. Do you think the 27% bill purchase government policy affect negatively the deposit mobilization of your bank?

- Yes No

7. If your answer for question no. 6 is yes how?

8. Do the current condominium construction program and the related saving requirement affect your bank deposit mobilization?

- Yes No

9. Do you think the current commission and service charge used in the bank higher and affect the deposit mobilization effort?

- Yes No

10. If your answer for question No. 9 yes, what possible solution you recommend?

11. Your bank provides different advertisement to develop people awareness towards using private bank?

- Yes No

12. The current aggressive branch expansion and advertisement of CBE affect your deposit mobilization?

- Yes No

13. If your answer for question no. 12 yes, what possible solution suggest to overcome the movement of CBE?

14. If you have any comment which you think important for this study, please mention here

Thank you for your time!

Sisay Assefa, Phone: 0911377131 E-mail Address: Sisinius2000@yahoo.com

ANNEXES B

Interview Questions

St Mary's University College

School of Graduate Studies

MBA Program

Interview Questions

- 1- How does Awash International Bank mobilize funds?
- 2- Would you explain the practice of deposit mobilization of AIB in relation with other private and governmental banks, what techniques does the bank use, what is the difference from other banks?
- 3- The current government policy with respect to the construction of the condominium house and the related saving requirements by the people affect your deposit balance? If so what mechanism your bank thinks to overcome this potential problem?
- 4- Now in the market AIB has the 2nd private bank in deposit mobilization from the people , do you think and plan to be the first private deposit mobilizing bank in the industry?, if so how you can be?
- 5- Do you have deposit plan, if yes what are your strategies to achieve your deposit plan? And the plan achievable?
- 6- Is AIB mobilize enough deposit currently?, and satisfy the current loan request of your customer without any pre condition?
- 7- How do you rate the government intervention to your deposit mobilization effort?
- 8- In your bank, is any department which monitors the deposit mobilization process? If yes how and what this department work?