

**MARKETING IMPLICATION OF THE HOUSING PROGRAM WITH  
CBE:-  
CHALLENGES & OPPORTUNITIES TO THE BANK**

**IN PARTIAL FULFILMENT FOR THE REQUIREMENTS OF THE DEGREE OF  
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TAMIRAT DERESSA**

**MARKETING IMPLICATION OF THE HOUSING PROGRAM WITH  
CBE:-  
CHALLENGES AND OPPORTUNITIES TO THE BANK**

**SAINT MARY'S UNIVERSITY  
DEPARTMENT OF MARKETING MANAGEMENT**

**ADDIS ABABA**

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SCHOOL OF GRADUATES**

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We, the undersigned, members of the board of examiners of the final open defense by TAMIRAT DERESSA have read and evaluate his thesis entitled "MARKETING IMPLICATION OF THE HOUSING PROGRAM WITH CBE:-CHALLENGES AND OPPORTUNITIES TO THE BANK", and examine the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the degree of Masters of Arts (M.SC) in MARKETING MANAGEMENT

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## **Declaration**

I, the undersigned, declare that this research paper is my original work and that all sources of the materials in the research paper have been duly acknowledged. The matter embodied in this project work has not been submitted earlier for award of any degree or diploma to the best of my knowledge and belief.

Name: TAMIRAT DERESSA\_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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Except the LORD builds the house, they labor in vain that builds; Except the LORD keep the city, the watchman wakes (but) in vain. Psalms 127, 1

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## Abbreviations

AARRH- Agency for the Administration of Rental Houses  
ATM- Automatic Transaction Machine  
CBB- Construction and Business Bank  
CBE- Commercial Bank of Ethiopia  
CSA- Central Statistical Authority  
FEDB- Finance and Economic Development Bureau  
FHLB- Federal Home Loan Banks  
GDP-Gross Domestic Product  
GIS- Geographic Information Science  
GPS-Global Positioning System  
GSES- Government Sponsored Enterprises  
GTP- Growth and Transformation Plan  
HCB- Housing Construction Bank  
HDFC- Housing Development Finance Corporation  
HFSS- Household Food Security Status  
HMF- Housing Micro Finances  
HSB- Housing and Saving Banks  
IHDP- Integrated Housing Development Program  
ILO- International Labor Organization  
LIC- Life Insurance Corporation  
LTV-Low Transaction Value  
MIS- Management Information System  
MOFED- Ministry of Finance and Economic Development  
MSE- Mean Squared Error  
MWUD-Ministry of Works and Urban Development



NGOS-Non-Governmental Organizations  
SPSS- Statistical Package for Social Science  
SSA- Sub Saharan Africa  
TMRC- Tanzanian Mortgage Refinancing Company  
UIS- Urban Inequities Survey  
UNDP-United Nations Development Program  
UN-H- United Nations-Habitat  
US MIS- US Mortgage Intermediate System

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## Abstract

*This work is set out to identify challenges and opportunities the condominium housing program brought to CBE. And to investigate the marketing implication they have on the performance of the bank. Thus, questionnaires were disseminated randomly to condominium account holders in Addis Ababa. Proportional sampling method was used. Questionnaires were also responded by CBE managers. Convenience sampling applied here. After analyzing the collected data the study came up with the following findings:-CBE has got a large number of customer influxes. Significant number of accounts being closed on daily basis. CBE doesn't respond to this massive account closure. Customers have misconceptions about the role of CBE in the housing program. Bad word of mouth is another challenge. From these findings it is concluded that CBE faces more challenges than entertaining opportunities. To tackle the problems CBE should exert extended efforts in the areas of customer awareness, new promotional efforts towards condominium account holders, performance measurement that includes condominium accounts that try other CBE products and rewards to encourage trial of other CBE products by condominium account holders.*

*Key Words:-Housing Finance, CBE, Challenges, Condominium, and opportunities*

# **Chapter One**

## **Introduction**

### **1.1 Background of the Study**

Housing is an essential need of man which is why it is described as a sine qua non of human living (Yakubu 1980; Olotual and Aiyetan 2006). To most governments, availability of sufficient but basic housing for all is often stated as a priority for enhancing the social needs of the society.

For a typical house owner, the house is a major asset in his/her portfolio and for many house holders the purchase of a house represents the largest (and often only) lifelong investment and a store of wealth (Goodman 1989, Sheppard 1999; Malpezzi 1999, Bundick and Sellon Jr. 2007, Dickenson 2009). Housing also represents a huge portion of expenditure & takes up substantial portion of owner's life time income.

Housing not only provides physical shelter but also has significant impact on the lives of the dwellers in terms of skills enhancement, income generation, increased security, health, self-confidence and human dignity. Housing finance development, therefore, plays a role in boosting equitable economic growth and reducing poverty through helping households build assets, improving living conditions, empowering the middle and lower-income population, and strengthening communities.( Khandaker Khalidur Rahman 1999) Seragildin, Mona (1993) has put "peoples' perception of housing influences their decision to invest in housing." This perception for housing has three perspectives the first being housing thought of as a basic necessity and right to be safe, healthy and as a dignity for human beings. And it is also perceived as a commodity. The largest portions of a poor man's assets, 60%, are represented by his/her home. In this context social and economic status of the poor can be measured by their investment in housing. Perceiving housing as an investment is the third perspective. Home improvements provide the opportunity for higher productivity and thus higher income.

The provision of housing services depends upon a well-functioning housing finance system (ibid). The consideration of acquiring a house is driven by the cost of acquisition and various government economic policies which be fiscal or monetary (Guissoni and Hadjimatheou 1999) and even depending on the economic system adopted in a country.

To most governments, the availability of sufficient but basic housing for all is often stated as a priority for enhancing the social needs of the society. Habitable housing contributes to the health, efficiency, social behavior and general welfare of the populace Onibokun (1998) and Nubi (2008). Apart from providing man with shelter and security, housing plays a major role in serving as an asset (Poole 2003; Alhashimi and Dwyer 2004). However, the fulfillment of housing rights is largely a remote wish for most of developing country citizens and for Ethiopians in particular despite the recent concerted effort of the government.

The provision of housing services depends upon a well-functioning housing finance system (ibid). The consideration of acquiring a house is driven by the cost of acquisition and various government economic policies which be fiscal or monetary (Guissoni and Hadjimatheou 1999) and even depending on the economic system adopted in a country. The 2007 UN-HABITAT reported a serious problem of diversified housing financing availability in Ethiopia. According to the report the single financing institution in the country was CBB (Construction & Business Bank). It offered loans for housing construction and long-term mortgage for the procurement of houses. CBB was highly relied on Central Bank of Ethiopia for its capital. During previous regimes (the Dergue government and the Imperial) this was not a problem, as the government was responsible for the procurement of housing for the urban poor and housing units were completed and held by the government in a rental portfolio. However, in the 1990's, the Construction and Business Bank started lending money directly to housing cooperatives. Overall, this centralized financial setup has resulted in a housing finance sector that is very limited in its scope and diversity of the products it offers.

A major challenge facing securing affordable housing for low-income Ethiopians has been access to housing finance. Following the market led adjustments implemented post-1991, subsidized interest rates were removed which significantly increased lending rates. Rates increased from 4.5 percent for cooperatives and 7.5% for individuals to 16 percent for both, severely reducing the opportunity for the low-income households to secure home loan (Haregewoin.Y, op.cit, p.5.)

Furthermore, with a high percentage of low-income people receiving income from informal sources and lacking capital to use as collateral, access to formal credit has been limited or non-existent. The low level of savings of the population, coupled with the shortage of external resources has affected the availability of investment in the housing sector. And this simply means minimum standard housing being out of reach for the Ethiopian poor (ibid).

But the current government has brought about a major shift in its attitude to fulfill these rights; nonetheless, the finance sector has been under multiple problems stemming from the national economic policy and inefficiency on the part of the financial institutions. The national bank of the country which is entrusted with monetary regulation of the country does not allow private banks and private actors to finance the housing sector or at least it does not encourage them to do so (UN HABITAT 2011 REPORT).

CBE (Commercial Bank of Ethiopia) is the only independent financial source for the housing program in Ethiopia up to this date; the housing program has not received any donor funding. CBE benefits from the program by receiving a significant influx of clients without the need for advertising. And as only a small percentage of condominium beneficiaries (approximately 5 to 10 percent) are able to pay the full 100% of their payment at hand over the remaining enter into loan agreements with the bank (UN HABITAT 2011).

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

Poverty remains the main challenge that hinders man's strive to fulfill basic needs in life. It has been given different definitions like in monetary terms as income or consumption level ((Grusky and Kanbur 2006; Handley Dickerson, 2009). And the multidimensional definition given (Subramanian 1997), basic needs approach (Streeten 1981), the capabilities approach (Since1999) and human development approach (UNDP 1990) have all complemented the basic economic definition earlier on used For instance, according to the 2007 World Development Indicators (2007 World Bank publication), up to 75 percent of the population in Sub-Saharan Africa (SSA) live on less than US\$2.00 a day. Since 1990, income poverty has fallen in all regions of the world except SSA; there has been an increase both in the incidence and absolute number of people living in income poverty.

There are manifold of conditions that are contributing to poverty level in SSA which ranges from corruption, political instability, unfair international trading rules, outdated policies and laws, poor social and economic infrastructure, weak capital and financial markets and so forth (Hammond et al 2006b). Out of about 300 million people living in SSA, almost half of the region's populations are living on less than US\$1 a day (UNDP 2006; ILO 2007; Handley et al 2009), Hence, poverty has major impact on the fulfillment of the right to housing in particular and the financial sectors in the developing countries. Ethiopia cannot be exception. Because income is generally low in developing economies and the majority of the populace might not even have bank accounts (Moss 2003). A large percentage of potential borrowers for housing acquisition may not qualify for the loan on this basis of the criteria or the financial institution may require that they raise the remainder of the amount needed from other sources possibly from family members or from friends or form partnership with these individuals to form a kind of equity finance (Caplin et al 1997; Barry et al 2006, Whitehead & Yates 2007).

In Ethiopia only 1% of the total population is registered for credit. This is only 0.1% of the total population (center for affordable houses for Africa 2012).This shows that the ratio of mortgage outstanding to GDP in Ethiopia is low compared with other emerging economies. For instance Thailand has a ratio of 18 percent, Malaysia 23 percent and



Taiwan at 37 percent. The point is that there is a strong correlation between economic development and the size of mortgage market (Boleat 2008).Historically, in Ethiopia, lending for housing (both development and mortgage finance) was carried out by a specialist lender, the Housing and Savings Bank (HSB). It was formed in 1975 through the merger of two financial institutions, the Imperial Savings and Home Ownership Association, and the Savings and Mortgage Corporation of Ethiopia. For about 20 years, the HSB granted long-term loans at a subsidized rate for residential housing and commercial building construction, purchase and renovation, time deposits and long-term borrowings.

It was succeeded by the Construction and Business Bank (CBB), a wholly government owned public enterprise which has the additional mandate of universal banking (Center for affordable housing finance in Africa year book 2012). Since its establishment, the former HSB and now the CBB has extended mortgage loans for the construction of just more than 30,000 residential units. For the 2011/12 financial year, 73.4% of CBB lending went to business loans, and 26.6% went to the construction of residential and commercial properties. CBB offers a variety of products: working capital loans; residential loans for non-resident Ethiopians, salaried workers and businesses; and business construction loans. Mortgage loans offered by CBB require a 30% deposit and borrowers must be formally employed. The other major mortgage lender in the country, the CBE, disbursed 1, 022 million Birr mortgage loans in 2010/11, down by 19% on the previous year. For the 2010/11 financial year, CBE had Birr 3481.6 million loans outstanding for building and construction. (.Center for affordable housing finance in Africa year book 2012). Thus, with regard to extending loan to the housing sector it seems that the amount is getting smaller and banks are focusing more on business loans. The overall lending amount is also very small compared to the population size and housing demand. It is one thing to provide loan, but it is also another thing to make it more accessible. Recently accessing loan for housing purpose is not easy and dogged with multiple conditions.

Mobilized deposits remain the major source of funding for banks in Ethiopia as well. There is no stock market in Ethiopia, and treasury bills are the only active primary

securities. UN- Habitat Report (2011) argues that investment in the housing sector is limited due to the low level of domestic savings and a shortage of external resources. Occasional government bonds are issued to fund short-term budgetary deficits, readily taken up by the banking sector with its excessive liquidity. International remittances represent a huge potential finance resource for housing in the country. Access to credit information in Ethiopia is low, with less than 1% of coverage of the adult population through the public credit registry. In August 2011, a Credit Bureau and Credit Information System was launched, in Ethiopia which is a federal agency and paving the way for improved financial infrastructure. By the publication of the World Bank's 2013 Doing Business indicators, almost 25 000 individuals and 6 413 firms were recorded on the public credit registry, representing 0.1% of the population (Center for Affordable Housing Finance in Africa Year Book, 2012).

Recently, the government started a scheme of housing deposit which enables clients to save some amount of money to invest into their future housing provisions. Deposit mobilization with regard to housing is a commendable job on the part of the government; however, it is also restricted within the government scheme and government bank. The government has developed three housing sub-programs under the new urban housing policy and strategy framework. The programs include the delivery of affordable housing, the purchase of which is then financed with subsidized interest rates. In terms of the 40/60 saving and housing development sub-program, households are required to save 40 percent of the purchase price over five years, realizing a 5.5 percent interest on their savings. They then get a loan for the remaining 60 percent of the purchase price which they repay over 17 years at a rate of 7.5(now 9.5) percent. The low income housing sub-program requires households to save 10 percent of the purchase price for two years, realizing five percent interest on their savings. The remaining 90 percent of the purchase price is then paid back over 25 years at a rate of 9.5 percent. The IHDP requires households to provide a 20 percent deposit and then a 20-year loan for the remaining 80 percent of the purchase price is provided at a rate of 9.5 percent.

Despite the Ethiopian government's effort to reduce poverty to 22.2% by the year 2015 one third of the population still lives under poverty level. This in other words tells the fact that all housing scheme under operation is meant to serve the middle income and high class of the society. A key challenge to housing affordability is therefore the absence of a diversified and flexible housing finance sector. As being a sole financing institute in such demanding situation the housing scheme becomes both a burden and a challenge to CBE too. Further, a high percentage of households depend on informal incomes, making them ineligible for formal finance. As a result, it is only the upper income groups and members of the Diaspora who can afford newly constructed housing built by the private sector in Ethiopia and government driven constructions. And the majority of the population has grievances regarding the affordability of the condominium houses and at the same time developing wrong perceptions about CBE. Cash is still the predominant form for purchasing formal housing, although mortgage lending is growing. Loan-to-value ratios are moderate: a loan by the CBB (now CBE), for instance, requires that a deposit of 30% is made up front. Loan terms are short generally five years. Rising building material costs have negatively affected affordability. Thus, the schemes in place have effectively excluded the mass and the very poor part of the society.

CBE has additional customers without advertisement cost. This is an opportunity to CBE. And these new accounts are opened for the purpose of mortgage savings. But their stay with the bank is conditional- so long as they get houses which are provided by another government body (IHDP) the performance of which cannot be controlled by CBE. A significant number of these accounts are closed on daily basis in many CBE branches in Addis Ababa. The public has wrong perceptions about CBE's role in the housing program and the bank as well as other concerned bodies haven't responded to clarify their respective roles and responsibilities. CBE tries its best to broaden its customer base. And also it is strengthening its effort to encourage the general public to develop saving culture. Furthermore, as a government owned bank, it strives to mobilize large deposits to support the national development sectors. Yet it has failed to retain mortgage accounts that are daily terminating their contracts while prospecting new ones from the outside. In many occasions CBE's branches are competing to snatch customers from each other.

This is one of the many outcomes of the performance measurement system which has, in many occasions (knowingly and/or unknowingly), been misconceived even by senior staff. Rather than offering the banks products for the 'insiders' (mortgage saving accounts) with little or no effort the majority of branches are trapped with the costly alternative of searching prospects only from the outside or snatching from one another to win bonus rewards. That adds no benefits, if not add costs, to the bank.

These challenges and their possible outcomes may not be visible now. Even they might have been overshadowed by the amount of mobilized deposits currently achieved (with the intrinsic problems). But they may have a negative consequence in the future unless acted upon timely. Is the condominium program 'the tip of the iceberg' that CBE should take care of?

#### 1.4. Research Questions

- 1- What are the opportunities CBE has got by financing the government sponsored condominium housing program?
- 2- What are the challenges CBE encounters while financing the housing program?
- 3- Are there implications they (the opportunities and challenges) have on the marketing activity of CBE?
- 4- What is the burden CBE endures as the only financing institute that finances the housing program in particular and the national priority sectors in general?
- 5- Doesn't CBE consider the closure of housing saving accounts as a challenge?

### **1.5. Objectives of the Study**

#### **1.5.1. General Objective**

To analyze the nationwide situation of housing financing by looking into CBE's successes and failures in financing the condominium program.

#### **1.5.2. Specific Objectives**

- 1-To identify the opportunities CBE has got by financing the government sponsored housing program
- 2-To reveal those challenges CBE encounters while financing the condominium houses

3- Investigating the implications they (the challenges and opportunities) have on CBE's marketing activities.

4- To search for some important points that help tackling the problems and deepening good practices in the future.

### **1.6. Significance of the Study**

This research is believed to forward some important views that CBE can use as an input in its strategic plans. It is also important to further studies in the Ethiopian housing finance in view of marketing so as to contribute to the social welfare and good business practices.

### **1.7. Scope and Limitations of the Study**

This research is only about CBE's challenges and opportunities and their implications on its marketing activities in financing the condominium housing scheme. And the study area is in Addis Ababa, the population is mortgage saving accounts, and the sample number is 300. So findings are based on these samples and conclusion that generalizes the situation from the limited area and number of respondents is drawn. Undoubtedly temporal, spacial and financial limitations are there.

### **1.8 Organization of the Paper**

The thesis consists of five chapters which are organized as follows:

The first chapter discusses the general background of the research in the form of introduction, background of the study, problem statement of the study, objectives, and research questions, significance of the study and its scope and limitation. In the second chapter critical review of existing literature on the supply of housing finance, in order to identify key factors that have influenced the operational efficiencies and inefficiencies of their housing finance supply has been taken up. And experiences of other countries have been reviewed in this chapter as far as financing the housing sector is concerned. In the third chapter methodology of the study is discussed which include highlights of the research approach, research design, target population, description of the study area. In chapter four the result of primary and secondary data has been discussed in brief with tables and charts. In chapter five the finding, conclusion and recommendation have been presented based on the analysis.

## **Chapter Two - Literature review**

### **2.1. Theoretical Review**

#### **2.1.1 Housing – An essential human need**

Housing is one of the basic needs of mankind as it ranks next to food and clothing. A certain minimum standard of housing is essential for a healthy and civilized living. Thus countries should give priority for housing development.

According to report of UN-Habitat, (1996) the 1948 Universal Declaration of Human Rights and the 1996 Istanbul resolution provides that housing is a basic human need and as such all people, the poor inclusive, deserve a home where they and their families can live in security and comfort. According to Lubell and Brennan (2007), households with modest means need safe, suitable housing that they can afford. When housing is affordable, low- and moderate income families are able to put nutritious food on the table, receive necessary medical care, and provide reliable daycare for their children. Research has shown that the stability of an affordable mortgage or rent can have profound effects on childhood development and school performance and can improve health outcomes for families and individuals.

Khandaker Khalidur Rahman has viewed housing not only as a basic need that provides physical shelter but also has significant impact on the lives of the people in terms of skills enhancement, income generation, increased security, health, self-confidence and human dignity. Housing finance development, therefore, plays a role in boosting equitable economic growth and reducing poverty through helping households build assets, improving living conditions, empowering the middle- and lower-income population, and strengthening communities.

Housing is important as both a reflection and generator of social inequality. Social inequality is also reflected in the tenure of housing. Individuals are assessed based on their ownership and occupancy of different types of housing. Since tenure, described by Malpass and Murie 1999; Balchin and Rhoden 2002; Ronald 2007 as the legal status of and the rights associated with housing ownership, it is being taken as the status symbol of individuals or corporate investors in the housing market. Furthermore, housing market behavior and housing finance is remarkably similar from place to place. Institutions and constraints, particularly the ratio of total income

available for housing and other goods and services vary from one sovereign nation to the other but these differences do not obscure regularities in behavior.

According to Krishnamachari (1980) as stated in the National Housing Policy, shelter is a basic human need and as an intrinsic part of human settlement, is closely linked with the process of overall socio economic development. Though a house is essentially a place of dwelling, it also fulfils many important social needs of the household. Besides providing shelter, it creates employment, generates voluntary saving and creates conducive conditions needed for achieving crucial goals.

Naik (1981) has an opinion that housing is an essential element of life for most human beings. The modern concept of housing does not limit the idea of housing merely to the provision of shelter. Housing constitutes a physical matrix in which human interaction occurs. "The house that people live in, touch upon every facet of their lives and the society as a whole" as cited by Paul S. (1983).

According to Satyanarayana (1987), housing is an element of material culture, is one such device to overcome threats against physical elements or security to lives and serves as an important purpose by making the provision of shelter. It provides a place for the operation of many human activities Irrespective of place and time man is using a place of accommodation which is called a house. It helps people to interact within the family and with the outside world.

Beyer (1965) states that house is a bulky, durable and permanent product, which has a fixed location being used only in the place where it is built. Once built, it tends to remain in existence for many years long after it has served its usefulness. It becomes almost a part of the land.

As stated by SwetaMisra (1996) the importance of housing was universally recognized from the dawn of history. With the advancement of knowledge and civilization man became particular about sanitation, environment, privacy and location of the house. He became conscious of better facilities which make his life easy and comfortable.

Thus, the importance of housing cannot be undermined for the wellbeing of humanity, progress of children, security of women and over all sense of dignity of people. Responsible Government

of different countries has already noticed the importance of such facilities to promote human right in general. Ethiopia as a nation and more so as a nation bitterly stung by poverty still harbors mountains of problems with regard to housing. It must understand the importance and pave all the ways for better housing and better wellbeing of its society. Above all, it must work hard to diversify the sources of finance to the sector of housing.

### **2.1.2 Why is there a shortage in housing supply?**

Shortage of housing is not a static but a growing problem (J.P. Sah). The problem is deep rooted especially in developing countries. A structural change in the economy and rapid urbanization aggravate migration from rural areas to urban centers. As this migration accelerates the host cities will face immediate housing problems.

Agarwal (1958), Despande (1975) and Paulose (1979) list causes of housing shortages. Population explosion, houses are not built in proportion to population increase, old houses are demolished for industrialization purposes are few among the causes. Despande (1975), further adds that the increase in population, increases the problem of managing the limited space available. Creation of space is highly expensive, space is not only a question of where, but also a question of when.

Due to refugee influx, the shortage of houses which was already a different problem became still worse and has given rise to slums (Agrawal 1958). Jaigopalan (1990) adds rapid industrialization has given way to squatter type housing trends in slums. Parekh (1988) in his part states that in developing countries urban population accounts for 70% of the population.

Thus, the shortage of housing provision correlates with the problem of housing. Where there are poorer people, and there is massive influx to the cities, and where governments are not moving at the required pace to fulfill the demand for housing, then the housing shortage kicks. In Ethiopia, in spite of migration of people from the rural to the cities and the population growth of the cities themselves; the pace of the housing provision lags behind. One ought to question here then what ought to be done to overcome such monumental shortage of the housing sector.



UN-Habitat estimates that African cities become home to over 40,000 people every day (UN-Habitat 2011). Most of the world's largest cities with population growth rates above 5% are in Africa. Such trends foresee immense strains on affordable urban housing, and exert a strong push on demand for it.

In Ethiopia, according to UN Habitat report (2011) the government estimates that the current housing deficit is between 900,000 and 1,000,000 units in urban areas, and that only 30 per cent of the current housing stock is in a fair condition, with the remaining 70 per cent in need of total replacement.

As mentioned in HFSS more than 70% of the urban population of Ethiopia lives in unhygienic congested and inhuman condition (Oramp, 2001/2002, CSA census 1994). Apart from the poor quality, acute shortage characterizes the housing situation in Ethiopia. Therefore, there is a need for the government of Ethiopia to consolidate all efforts to win the problem. Most importantly, it needs to work hard to enable diversified source of finance.

### **2.1.3 Housing Finance in the Developed Nations**

Sponsored Enterprises (GSEs) namely: Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mae) and the Federal Home Loan Bank (FHLB) System hold/insure more than \$3.6 trillion in primarily mortgage-related assets (Green and Wachter 2005). However, Lucas and McDonald (2006) noted that Fannie Mae and Freddie Mac assume a significant amount of interest and prepayment risk and all of the credit risk for about half of the \$8 trillion U.S. residential mortgage market.

By international comparisons, African mortgage markets are tiny. South Africa (at 30%) and Namibia (at 20%) have the highest ratio of mortgage debt to GDP, and are the only countries in Sub-Saharan Africa with ratios above 5%. This is versus countries in North America and Europe where mortgage loans comprise often over 40% of GDP and in the case of Denmark, Ireland, Switzerland, and the Netherlands, over 80% of GDP (Hofinet, 2011).

The developed economies are remarkably known for their investment in housing. (Cho 2007) one of the largest and most sophisticated financial systems in the world, the US Mortgage Intermediation System (USMIS) had mortgage loan outstanding in the amount of US\$8.8 trillion by the third quarter of the year 2005. This was 70% of nominal GDP.

By the end of 2003, the three Government

Diamond and Lea (1992a) observed that housing Finance is a major factor determining the quality and tenure of housing consumption, the overall financial portfolio of the public and the stability and effectiveness of the financial system. According to Struyk and Turner (1986) and Stephens (2000 & 2002) housing finance plays an important role in shaping a country's housing system and the housing system takes important social and economic consequences.

By the end of 2001, the total volume of outstanding mortgage loans in the European Union (EU) exceeded 3.9 trillion euro, which translates to around 40% of total bank lending in Europe and 40% of GDP in the EU (Manning 2002; Akinwunmi et al 2007).

Thus, the massive nature of the finance of the sector in developed economy shows that the developing countries lag behind, thereby lag behind in the provision of houses which are the main necessity of people, basic need!

#### **2.1.4 Banks as sources of Housing Finance**

In the opinion of Nickell and Dorsey (1976), the three methods of financing home ownership are cash, cash and credit and contract method. Naik (1981) is of the opinion that housing loans are usually advanced against, the security of mortgage of land and the building to be constructed with the loan. Housing finance is therefore mortgage finance.

In India, for instance, the National Housing Bank was established in 1986 for the fulfillment of the long overdue need of housing finance in the country. The NHB has initiated a number of new schemes for promoting housing loans. Commercial and cooperative banks were among those eligible for refinance by NHB. Especially the commercial banks of India are in a better position

in the financial system. These commercial banks have vast branches throughout the country. And they have an important role to play in providing credit to the housing sector in accordance with the national housing policy. These commercial banks were required, according to the RBI guidelines, to allocate every year 1.5% of their incremental deposits for disbursing as housing finance.

Banks finance the housing sector from their mobilized deposits. Some banks innovate a new housing financing scheme by combining their funds. Tanzania's experience is worth mentioning. The TMRC is a mortgage liquidity facility that provides refinancing (wholesale / secondary market lending) to Primary Mortgage Lenders in Tanzania. It is a private institution owned by ten commercial banks. It supports its member banks in mortgage lending by refinancing their mortgage portfolios. TMRC serves as a secure source of long-term funding and acts as an efficient way of connecting long-term investors with institutions generating long-term assets. In the provision of long-term funding at attractive rates, TMRC lowers the costs of funds for its members, which then leads to lower mortgage rates, improved affordability and an extended range of potential borrowers. The TMRC facilitates member banks to extend mortgage maturity to be in line with normal mortgage products rather than the shorter tenors that prevailed in the past. The TMRC also assists in the mortgage practice in Tanzania through specialized training of member banks on the origination of mortgages. The liquidity it offers also facilitates the entry of new mortgage lenders in the market.

The risk of default is also dealt with innovation in Morocco, where a guarantee scheme, Fogarim, has been developed to encourage banks to finance low and irregular (informal) income households. A precondition of Fogarim is that the borrower is a first time homeowner whose income is informal. The monthly loan payment is less than about US\$176 (DH1500). The guarantee covers 70 % of the loan, which must have a fixed rate. Guarantee commitments are limited to eight times the fund's equity and the borrower must have life insurance, and the house itself must be secured with a mortgage. The premium for the guarantee is correlated with LTV. To date, Fogarim has served about 80 000 borrowers, with about 1200 new borrowers coming on stream each month.

The above experiences can be lessons for the Ethiopian banks to exert their combined effort to overcome the deep rooted problem of housing finance.

### **2.1.5 The Theoretical Concept of Finance**

Inputs such as land, labour, finance, materials and infrastructure are combined by supply side agents such as landlords and developers to produce house services (Mayo et al, 1986; Malpezzi, 1990). Home owners, and to a lesser extent, renters are also producers, as they maintain and upgrade their houses. Relative prices inform producers of housing services about whether to provide more or less housing, and the input suppliers about more or fewer inputs.

Several other important features of housing markets include first- transactions within and across the input, production and demand sections are possible only to the extent property rights are defined, recognized and enforced. Second- government interventions can have profound effects on the operation of the housing market. And third-fully understanding housing markets requires analysis of key input markets and the regulatory environment, as well as revealed market behavior in the housing market per se.

Bertrand Renaud (1984) put it best, “Cities are built the way they are financed. “According to Struyk and Turner, housing finance is a key input to housing development.

But how is it financed? Finance literatures reveal Debt and Equity financing as the major types of financing. Financing of a project either by debt or equity depends on the characteristics of assets being financed and transaction cost reasoning suggests the use of debt to finance re-deployable assets and equity used to finance non re-deployable assets (Williamson 1988). Bank lending as a form of debt can be categorized into two: either as asset specific or corporate loans (Crosby et al 2000). Again, the debt can be either secured or unsecured.

However, equity finance gives its suppliers the right to the firm’s residual returns after payments to the suppliers of debt finance, and in addition, the right to vote on decisions concerning the firm’s operation in states when a firm is not bankrupt. When the firm goes bankrupt, limited liability provisions mean that suppliers of equity receive nothing. In such state, they even loose the right to make decisions about the firm’s operations in such states. In situation of non-

bankruptcy, suppliers of equity finance have the right to the firm's residual return; they do not have the right to receive a fixed payment in every period which may be yearly or half-yearly. Edwards and Fischer (1994), Toby (2006). On the other hand, Cranston (2002) and Tirole (2006) classify debt finance into short-term and long-term. Short-term debt finance instruments include bank overdraft, commercial papers and short-term trade credit and long-term debt finance instruments include housing loans, mortgages and other forms of informal credit transactions. In the context of the developing world, debt finance can be obtained from formal financial institutions like banks, micro-finance arrangements, indigenous moneylenders, family members, employers and government (Nubi 2005). Sight deposits at banks have zero term to maturity, as they can be withdrawn on demand. Consequently, equity has no redemption date and therefore possesses an infinite term to maturity.

One of the biggest problems faced by the banking sector is lack of information about the promoters and the projects to be financed with the bank facilities (Guzman 2000; Djankov et al 2007), to determine whether the borrowers will be able to pay the principal and interest when they fall due.

Altman and Saunders (1998) highlighted the array of information on various borrowers' details to include their character (reputation), capital (leverage), capacity (volatility of earnings) and collateral. However, Mints (2006) limited the borrowers required information to "the three C's of lending" which are collateral factor, capacity factor and credit factor, which are all relevant to lending in both developed and emerging economies.

Housing Finance is a major factor determining the quality and tenure of housing consumption, the overall financial portfolio of the public and the stability and effectiveness of the financial system (Diamond and Lea 1992a). Struyk and Turner (1986) and Stephens (2000 & 2002) argued that housing finance plays an important role in shaping each country's wider housing system and the housing system takes important social and economic consequences. Then, it follows that the development of a viable housing finance system is of utmost importance in the developing economies.

### **2.1.6 The concept and strategies of Marketing in the Banking industry**

Marketing concept to banks is a recent phenomenon in most of the developing nations. Marketing came into India, for instance in the late 1950s not as a concept but in the form of advertising and promotion (Sullivan M.P., 1981). But it was since the 1960s that Indian banks' attitude and comprehensions about marketing changed. By then they began to realize that marketing was beyond smiling and friendly tellers (Saxena K.K., 1988). By this time the concept of market segmentation got understood. Then in the 1970s marketing positions were created in banks and marketing got acceptance as organizational imperative.

But how can one understand how banking services be marketed? According to Kuruppswani S.A, the understanding comes by examining banking as a service industry in a swiftly changing environment, redefining marketing to suit a bank's needs, analyzing the unique characteristics of marketing in the financial services, identifying the tasks involved there and set forth a series of steps for effective bank marketing.

(Rajeev K.Seth, 1997) states the growth of marketing concept in India by listing steps taken after nationalization of the state bank in 1972. The bank recognized itself on the basis of major market segments, dividing the customers on the basis of activity and carved out four major market segments named commercial and institutional segment, small industries and small businesses segment, agriculture segment, and personal and services banking segment.

The most important factor which has given momentum to the bank marketing in India is financial disintermediation. The basic job of banks is to accept deposits from investors and or depositors and after providing funds for statutory obligations SLR and CRR bank extend loan to borrowers. The difference between deposit interest rate and the loan interest rate is the bank's 'spread'. Thus the bank acts as an interlinking factor and this is called financial intermediation (Ibid p.8). This in other ways means banks bring together those who have surplus and those who are in need of it. But this trend lasted only a few decades. New opportunities to deploy surplus fund and to secure fund have enabled depositors and borrowers to meet without the mediation of banks. Among those alternatives share market, post office saving, UTI, mutual funds and

company fixed deposits can be mentioned. The outcome of these processes is undermining the traditional banking function of intermediary between investors and borrowers. This is known as the process of financial disintermediation.

A popular definition of bank marketing given by S.Kuppswani reads, “Creation and delivery of financial services suitable to meet the customer’s need at a profit to the bank.” The definition considers the imperative need to satisfy customers, the significance of both the creation and delivery aspects of bank services and the underlying profit motive.

The most comprehensive definition of bank marketing is that of Dryk Weyer’s from Barkley’s bank. It goes as, “consisting of identifying the most profitable markets now and in the future, assessing the present and future needs of customers, setting business development goals , making plans to meet them and managing the various services and promoting them to achieve the plans all in the context of changing environment in the market.”

Gist gives the society being served a pivotal role in marketing. According to him marketing activities like new product development and promoting new ideas involve an important persuasive role in the formation of public opinion. So in Gist’s view marketing is a social concern.

Market orientation is another important marketing concept that is getting acceptance in the modern business endeavor. Marketing orientation is basically an attitudinal disposition of a bank which enables it to anticipate customer needs and also inspires it to satisfy those needs (Rajeev K.Seth, 1997). According to this definition marketing orientation has two ingredients:- Ability to anticipate customer needs and willingness to satisfy them.

Thus the marketing concept holds the key to achieve the organizational goals. To be more effective than competitors it is essential to coordinate and integrate the marketing activities towards determining and satisfying the needs and wants of target market. The customer satisfaction is the central focus to the marketing concept. In financial services good customer relations and their satisfaction is the single major factor contributing to the success of organizations.

### **2.1.6.2 The 7 P's in Bank marketing strategies**

#### **Bank Products**

In a highly regulated banking industry, all offer the same type of products. Actually banks take little time and no additional investment to develop a financial product or service. But no brand can be marketed with unique selling proposition for long because it can be copied immediately. So banks need to have products that have immediate operational utility as well as feasibility.

To bank, the core products can be savings bank account, current account, term deposit, cash credit, term loan, overdraft and the like. These products are core because they define the business commercial bank. And core products have no strong marketing content. But these core products are indispensable to any business.

The combination of two or more core products that have strong marketing content as they appeal to some specific customer needs make up basic product. Contrary to core products basic products will give right product with specific names as according to the needs of customers to enhance the banking business.

Augmentation forms strong marketing content. This is because it adds value. A very good example for augmented products is SMART Money Account with Hong-Kong Bank. When one opens a smart Money Account, an account holder will also get free any Time Money Card.

#### **Price**

Pricing in banking is affected by two major service characteristics- perish ability and intangibility. And it is also subjected to government regulation or by central bank (NBE in the Ethiopian case).

#### **Place**

This refers to the location of the banks to render their services. Distribution deals with the temporal and spatial aspects of services. CBE, since 2011 is expanding branches throughout Ethiopia to address-and even create demands. 'Growth and Transformation



Plan' (GTP) outlines by the government needs huge financing. Internal source of finance is mostly from CBE. The bank is mobilizing deposits. To collect as much funds as possible the bank is opening branches to reach the whole of Ethiopia. Along with the branches ATM (automatic Teller Machine), Mobile and Internet banking are being aggressively distributed to customers-even though there is a challenge from incompetent infrastructure( Electric power disruption& Mobile and Internet network failure happens frequently). But the Indian experience shows they have distribution extensions like.

Extension counters/Satellite offices

Special counters

Specialized branches

Mobile office/officers

Automated Teller Machine

Home/Tele banking

Strategic alliances with private banks.

### **Promotion**

Promotion is informing and reminding target groups and persuades them to accept, recommend or encourage trial of a product, service or idea. Due to the inherent intangible nature of services customers of banks rely merely on subjective impression rather than concrete evidences.

Promotion has many forms- press advertisement, sales campaign, word of mouth, personal selling, direct mail etc. In addition to the above fundamental objectives, promotion has some subsidiary objectives like image building of an organization, promoting the growth of newly started industry.

### **Process**

The importance of process in bank marketing strategy is based on 'value chain concept' given by Michael Porter. In banking context a typical value chain would encompass activities right from the product conceiving stage to its marketing at branch level. It is also useful in focusing attention on those organizational activities or processes which

give uniqueness to the product. And the element of uniqueness in the product is a basic condition for acquiring competitive advantage.

### **People/the human factor**

Compared to manufacturing industries where they are capital intensive services industry is labor intensive. Men unlike machine have attitudes, moods, different cultures, feelings and aspirations. Each employee in the bank irrespective of his/her position in the bank hierarchy is both recipient and provider of service. Without team spirit and support workflow will get obstructed and the customer will be at risk. So people who participate in the service must be right and opt ones.

### **Physical Evidence**

The intangible nature of services is the major challenge to bank marketers. So tangiblizing is a must. This can be done through many ways of which the very important one is through physical evidence. Physical evidence is nothing but method of up keeping branch premises and interior decor. In addition to this imaginative designing of bank stationery is used by customers. Product packaging could be another tangiblizing strategy and many marketers call it a separate 'P' of marketing strategy. Packaging in banking products could take many ways, for instance an attractively designed product brochure or a catchy brand name which a customer can easily understand or a pictorial design which can represent a particular product. In the case of these seven elements, they are not of much use in isolation. But an appropriate blend is the right way for marketing effort.

## **2.2. EMPIRICAL REVIEW**

Relevant literature has been reviewed on services industry in general and banks in particular. And this review revolves around banks' financing activities that focus on housing. The main objective of this part of the research is to look into how effective marketing affects banks' performance.

Kulaku et al. (2001) studied the link between effective marketing practices and business performance in the financial services industry on 212 banks across UK. They used 31

statements as their constructs which were derived from Kotler's operationalization . The statements were measured with a seven point Likert customer philosophy, operational efficiency, strategic orientation, integrated marketing organization and adequate market information. And the performance was evaluated on the basis of three measures-namely customer retention, sales growth and profit margin.

Customer philosophy was found to be key factor that shows performance. Integrated marketing on the other hand found to have no importance. The researchers concluded that firms with superior marketing effectiveness revealed higher level of performance.

Market orientation/market philosophy is the major factor that many researchers found to be important and indicated a strong and positive association to companies' performance. George J. Avlonatis and Spiros P. Gahoris(1997) identified six factors- market analysis and adaptation, high tech, selling ignorance, high tech production, traditional selling and marketing philosophy. And researchers clustered their respondents as market oriented, product oriented, sales oriented, production oriented and agnostics. Their study focused on the issue of market orientation and company performance-comparison between industrial and consumer goods companies. And their conclusion was that market orientation has a association to company performance. Sonja Cizmar and Sandra Weber (2000) revealed similar conclusion in their study on hotel industry in Croatia.

Marketing effectiveness has also been extensively discussed because of its strong association with many valuable organizational outcomes such as stable, long-term growth, enhanced customer satisfaction, competitive advantage and strong market orientation. In evaluating the marketing effectiveness of a company Kotler's questionnaire (1997) was often used. The examination of the literature on marketing effectiveness reveals that the majority of empirical studies have been based up on the investigation of similarities and differences in effective marketing practices in firms across different countries.

In a study comparing customers' expectations and perceptions in private versus public banks conducted by Peter Konigis and Vassilis Voukoulatos (1997) it is indicated that the importance of perceived service distinctiveness to competitive positioning in financial services.

It is very important to see how effective marketing influences financial institutions' performances. The measurable variables of study in describing effective marketing include level of satisfaction, loyalty, customer retention. And a significant number of resources were conducted to look into the relationship those variable have. Satisfaction depends on customers' expectation and perceptions on the services they encounter. Peter Kanigis and Vassilis Voukoulatos (1997) compared customers' expectations and perceptions in private versus public banks. In this study, they indicated the importance of perceived service distinctiveness to competitive positioning in financial services.

A satisfaction survey in Cypriot private banking sector by Grigoroudis. E, Politis. Y and Siskos. Y(2002) consists of personnel image, service and access to the bank. A multi-criteria method (MUSA) analysis indicated the installation of a permanent customer satisfaction barometer and benchmark branches according to provided services. It also estimated the homogeneity of preferences in distinct customer segments.

Lara et al.(2001) found that it was quality not satisfaction that had strong relationship between customer retention and profitability. Customer satisfaction did not have a greater impact on the business results for services. Satisfaction is related to customer loyalty theoretically. Roger Hallowell's study (1996) supported the theory. In addition to this he indicated a strong relationship between customer retention and profitability after his research on the relationship between customer satisfaction, customer loyalty and profitability.

The very importance of effective marketing is to best satisfy customers' needs. In the present day of high competition and dynamic environment proper implementation and wise use of effective marketing is not an option but a mandatory. Many of the past

studies conducted on satisfaction tried to evaluate its effect on business performance. Most of the studies supported a positive and strong relationship especially the ones made on financial services like banks.

The rapid global change in economic, political and social arena and customers with multitude needs, tests, preferences and styles forces financial institutions to determine the underlining factors that drive customers to make decisions on their selection for financial services.

The major players in housing finance include financial institutions like banks. The availability of these institutions and their accessibility to the customer is very important for customers to make selections. Public and private housing financial institutions, their interest rate and related services determine customer retention, loyalty, profitability and customer satisfaction.

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Financial have unique characteristics and their challenges and opportunities also are unique. Clive Gosling (March 10, 2015). According to him the unique marketing challenges financial institutions face include among other things.

-The challenge of prioritization.

Who to give priority to- keep up with the latest regulation or the customer.

Clive suggests keeping customer first. Richer, deeper understanding of the market place and customers is crucial especially if businesses are to benefit from emerging opportunities ahead of their competitors. While monitoring customer satisfaction make sure that customers can afford the products being marketing to them. Think affordability beyond and above individual's income. Extra layers of financial life style insight can help brands so much further and build up pictures of customers on which to base decisions

Interacting with customers based on individual preferences influences behaviors and builds loyalty, trust and advocacy. Circumstances change and what was suitable and responsible one month may not be so the next-treat customers always responsibly; Clive continues.

To win customer loyalty and working on retention are challenging tasks for financial institutions. The function of improvement in these areas through brand came to the forefront. To overcome these challenges tracking customers when they leave and who they are by using a predictive customer journey model is suggested.

Still another challenging task is how to expand markets. Many brands should look more clearly at their existing customer base in order to understand where they could be offered more.

Above all, Clive advices, putting the customer first are the solution for the two stated challenges. With detailed insights financial brand can be more easily communicated and crafted personalized and tailored experiences. This especially important in the financial sector when the pressures of responsible lending mean brands need to know who they are taking to and what they should say.

### **2.2.2 Review on Housing Financial Services**

The rapid global change in economic, political and social arena and customers with multitude needs, tests, preferences and styles forces financial institutions to determine the underlining factors that drive customers to make decisions on their selection for financial services.

The major players in housing finance include financial institutions like banks. The availability of these institutions and their accessibility to the customer is very important for customers to make selections. Public and private housing financial institutions, their interest rate and related services determine customer retention, loyalty, profitability and customer satisfaction.

Vidhayavadhi.k (2002) concluded in her study of selected housing finance institutions in Bangalore city, India, that the HDFC was excellent and superior to other housing companies. On the opposite SBI was poor in forms of business parameters as well as profitability and efficiency standards. Vidhayavadhi.K also observed rate of interest, speed of service, liquidity, location advertisement, and courtesy influenced home loan borrowers. Other similar studies revealed traditional financing institutions an inadequacy in India and legal impediments regarding low of finance to housing were reviewed. Korthic.G (1998) and Thirurnaron.R.M (1998). Areas of operation lending policy rate of interest were studied. These studies suggest further research on the marketing aspect of housing finance in India.

### **2.2.3 Conceptual frame work**

Numerous studies in services marketing have relied mainly on customers' satisfaction and services quality to describe customer evaluation of services. Indeed, in recent years, researchers have focused their attention on measuring levels of customer satisfaction with products and services. Although respective researches have conducted empirical investigations involving marketing effectiveness, few conceptual constructs exist. However Kotler's (1977) operationalisation has been cited as one of the best –known measures of marketing effectiveness.

Kotler says, “In my view, the marketing effectiveness of a company, division, or product line depends largely on a combination of five activities: Customer philosophy, integrated marketing organization, adequate marketing information, strategic orientation and operational efficiency”.



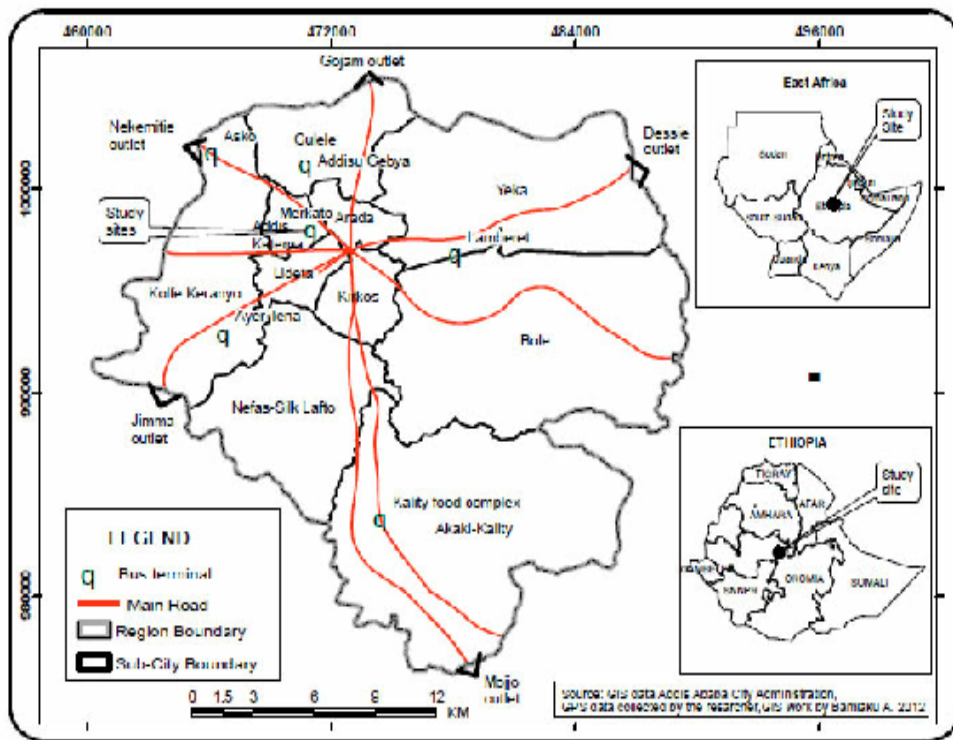


Figure 1 - The geographic placement of Ethiopia and the capital Addis Ababa

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY & DESIGN**

#### **3.1 Description of the Research Area**

Even though CBE has branches throughout Ethiopia the condominium housing program that it finances is limited to Addis Ababa. For this reason the researcher focuses on Addis Ababa city. And according to the Management Information System (MIS) record of the bank 118 (one hundred eighteen) branches were participated to open mortgage accounts. So the researcher describes the city, Addis Ababa in general and CBE in particular.

Addis Ababa is the capital of Ethiopia located at  $91^{\circ} 48' N 38^{\circ} 44' 24'' E$ . Total area of the city is  $527 \text{ km}^2$  (203 square meter) and its elevation from sea level 2,355m (7,726ft). The population of Addis Ababa is estimated to be 3,384,569 with density of  $5,165.1 \text{ km}^2$  (13,378/SM) according to the 2007 CSA the population growth rate of the city is 3.8%.

Addis Ababa has the status of both a city and state. It is where the Africa union is and its predecessor the OAU was based. It also hosts the headquarters of the United Nations economic Commission for Africa (ECA) and numerous continental and international organizations. Addis Ababa is therefore often referred to as “the political capital of Africa” due to its historical, diplomatic and political significance for the continent.

Addis Ababa is a self-governing character city with its own city council. The council which is selected every five years is accountable both to the city electoral and the federal government. Similar organizational set up exists at the lower level of the city administration. At present the whole city is divided in to ten sub- cities and 116 woredas.

CBE is a public bank in the country for the last 70 years. Since the last 7 years it has been expanding its services throughout Ethiopia. New branches at different areas of the country are being opened.

Now the bank has more than one thousand branches. And it is expected to open more in the coming years. The head quarter /head office is located in Addis Ababa at lagahar. Anew head quarter is under construction just next to Ethiopia hotel, on the road to maskal square which customarily called Ambassador after ambassador theatre hall.

The bank has four districts in Addis Ababa, named North, South, East & West which control both city and outline branches in Addis Ababa and surrounding regions under them. Of these branches the research is focused on the 118 city branches which maintain mortgage accounts.

**Figure 1 -GIS data Addis Ababa city Administration, GPS data collected by the researcher, GIS work by Bamlaku A. 2012**

### 3.3 Sample Size & Sampling Design

The researcher has chosen proportional sampling design for the study. This is because proportional allocation is considered most efficient and an optimal design when the cost of selecting an item is equal for each stratum, there is no difference in within- stratum variance, and the purpose of sampling happens to be to estimate the population value of same characteristics (Kothari 1990.)

The method of proportional allocation is followed on condition that the sizes of the samples from the different strata are kept proportional to the sizes of the strata. That is if P represents the proportion of population included in stratum i and n represents the total sample size. The number of elements selected from stratum is  $N \cdot P_i$ .

So for start with  $N_1$ , we will have  $P_1 = N_1/N$  and  $n_1 = n \cdot p_1$

Where  $N_i =$  the total population in stratum i

$P_i =$  the proportion of population in stratum i to that of the total population under study.

$n =$  is the required sample size and

$n_i =$  the number of items to be selected from stratum i

In this study, the researcher has prepared three strata with respect to the three types of condominium houses (10/90, 20/80 & 40/60) with populations 24,274 for 10/90, 714,322 & 148,276 (according to CBE'S record as of June 30, 2016) respectively.

So the proportion of each stratum is calculated as follows:-

$$N(10/90) = 24,274 \text{ and } P(10/90) = \frac{24,274}{887,017}$$

$$= 0.027=0.03$$

$$N (20/80) = 714,322 \text{ and } P (20/80) = \frac{714,322}{887,017}$$

$$=0.805=0.80$$

$$N (40/60) = 148,276 \text{ and } P (40/60) = \frac{148,276}{887,017}$$

$$= 0.167=0.17$$

And the samples to be taken from each stratum given the required sample size 300 (the researcher believes this much is enough) are computed hereunder:

$$n (10/90) = 300 * 0.03 = 9$$

$$n (20/80) = 300 * 0.80 = 240$$

$$n (40/60) = 300 * 0.17 = 51$$

### 3.4. Data Presentation and Analysis

The study will coordinate both qualitative and quantitative data for analysis. So, both qualitative & quantitative data analysis techniques will be employed. The data from interview will be presented in narrative form by using tables, graphs and charts.

The quantitative data will use statistical tools like SPSS and figures like mean, mode, standard deviation, correlation & mean square will be interpreted and given relevant meanings.

### 3.5. Validity and Reliability of Tools Used for Data Collection

The overall goal of this research is to explain and accurately communicate the real experience of the target population. This study applied appropriate mechanisms to collect important information on the existing situation from sample respondents. The research questionnaires were originally prepared in English. It was carefully articulated to ensure clarity, to avoid bias and to get reliable information. The form of data collection has adopted an interview format in a face to face discussion with the respondents. The unit of analysis is individuals. Five enumerators were recruited from different branches Addis Ababa and given a brief about the methods of data

collection, language use and protocols of approaching targets .The researcher has been explaining the content of the questioners to the enumerator and their imported meanings beyond the letters of the questions. Continuous supervision was made to reduce errors during data collection and correct possible errors right on the spot.

### **3.5 Data Analysis**

In this study, data is analyzed using both quantitative and qualitative statistical procedures; to analyze the collected data from interview; qualitative description method has been used. The information has been presented in, charts tables percentage methods on the bases of applicability. The qualitative information was analyzed through descriptive statics like percentage, chi-square tests, mean, and standard deviation whenever necessary. The important statistical measures that were used to summarize the research data include percentages, frequencies and correlations. Both the qualitative and quantitative data were analyzed by using SPSS (statistical package for social sciences) version 20 and hence the effect of the variables was also identified.

## CHAPTER FOUR

Table-1 Frequency table of respondents by age range

Age

	Frequency	Percent	Valid Percent	Cumulative Percent
18-29	51	17.4	18.2	18.2
30-39	145	49.5	51.8	70.0
40-49	80	27.3	28.6	98.6
Valid 50-59	1	.3	.4	98.9
11.00	1	.3	.4	99.3
22.00	2	.7	.7	100.0
Total	280	95.6	100.0	
Missing System	13	4.4		
Total	293	100.0		

Source-Own Survey (2017)

Table -3 Frequency table of respondents by the type of condos they are registered for

Registration

	Frequency	Percent	Valid Percent	Cumulative Percent
10/90	19	6.5	6.5	6.5
20/80	233	79.5	80.1	86.6
Valid 40/60	38	13.0	13.1	99.7
22.00	1	.3	.3	100.0
Total	291	99.3	100.0	
Missing System	2	.7		
Total	293	100.0		

Source-Own Survey (2017)

The frequency table in Fig.2 shows frequency of respondents' age groups and condominium types they are registered for. Accordingly of those registered for the housing program 51.8% are their ages in the range of 30-39 years. And 79% of the total registry is for the condominium type 20/80. And 17.4% have frequency value of 51. These are within the age range of 18-29 years. The second larger number of respondents falls in the range between 40-49 years. The total number of respondents is 280. And the missing items are 13.

The frequency table in Fig.3 shows the number of respondents and the type of condominium houses they are registered for. In this table 233 respondents are registered for 20/80 program and these account for 79.5% of the total respondents. The smallest number of respondents is registered for 10/90 program and accounts for 6.5% of the total respondents. And their count is only 19. The A/I/H/E has transferred houses in June 2016. The majority of those transferred houses are the 10/90 types. As of June 30, 2016 the remaining number of the 10/90 accounts has dropped to 24,274(MIS, CBE). This is why their proportion in the sample decreased.

Massive respondents are found in the 20/80 type. And the 40/60 accounts are placed second with the total count of 38 respondents.

Table 4- Frequency table of respondents with respect to gender

	Frequency	Percent	Valid Percent	Cumulative Percent
	13	4.4	4.4	4.4
Valid male	124	42.3	42.3	46.8
11	2	.7	.7	47.4
Valid female	153	52.2	52.2	99.7
21	1	.3	.3	100.0
Total	293	100.0	100.0	

Source- Own Survey (2017)

As indicated in the table above out of the total respondents of 293, 52.2 % are women. The condominium accounts that are maintained with CBE are being closed massively. This has marketing implication on the performance of the bank. But as the information from personal

interviews reveals these female customers are in need of some type of special treatment from the bank. And they can be targeted for prospects. This target group is an opportunity to CBE. Some female respondents told that they were encouraging their partners to continue saving. Therefore CBE should select whom to target in the household. In those households where women are decisive, promotions that appeal this target group need to be designed.

Table 5- Frequency table of respondents and their interests to continue or not with CBE continue

	Frequency	Percent	Valid Percent	Cumulative Percent
	3	1.0	1.0	1.0
St. Agree	47	16.0	16.0	17.1
agree	25	8.5	8.5	25.6
no opinion	204	69.6	69.6	95.2
Valid 33	1	.3	.3	95.6
disagree	10	3.4	3.4	99.0
St. Disagree	3	1.0	1.0	100.0
Total	293	100.0	100.0	

Source-Own Survey (2017)

Asked about whether they will continue or not with CBE even after they received condominium houses the majority of the respondents answered they had no opinion. This implies that CBE is not exerting any effort to make the condominium accounts permanent customers of the bank. These customers have not received any marketing calls or even if they do it was not strong enough to convince them. But this is an opportunity to exploit.



Table 6-Frequency table of respondents with their level of education

level

	Frequency	Percent	Valid Percent	Cumulative Percent
primary	79	27.0	27.5	27.5
secondary	35	11.9	12.2	39.7
voca.tech	121	41.3	42.2	81.9
> or =				
BA/BSC	50	17.1	17.4	99.3
34.00	1	.3	.3	99.7
44.00	1	.3	.3	100.0
Total	287	98.0	100.0	
Missing System	6	2.0		
Tot	293	100.0		

Source- Own Survey (2017)

The minimum level of education achieved by the respondents is primary level that accounts for 59%. Vocational /technical level is what the majority of the respondents have. The rest have secondary level of education.

encourage

		St. Agree	agree	22	no opinion	33	disagree	st.disagre	Total
								e	
Frequency	7	19	74	1	176	4	5	7	293
Percent	2.4	6.5	25.3	.3	60.1	1.4	1.7	2.4	100.0
Valid Percent	2.4	6.5	25.3	.3	60.1	1.4	1.7	2.4	100.0
Cumulative Percent	2.4	8.9	34.1	34.5	94.5	95.9	97.6	100.0	

Again asked if the condominium house depositors tried any kind of service other than the housing deposit, around 60% of them responded they had no idea. What does this mean? The bank ignored to appeal these customers to encourage a trial for its services. These customer groups are perceived as they are not or cannot be prospects to CBE's products. Those branch managers whom I conducted interviews with told me they themselves did not know what would happen next regarding the condominium accounts the bank maintains. This is a big challenge to the bank. What is planned for these accounts?

These accounts are vulnerable to bad words of mouth and defaming rumors so that they decide to quit their relation with the bank because of lack of reliable information about how things are going around them.

Actually there are respondents who have multiple relationships with the bank. Ordinary saving accounts, current accounts, women accounts, non-interest bearing accounts are among the alternatives.

Table 7- Correlation table of respondents with respect to their income and status of registration

	register	income
Pearson Correlation	1	.133*
Sig. (2-tailed)		.027
N	291	276
Pearson Correlation	.133*	1
Sig. (2-tailed)	.027	
N	276	276

\*. Correlation is significant at the 0.05 level (2-tailed).

Source- Own Survey (2017)

These two variables are weakly related as shown in Fig.7 above with Pearson Correlation value 0.133. This tells the fact that when customers were registered for any of the condominium types

their real income was not put into consideration. The condominium registration by itself was full of emotions in its appeal and rationality comes later when customers cannot save the minimum amount and close accounts.

Related to the registration issue CBE is paying the cost of errors and mistakes committed during the registration time. Many branches now have extra rework loads to write letters to the housing agency and sub-cities to correct these errors. In some branches the number of letters written about the condominium houses has reached to significant figures. In a grade two branch that is visited by small number of customers 40(forty) letters were dispatched regarding condominium in six months time .Here two major problems are indicated. The first problem being opportunity cost to the bank and grievances and customer complains which have negative implications on the performance and reputation of the bank.

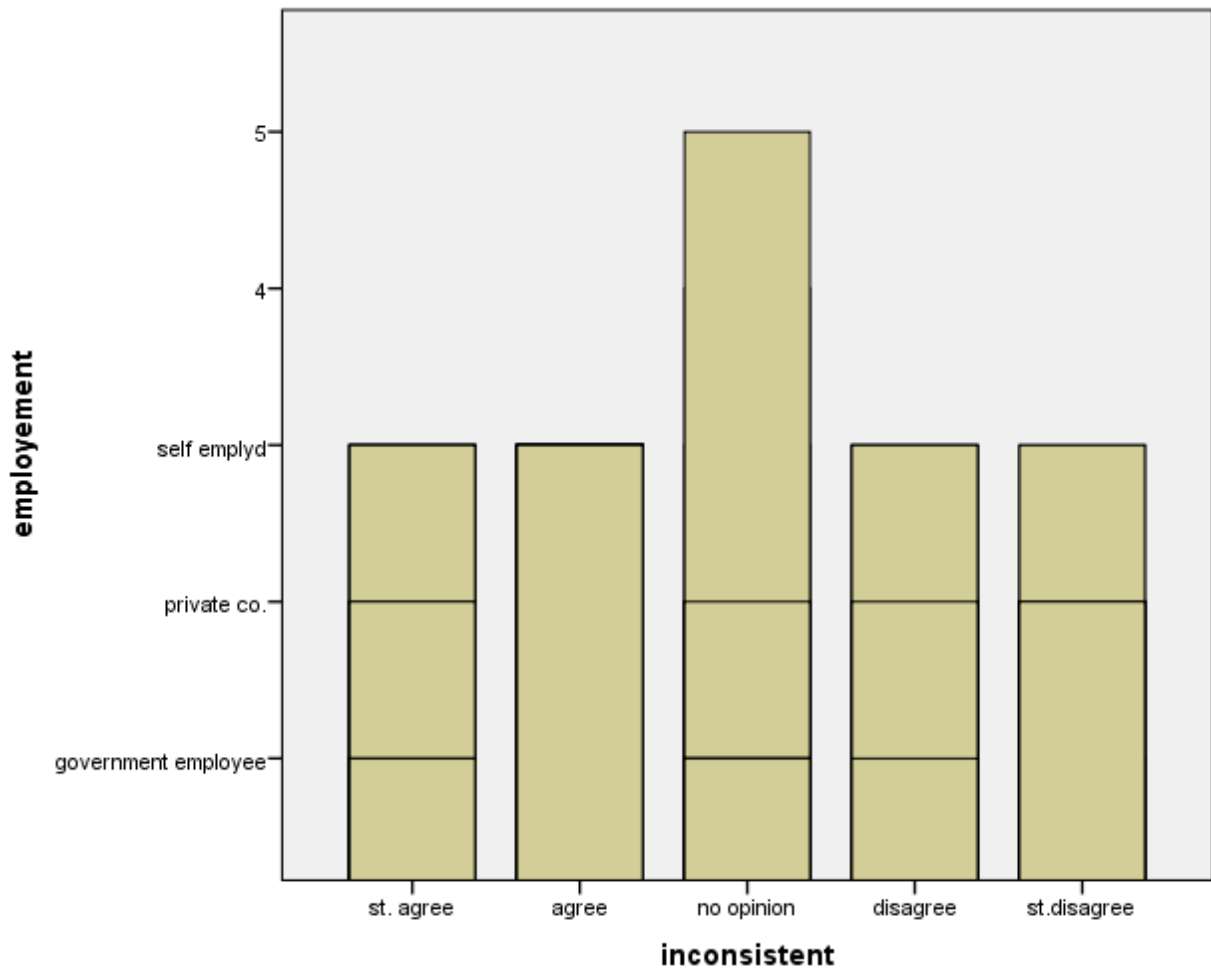


Figure 8- Bar graph showing employment status and variability in income

The bar-graph above clearly shows the relationship that exists between employment status of respondents and their probability of terminating contracts with CBE. According to the graph those government employees who have a constant income may have better chance to continue saving the minimum amount required by the housing agency. But others may not continuously deposit as such. But it doesn't mean that those who experience income irregularity do not get money or cannot be eligible for selection so long as they deposit the required amount. And even some of them deposit the full price of the condominium they want to have.

What does it have to do with CBE? The 40/60 condominium program is fully sponsored by the bank. According to the information collected from CBE's top managers the program will enable the organization to collect cash as quickly as possible. Unlike the other programs the policy followed here is 'who saves the full price gets the condos'. Again this has a negative connotation –customers of the 20/80 may perceive the bank has shifted finances to the profitable area and give priorities to the haves.

What is more the NPL (Non Performing Loan) has increased, as the staff on consumer loan sections told. The staff is busy calling to customers to inform to pay their debts. Even they use to go to their residence to contact in person. According to the senior manager of the bank CBE didn't penalize those who default till now. But the organization adds a 3% increment on the interest rate as a penalty for default. The interest rate is 9.5%.

CBE finances the national priority sectors in addition to the condominium program. According to a senior credit director of the bank it has granted loans that amounts Birr 13 billion to the condominium program alone. In his view the director afraid the bank may face liquidity problems unless acted up on timely. He continued "...the bank is urged to do so by the government."

## **CHAPTER FIVE**

### **Findings, Conclusion, and Recommendations**

#### **5.1 Major findings**

From the analysis of the data from respondents and CBE management interviews the following major findings are mined:-

##### 1-Increased rate of closure of condominium accounts

The condominium accounts are closed on daily basis. I have a chance to look account closure records of some CBE branches. In some the rate is 10 per week on average. But in grade four branches it reached to 70 in the month of January 2016 and 34 per month for a period longer than a year. It is observed that the number of condominium accounts closed increases as one goes to the higher grade branches.

##### 2- Condominium account holders have many grievances

Especially when these account holders are selected to receive homes correcting errors of names, court cases regarding principal and agency relationships, marriage cases and the likes increase. The distance between account holders' previous address is far and they usually face additional transportation costs. The condominium they receive sometimes need additional improvements and additional costs needed.

All these grievances create a wrong perception as if CBE were responsible for all these. And image distortions follow.

3-Many of those who close condominium accounts are not being interviewed by the staff why they are closing and do not know the opportunities they may have by trying other bank products. This is a challenge to CBE because it loses prospects by negligence.

4-While the condominium accounts contribute to CBE's increased deposits and branches are evaluated by the total mobilized deposits these accounts are not given proper follow up from the bank. This can have strategic consequences in terms of customer base depletion.

5-The staff were prohibited registration for condominium houses and have grievances  
6- The non-performing loan (NPL) accounts have increased workloads to the staff.  
7-CBE is run by the government. And many people and even the private banks accuse the bank of disrupting the banking industry and they say it is tethered to mere government interests. And according to them the condominium project is a typical illustration of this behavior-monopolizing.

## **5.2. Conclusion**

CBE is a big organization with a lot of experiences and good reputation in Ethiopian banking history. The recently established private banks have got their many inputs from this bank. Most of the experienced staff they have is from CBE.

As the government owned bank it has shouldered a lot many responsibilities that the government want to fulfill through CBE. The growth and Transformation Plan (GTP) envisioned by the government, for instance, is believed to be realized by the internal support of CBE. The condominium housing program is part and parcel of this plan.

The program has enabled many Ethiopians own houses even though the prevalence of the housing problem is large and complex in nature. CBE is the financing institution.

But CBE, as a commercial bank should compete with its private counterparts. Since mobilized deposit is a source of financing these programs the housing program is tied to savings. So CBE becomes the single financing source and all those registered for condominium are customers of CBE. This means additional customers to CBE without any effort from the bank. But does CBE manage to make use of them is a question.

Many problems arise since the commencement of the condominium program and these problems were identified and discussed so far and the findings of the study are listed above. In general the condominium housing program is more of a challenge to CBE than it is an opportunity. And the

researcher concludes that the objective of the study has been achieved and recommendations are forwarded.

### **5.3 Recommendations**

For the identified and above listed findings some points of policy guide are forwarded hereunder:-

1-To solve the increased account closure problem CBE has to launch a sustained and integrated awareness program. This program can segment the condominium accounts by gender and age groups. For instance, those female accounts can be targeted and convinced so that the women account can be sold.

In addition to this strong promotional campaign focusing condominium account holders should be designed. Once they came to the bank it is a sign of weakness to fail to win them as customers.

2-CBE should announce to the public about the extent of its role and responsibilities regarding the condominium program. This helps safe guarding the brand from threats. It is the right of the public to know about the whole thing on the issue of condominium. Bad word of mouth and defaming activities should be reacted tactically. And it is sometimes a necessity to forgive the public for the grievances.

3- The staff, from branch managers to the front tellers should be alert and determined enough to work against the closure of condominium accounts.

4- The bank mobilizes deposits from condominium accounts too. Even the condominium accounts outnumber other accounts in many branches. And branches are evaluated by the total deposit they mobilized. Why CBE ignores them? What if CBE branches that maintain condominium accounts be evaluated by the number of condominium accounts they cross sell? What if a reward is given to a condominium account holder that opens additional/other CBE accounts?

5- Isn't the staff the first customer to the bank? Satisfied employees are like good diplomats to their organizations. Building the staff is building the organization. Supporting the staff is decreasing advertising costs because satisfied staff is by itself an advertisement

Trainings should be designed in such a way that enables the staff act proactively.

6- In the future registrations must be performed in due care so that customers will not complain later. The bank can avoid reworking on previous mistakes and errors and concentrate on the current issues and pave ways to the better future.

7- CBE should stand by itself as a commercial entity to prepare for the coming cut-throat competition worldwide. It is on a crossroad of choosing between a competent bank or a government agent. Whom to give priority? Customers? Or keep up with current regulation?



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