

**ASSESSING CHALLENGES OF DEPOSIT MOBILIZATION OF
PRIVATE COMMERCIAL BANKS IN ETHIOPIA
(THE CASE OF NIB INTERNATIONAL BANK OF ETHIOPIA)**

A RESEARCH PROPOSAL SUBMITTED TO ACCOUNTING AND FINANCE
DEPARTMENT IN PARTIAL FULFILLMENT OF BA DEGREE IN ACCOUNTING
AND FINANCE

BY SHIERA NIGATU

ADVISOR

MR. MITIKU M. (Asst. Prof.)



COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF
ACCOUNTING AND FINANCE

MAY, 2013 E.C

WKU, ETHIOPIA

ACKNOWLEDGMENT

First and for most, all many thanks and praise is to the almighty Allah, most gracious and most merciful, for his safeguard and brightened direction of my personal and academic journey. I am indebted to extend my deep gratitude and many thanks to various individuals who helped me with the accomplishment of this project work. It makes feel proud of to express my heartfelt gratefulness to some of them.

First and for most, I would like to extend my deepest gratitude and honorable appreciation to my advisor Mr. Mitiku Melesse (Asst. Prof), for his unreserved guidance, invaluable assistance, constructive comments and effort exerted in advising me since the inception of the title selection until the final date of submission. He enables me to exert my utmost potential to accomplish the research.

Moreover, I would like to extend grateful acknowledgment to the officers of NIB international bank of Ethiopia for providing the necessary information and documents required to carry out this study.

Finally, my heartfelt thanks go to my family and my husband, for their endless support and invaluable ideas, to all my classmates and colleagues in Wolkite University who earnestly encourage and morally support me to keep up with this task,

I owe all of you my sincere and deepest gratitude – thank you very much indeed!

ABSTRACT

To continue financing and support economic development, substantial amount of deposit must be mobilized. In this regard commercial bank deposits are key to ensuring continued government financing in Ethiopian economic development. In view of that, this study aims to identify the challenges in deposit mobilization of private banks in Ethiopia by concentrating the case on NIB International Bank, Descriptive method particularly survey design approach was adopted for the study. The survey conducted with staff individuals working in NIB International Bank at different positions using questionnaire. In addition, the study used unstructured review of documents and records held by other commercial banks and NBE. The researcher has taken sample of 1 branch which have 11 respondents in it out 302 branches all over the country. Finally the collected data have been processed, analyzed and interpreted.

Key Word: NIB – Nib international bank

NBE – National bank of Ethiopia

Contents	Page
Abstract.....	II
Acknowledgment.....	III
Table of contents.....	IV
List of Table.....	VI
CHAPTER 1: Introduction.....	8
1.1. Background of the study.....	8
1.2. Statement of the problem	9
1.3. Research questions	10
1.4. Objectives of the study.....	10
1.4.1 General Objective	10
1.4.2 Specific Objectives	11
1.5. Significance of the study.....	11
1.6. Limitations and Delimitations of the Study	11
1.6.1 Limitations of the Study	11
1.6.2 Delimitations of the Study	12
1.7. Organization of the study	12
CHAPTER 2: Literature Review.....	13
2.1. The Concept of Banking	13
2.2 Determinants of banks' Performance.....	15
2.3. The importance of deposit.....	15
2.4. Factors affecting deposits of commercial banks.....	15
CHAPTER 3: Research Methodology	27
3.1 Research approach.....	27
3.2 Type of Research Design	27
3.3 Source of data	28
3.4 Sampling technique	28

3.4.1 Target population	28
3.4.2 Sample size	29
3.4.3 Sampling technique	29
3.5 Data Analysis and Interpretation	29
CHAPTER 4: Data Presentation and Analysis	30
4.1 Data Presentation and Discussion	30
4.1.1 NIBs Deposit Mobilization Performance	30
4.1.2 Branch Expansion for Deposit Mobilization	32
4.1.3 Major Points on Deposit Mobilization Activities of AIB (2019-2020)	32
4.2 Survey results	33
Chapter 5: Summary Conclusion and Recommendation	41
5.1 Summary	41
5.2. Conclusion	42
5.3 Recommendations	44
Reference.....	45

List of Tables Page

Table 4.1. Composition of Deposits.....	31
Table 4.2. Sample size and returned questionnaires.....	33
Table 4.3. Job position of the Respondents.....	33
Table 4.4. Gender Distribution of the Respondents.....	34
Table 4.5. Age Distribution of the Respondents.....	34
Table 4.6. Work experience of the Respondents.....	34
Table 4.7. Deposit is a matter of survival for NIB.....	36
Table 4.8. NIB is mobilizing enough deposit.....	36

Table 4.9. Major depositors of NIB.....	37
Table 4.10. Main reason for continuous deposit growth of NIB.....	37
Table 4.11. The volume of deposit increase because of the special service given By the bank.....	38
Table 4.12. Customer satisfaction rating.....	38
Table 4.13. Time Taken for a Customer to open a new account.....	39
Table 4.14. Time taken to customer to withdrew/deposit cash from/to account.....	39

Chapter One

Introduction

1.1. Background of the research

Banks play crucial role for the development of a nation. It expedites investment activities which are considered as back bone of the development. A Bank is an institution which accepts deposits from the public and in turn advances loan through creating credit. Through this function banks are vital components of the economy which takes the lions share in the development of Nation. The mere existence of surplus units and Deficit units does not justify the need for financial intermediaries like banks (Bain and Howells, 2003). In less monetize countries, like Ethiopia, whilst financial sector is dominated by banking industry, effective and efficient functioning of the latter has significant role in accelerating economic growth. To enhance the role of banks in an economy, competition is an important driving force; without competition, it is improbable to bring about efficiency and foster financial sector development. In other words, insufficient banking services may result in substantial social losses on account of higher price, higher transaction cost, and lower credit supply, lack of innovation and poor service quality. Although competition has a positive effect on efficiency and economic growth, there are certain characteristics that may indicate restrictions on banking. In the absence of proper information processing, banking industry is more vulnerable to instability relative to other industries, owing the existence of short term liability versus long term assets and the presence of highly leveraged firms and banks that have an incentive to engage in risky behavior (Northcott, 2004).

Bank deposits represent the most significant components of the money supply used by the public, and changes in money growth are highly correlated with changes in in the price of goods and services in the economy (sergeant, 2001).

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

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

In Ethiopia, Agreement was reached in 1905 between emperor menelik II and Mr. Ma Gillivray, representative of the British owned National bank of Egypt marked the introduction of modern banking in Ethiopia. During the pre-1975 imperial era, there had few banks (dominated by foreign ownership) and the absorptive capacity of the economy was too low even to accommodate moderate competition. In the Derg regime (1975-1991), private banks were fully nationalized and left no room for competition. After the down fall of the Derg regime in 1991, private banks were again allowed to operate in consistent with the ideology of market oriented economic policy (Alemayehu, 1986). Accordingly, new private banks were established and their role and position in the industry have been flourished from time to time. Ethiopia appears unique compared to most African countries and many other developing countries because it has not yet opened its banking sector to foreign participation. (Gedey 1990, Abebaw 2011).

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

1.2. Statement of the Problem

Deposit mobilization is the major service of commercial banks. Banks as financial intermediaries are expected to provide a venue for people to save incomes not expended on consumption. It is from the savings they accumulate that they are expected to extend credit facilities to entrepreneurs and other industrialists. This function enables banks mobilize deposits which otherwise would

have remained idle and unproductive in the hands of the surplus economic unit. The fund mobilized is then made available to the deficit unit for economically and socially desirable purposes. Deposit mobilization is an integral part of banking activity. Mobilization of savings through intensive deposit collection has been regarded as the major task of banking in Ethiopia today. However, sources from National Bank of Ethiopia indicate that from deposits that should be mobilized by banks, only a few are mobilized (NBE annual Report 2012/13). This indicates that from the money that can be deposited in the bank, most of it is not yet mobilized. And though such a case, it appears that in most of the years commercial banks are in a serious threat of illiquidity. Therefore, the purpose of this study is, to evaluate the trend and growth of deposit mobilization and recommend ways for enhancing the capacity for mobilizing concentrating the case mainly on NIB international bank.

1.3. Research questions

The research conducted on the title of Assessing Challenges of Deposit Mobilization the (case of NIB international bank) tried to answer the following questions:-

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

1.4. Objective of the study

1.4.1. General Objective

- To identify and assess the challenges awaiting private commercial banks of Ethiopia with regard to deposit mobilization in the future and to evaluate the relationship between total deposit and the identified challenges, and at the end to conclude and suggest.

1.4.2. Specific objectives

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

1.5. Significance of the study

Assessing the challenges in Deposit Mobilization in case of selected Private Banks (The Case of NIB international bank) has the following significances;

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

1.6. Limitation and Delimitation of the Study

1.6.1. Limitation of the study

The study is conducted using the data of the past few years. The sample of the study is shortened and so it is the main limitation of the study in interpreting and using the result of the study. The other limitation of the study is the fact that it only considers NIB international bank. It is selected

because it is one of the most preferred private bank by the society around this area and its convenience to the researcher.

1.6.2. Delimitation of the study

This study is focused on the Assessing challenges of deposit mobilization on selected private commercial banks of Ethiopia. It determines the factors that affect commercial banks' total deposit. There are around 16 private commercial banks in Ethiopia, However, this study is conducted using NIB International Bank as a base. NIB had about 48 branches around the country. The data needed for this study is collected from NIB bank managers and employees.

1.7 Organization of the study

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

CHAPTER TWO

LITERATURE REVIEW

2.1 The concept of Banking

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

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

Banks play a very important role in the economic development of every nation. They have control over a large part of the supply of money circulation. Banks are the main stimulus of the economic progress of a country.

Ethiopian studies on commercial banks deposit include studies of Wubitu (2012), who was investigated the factors determining commercial bank deposit; The study looked at the potential of the country regarding deposit mobilization by taking CBE as an evidence. The study was used both primary and secondary data which found variables that can affect the total deposit of commercial banks. Three variables are regressed with the dependent variable, i.e. total deposit, these variables include deposit rate, inflation rate and bank branches. As a result of the investigation it was found that all the three variables can affect total deposit. Branch expansion had positive and significant effect on total deposit whereas deposit rate and inflation rate had positive and insignificant effect on total deposit. Ayalew (2013) investigated the determinants of domestic saving in Ethiopia. The overall findings of the study underlined the importance of raising

the level of income in a sustainable manner, minimizing the adverse impacts of budget deficit and inflation rate and creating competitive environment in the financial sector Deposit mobilization is defined by Elser et al (1999) as the process of encouraging customers to deposit cash with the bank or attracting new clients to come and open accounts with the bank. From an institutional perspective, the primary motive for mobilizing savings lies in lower cost of capital compared to other sources of funds. According to Kutane et al (2010) banks serve as intermediaries accepting commercial and individual deposits (savings) and transferring them in the form of loans to investments. Commercial banks are dependent on depositor's money as a source of funds. According to the Keynesian theory of demand for money, there are three main motives why people hold money; transactions, precautionary and investment motives. In order to cater for these motives, 16 commercial banks offer three categories of deposit facilities that are Demand, savings and term (fixed) deposits. Demand deposit facility is most commonly referred to as current account and is designed for those who need money for transaction purposes. This motive can be looked at from the point of view of consumers who want income to meet their household expenditure and from the viewpoint of businessmen who require money and want to hold it in order to carry out their business activities. Hence, the purpose of deposit facility is for convenience or for making daily commitments. The second category of deposit is the savings account, which caters the need of those who wish to save money but at the same time want to earn an income. Depositors of savings account hold money because of precautionary motives while are simultaneously induced by their investment motives. Precautionary motive for holding money refers to the desire of people to hold cash balances for unforeseen contingencies. Others are bounded by the speculative motive for holding money. The speculative motive relates to the desire to hold one's resources in liquid form in order to take advantage of market movements regarding the future changes in the rate of interest. The final category of deposit facility is term (fixed) deposits. Such facility is offered by banks to cater for the investment motives of customers who normally have idle funds and are looking for better returns on their money. The purpose of all commercial banks is to maximize deposits, since their main task is to intermediate between the surplus spending units and the deficits spending units in the process of mobilizing funds for future investment purpose. For the reason that commercial banks do everything possible in their powers to attract in flow of funds (deposit) from the surplus spending units who want to deposit in financial institution

2.2. Determinants of Banks performance

Different empirical evidences suggested that performance of financial institutions specifically banks are affected by internal and external factors. Andreas and Gabrielle (2009) stated that bank profitability is usually measured by the return on Average assets and is expressed as a function of internal and external determinants. The internal determinants include bank- specific variables. The external variables reflect environmental variables that are expected to affect the profitability of banks. Internal factors such as liquidity, capital adequacy ratio, asset size, asset quality, network, earnings quality, loan performance, business risk, management quality, people , technology and operating environment are major determinant that are used to analyze the determinants of bank profitability. External macroeconomic and industry specific factors include effective tax rate, real GDP growth, inflation, regulation and bank concentration.

2.3. The importance of Deposits

Deposit is the main source for providing loans and so important financial source of banks.

Banks make profit using their deposits: Mahendra (2005) said that deposits provide most of the raw material for bank loans and thus represent the ultimate source of banks profit and growth.

Cheaper than raising Equity: Banks, as any 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 supply of loans due to the additional source of financing for banks.

Fund investment/or development projects

2.4. Factors Affecting Deposits of Commercial Banks

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

region. Even when external factors are more conducive for deposit mobilization, banks may fail because of unfavorable internal factors such as location, type of building and window dressing (furniture, cheque books, vouchers, pay slips etc.), which assure the customers about the physical fitness of a bank (N. Desinga, 1975). N. Desinga (1975) classifies the variables which are claimed to have effect on commercial banks' deposit into two, namely exogenous and endogenous factors. Exogenous has further divided into country specific factors and bank specific factors for clarification purpose. Endogenous (Internal) factors can be controlled by the banking system. However, the Exogenous factors (The bank specific factors and the country specific factors) cannot be controlled by the banking system. The bank specific factors are factors that are specific to the banking system and the country specific factors are factors that are beyond the banking system.

I. Country Specific Factors

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

II. interest rate (Deposit Interest rate)

One of the most effective factors for deciding to deposit in banking system is the interest rate (Mohammad and Mahdi, 2010). Moreover, this article shows the impact of interest rate on the performance of the banking system to achieve the goals that are expected from the banking system. Herald and Heiko (2009), also mentioned interest as one of the determining factor for commercial

banks deposits. Philip (1968), also states that the offering of attractive interest rate on bank deposits may be considered to have had a beneficial effect. Moreover, Mustafa and Sayera (2009) said that low deposit rates are discouraging saving mobilization. V. V. Bhatt (1970), said that the banking system is unlikely to be in a position to meet the demand for bank credit unless concerted policy is pursued to raise the rate of saving generally and the rate of saving in the form of deposits in particular. Interest rate in the banking system is held as investment cost from the investor's point of view and opportunity cost from the depositor's point of view (Mohammad and Mahdi, 2010). Thus, capital market forces balance interest rates. In other words, the just and correct interest rate should be determined through market mechanism, that is, interest rate is balanced in supply and demand conditions in proportion with the inflation rate. Eustacius and David (1995) states that deposits are more interest rate sensitive and banks may choose to increase investments in interest rate sensitive assets and to decrease investments in loans. That is commercial bank deposits are interest rate sensitive, therefore as the interest rate changes the deposit of the commercial banks will change. It is known that depositors bring money to the bank which the bank in turn lends it to borrowers. The gross earnings of the bank are determined by the volume and composition of loanable funds and the rates at which they are loaned. After losses and expenses of operation are deducted, the net earnings provide a margin out of which interest on deposits can be paid. Because of the competition for these funds among bankers who desire to loan them at a profit, a bank must pay interest or lose deposits to a competitor. The payment of interest on deposits is explained in this wise, like any other interest rate. As to Erna and Ekki (2004), Economists, mainly conventional ones, believe that depositors are attracted to deposit their money in banks because of the opportunity cost of holding cash in hand. On the other hand, Erna and Ekki (2004) state that Ghafur's (2003) shows that the rate of interest does not have influence on the volume of the deposits. However, Rose (2001) said that banks increase their deposits by offering higher deposit rate. These are the articles that contradict to each other in identifying the relationship between the commercial banks deposits and saving interest rates or deposit rate.

III. Inflation

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

to GDP was significantly negative (Mohammad and Mahdi, 2010). The classical belief is that, because bank assets and liabilities are expressed in monetary terms and because these assets will normally grow in line with growth in money supply, banks are relatively immune from the effects of inflation (Devinaga, 2010). In brief, monetary policy works by controlling the cost and availability of credit. During inflation, the Central bank can raise the cost of borrowing and reduce the credit creating capacity of commercial banks. According to Devinga (2010), this will make borrowing more costly than before and thereby the demand for funds will be reduced. Similarly with a reduction in their credit creating capacity, the banks will be more cautious in their lending policies. Since the banks demand for fund decreases obviously the deposits will decrease. Banking system was affected by inflation in terms of deposit absorption and facilities grant (Mohammad and Mahdi, 2010). As to Mohammad and Mahdi (2010), in developed countries negative correlation between inflation and absorbed deposits and granted facilities has been documented. However, in developing countries the opposite is true. Inflation is seen as an economic problem in developed countries in the second half of 20th century. Inflation with effect in economic growth, employment, income distribution and wealth as well as social and political conditions of a country can influence its entire dignity (Mohammad and Mahdi, 2010). Moreover Mohammad and Mahdi (2010) Banking system as an important effective factor in economic performance has also been under the influence of inflation. As to Mohammad and Mahdi (2010), as far as the effect of inflation on financial sector conceived the literature demonstrates that inflation affects the capacity of financial sector for optimal allocating of resources. That is as inflation rate increases, true yield rate of money and assets decrease; therefore deposits are no longer attractive. Also the increase of inflation rate has a negative effect on the performance of financial sector through the market credits and in turn, on the performances of banks and capital markets and finally on the long term economic growth (Mohammad and Mahdi, 2010). With respect to the effect of inflation on savings, it can be mentioned that in general, all individuals who save a part of their incomes in banks are directly damaged by the inflation and their assets decrease in proportion with money value decrease (Mohammad and Mahdi, 2010). In that case as Mohammad and Mahdi (2010) describes people try to change their cashes and savings to more reliable and stable forms such as land, jewelry, antiques, art collections, foreign currencies that causes to definite decrease in commercial bank's total deposit. High inflation rates reduce the real value of deposits (M. A. Baqui et al, 1987). According to M. A. Baqui et al (1987), inflation technically did not decrease deposit; however, it decreases the value of deposits.

IV. Real Interest Rate

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

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

VI. Per capita income of the society

According to Jim (2008), per capita is the level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country. If households and firms desire to hold more money, deposits will increase (Evan, 2006). So, the relationship between income and deposits is positive. That is, as the income of the society increases the same happens for the commercial banks'

deposits. Income is expected to have a positive effect on deposits (M. A. Baqui et al, 1987). Therefore as society's per capita income increases the same will happen for commercial banks deposits.

VII. Economic growth

Economic performance is generally being measured through GDP (Gross Domestic Product), a variable that has also become the de facto universal metric for 'standards of living (Yanne et al, 2007). It is universally applied according to common standards, and has some undeniable benefits mainly due to its simplicity (Yanne et al, 2007). According to Herald and Heiko (2009), growth is one of the determining factors for commercial banks deposits. GDP is calculated by adding up the value-added at each stage of production (deducting the cost of produced inputs and materials purchased from an industry's suppliers) (Jim, 2008). Erna and Ekki (2004) finds four variables, GDP, number of Islamic bank's branch offices, profit sharing rate, and interest rate that are thought to have influence on the volume of deposits. So, GDP can influence the growth of commercial banks deposits.

VIII. 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.

VIII. 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.

Bank Specific Factors

1. Liquidity of the banks

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

Liquidity of financial instruments in the financial market □ the liquidity related to solvency. The former related to liquid financial markets and financial instruments, smooth transactions and no barriers. Some examples of this includes: setting up liquidity management policies, reserve liquidity, balancing assets and liabilities and preparing liquid financial instruments (ISMAL, RIFKI, 2010).

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

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

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

The more liquid banks can attract the deposits. Liquidity risk occurs in two cases;

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

When depositors decide to redeem their deposits but the bank cannot afford it.

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

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

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

2. Profitability of the bank

Erna and Ekki (2004) find the long run relationship between commercial banks deposits and the profitability of the banks. Higher bank profits would tend to signal increased bank soundness, which could make it easier for these banks to attract Deposits (Herald and Heiko, 2009). However, the effect of bank profitability and bank size are found to be insignificant once controlling for the other variables. So, the effect of profitability and banks size on commercial bank deposit is lower as compared with other variables.

3. Security of the bank

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

4. Branches

There is a relationship between commercial banks deposits and commercial bank's branch expansion. Not only are deposits influenced by bank branches, but the expansion of bank branches is also influenced by the level of deposits in any area (M. A. Baqui et al, 1987). It is expected that banks make decisions on expanding their facilities by considering factors such as level of competition, deposit potential, regional income and existence of road and vehicles. As deposit potential is one thing that banks consider in expanding its branches, the deposit can also be a reason for branch expansion strategy that the banking sector uses. According to Erna and Ekki (2004), there is a long run relationship between commercial bank branch and commercial banks deposits. It is often argued that branching stabilizes banking system by facilitating diversification of bank portfolios (Carlson and Mitcheer, 2006). Mark and Kris (2006), found from theoretical literature on banking regulation that branch banking leads to more stable banking systems by enabling banks to better diversify their assets and widen their deposit base (Gart, 1994, Hubbard, 1994). An argument commonly articulated in the literature is that branch banking stabilizes banking systems by reducing their vulnerability to local economic shocks; branching enables banks to diversify their loans and deposits over a wider geographical area or customer base (Mark and

Kris, 2006). Restrictions on branching have been linked to the instability of banking systems. Daniel (2005), suggest that the lack of widespread branching bank networks hindered the development of large-scale industrial firms. It is stated that unit banks become increasingly incapable of receiving deposits from a widespread geographic area. The single office bank is also not able to monitor geographically diffuse debtors as easily as could be done with multiple

offices. Moreover, it can be concluded that under branch banking the mobility of capital is almost perfect.

5. Bank size

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

6. Reserves

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

7. Transaction cost

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

✓ How can management ensure that every bank always has enough deposits to support the volume of loans and other financial services demanded by the public?

2.4. Internal Factors

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

1. Awareness of the society

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

2. Convenience of Bank's office

Road and vehicles directly influence interest bearing deposits because of the reduction in depositors' transaction costs through reduced time spent in travelling to and from banks (M. A.

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

3. Services

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

- ✓ Additional benefit like prize bounds could be given to depositors for maintaining deposits for particular period.

- ✓ As recommended by Nathan (1986a), one category of deposits might be specifically tied to future loans. Bank customers might be encouraged to participate in a savings program that, for example, provides machinery or housing after a predetermined amount of savings has been accumulated.

CHAPTER THREE

RESEARCH METHODOLOGY

The previous chapter presents literatures on the concept of banking, major determinants for banks performance and preview of Ethiopian banking industry. It also briefly narrates the importance of deposit, the types of deposit and factors affecting deposits of commercial banks.

This chapter discusses the methodology employed for the study.

3.1 Research approach

The study uses both primary and secondary data. The primary data were be collected from management and supervisory staffs of **NIB** International Bank. Questionnaires prepared are distributed in order to gather information from employees of Nib International Bank. The number of questionnaires distributed is 11.

Moreover, additional data is collected from annual bulletins of National bank of Ethiopia, annual reports of **NIB** international bank, Proclamation and regulations related to banking and finance, directives issued by the Monetary Authority and other relevant sources.

3.2Type of Research Design

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

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

3.3 source of data

The study will use both primary and secondary source of data. In the same way quantitative and qualitative data will be used. In order to address the research objectives, primary data will be collected from each sample office managers and employees using questionnaires. In line with this, secondary data will be gathered from:

- Literatures and previous studies in the sector and experience of other countries,
- Studies, reports and journals of **NIB** international bank of Ethiopia, commercial bank of Ethiopia and other private banks.
- Any other related journals and Articles.

3.4 Sampling Technique

3.4.1 Target Population

The data will be obtained from **NIB** international bank Annual report shows that there are 302 branches, 3 vice presidents, 12 board of directors, 3 sharia advisory board and 21 departments and the president. Moreover, as per NBEs 2019/2020 report, there are 16 private banks in the industry.

As the primary objectives of this study is focused on the deposit mobilization activities of private banks and mainly on **NIB**, the staffs that are included in the sample are the once which are available at the time of data collection at soresa branch of **NIB** international bank . For this reason, the staffs of **NIB** at soresa branch have been taken as the target population for the study.

3.4.2 Sample size

The sample size of the study is 1 branch, 1 manager, and 10 staffs of **NIB** international bank.

3.4.3 Sampling Technique

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

3.5 Data Analysis and Interpretation

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

The questionnaires are analyzed using descriptive analysis techniques. And in order to show the trend of total deposit of NIB, the researcher uses deposit figures collected from annual reports of NIB and NBE from the year 2019GC up to 2020GC and interpreted.

Chapter Four

Data presentation and Analysis

The previous chapters present orientation of the study, the literature review and the research methods adopted in the study. As discussed in the preceding chapters, this study is aimed at evaluating the trend and growth of deposit mobilization activities of NIB international bank and so, to recommend ways of enhancing the deposit mobilization activities.

4.1 Data presentation and Discussion

4.1.1. NIBs Deposit mobilization performance

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

NIB mobilize deposit mainly in three forms, i.e. demand deposit, fixed deposit and saving deposit is an interest bearing. The minimum interest on saving deposit is fixed by the national bank of Ethiopia (NBE). Demand deposit is non-interest bearing deposit that the bank collects mainly from companies and businessmen with the deal that they can withdraw their money on demand. The last one, fixed deposit is the contract between the bank and its customers, which states about the date of withdrawal and the special and negotiated interest the bank should give to the depositor. Commercial banks in the country can give interest above the minimum interest rate fixed by NBE.

In terms of composition of deposits, the largest proportion of deposit is saving deposit. For instance, with respect to the composition of deposit at 2019/2020, deposit liabilities of the banking system topped Birr 1.0trillion, reflecting 15.8 percent annual growth whereby saving deposits increased by 20.9 percent, and demand deposit by 13.0 percent while time deposit declined by 1.1 percent. Of the total deposits, saving deposits accounted for 56.6 percent, demand deposits 34.2 percent and time deposit 9.2%.

Table 1: composition of deposit

Types of deposits	Financial year	
	June 2020	June 2019
Demand deposit	6,071,424.5	5,387,166.8
Saving deposit	21,387,627.1	17,745,283.0
Fixed deposit	6,192,063.5	4,531,259.9
total	33,651,115.1	27,663,709.8

(NIB Annual report 2019/2020)

As a prior activity, deposit of NIB has been growing during the last few years. For example, total deposit of NIB reached Birr 33.7 billion which shows an absolute growth of Birr 6.0 billion or 21.6% from the balance of Birr 27.7 billion registered in the previous year. The number of deposit accounts of the Bank reached 1,207,995 from the level of 875,338 which was registered as at end of June 2019 making an absolute growth of 332,657 (38.0%). The detail of deposits is presented in the table and chart above. Nib largely believed that the growth reflects the effect of concerted

efforts of deposit mobilization, the planned branch expansion of the bank and the growing public confidence in the bank.

4.1.2 Branch expansion for deposit mobilization

Banks use branches as a means of deposit mobilization. And so, as banks increase their number of branches and widen their geographical coverage, they can mobilize more deposits. Banks opened 947 new branches in 2019/20; thereby raising the number of their branches to 6, 511 from 5,564 a year ago. As a result, bank branch to population ratio stood at 1:15, 7024 people. About 34.1 percent of the bank branches were located in Addis Ababa .Major branch expansion was undertaken by Commercial Bank of Ethiopia which opened 247 branches, followed by Abyssinia Bank(226 branches), Awash Bank (58 branches), 4CSA

Population Projection for 2019/20 was 102,235,000.

United Bank (57 branches), Nib International Bank (47 branches), Wegagen Bank (44braches), Berhan International Bank (39branches), Oromia International Bank (37branches) and Lion international Bank (37branches). Thus, share of private banks in total branch network slightly increased to 70.5percent from 69.7 percent last year. At the same time, total capital of the banking industry increased by 11.2 percent and reached Birr 112.9 billion by the end of June. (NBE Annual report 2019/2020)

4.1.3. Major points on deposit mobilization activities of NIB (2019/2020)

- The total deposit mobilized by the bank reached birr 33.7 billion which shows an absolute growth of birr 6.0 billion or 21.6% from the balance of birr 27.7billion registered in previous year.
- The number of deposit accounts of the bank reached 1,207,995 from the level of 875,338 which was registered as at end of June 2019 making an absolute growth of 332,657 (38.0%).
- The balance of interest-bearing deposits (savings deposit & fixed time deposits) was birr 27.6 billion that is 82.0% of the total deposits, which was 80.5% as at June 30, 2019.

The remaining birr 6.1 billion (18 % of the total deposit) was mobilized in the form of . ➤ non-interest-bearing deposit(IFB and Demand Deposit)

4.2. Survey results

Questionnaires' were distributed to NIB officers with job positions ranging from manager, supervisor, senior customer service officer/cash and customer service officers. The questioners were physically distributed to 11 employees.

Table 4.2. Sample size and returned questionnaires'

Sample size	11
Completed and returned questionnaires'	9
Response Rate	82%

Source: own survey and computation

Out of the 11 questionnaires distributed, 9 were completed by the respondents and were collected. Therefore, the response rate was 82%.

Table 4.3. Job position of the respondents

Job positions	Frequency	Frequency percentage	Cumulative frequency
Branch Manager	1	11%	11%
Supervisor	1	11%	22%
Customer service officer	6	67%	89%
Scso/cash	1	11%	100%
Total	9	100%	

Source: own survey and computation

The survey target respondents with job positions branch manager, scso/cash, supervisor and customer service officers. As indicated in the above table, Major respondents are customer service officers (more than half) and 11% of each Branch manager, scso/cash and supervisor.

Table 4.4. Gender distribution of respondents

sex	Frequency	Frequency percentage	Cumulative frequency
Male	6	67%	67%
Female	3	33%	100%
Total	9	100%	

Source: own survey and computation

The above table shows that most of the respondents (67%) are males and the rest 33% are females.

Table 4.5. Age distribution of the respondents

Age	Frequency	Frequency percentage	Cumulative frequency
Below 30 years	5	56%	56%
31-40 years	4	44%	100%
41-50 years	0	0%	
51 and above	0	0%	
Total	9	100%	

Source: own survey and computation

With respect to age, all respondents are below 40 years of age and the majority of the respondents (56%) are below 30 years. 44% of respondents are between 31 and 40.

Table4.6. Work experience of the respondents

Work Experience	Frequency	Frequency percentage	Cumulative frequency
Below one year	1	11%	11%
1-5 years	5	56%	67%

6-10 years	2	22%	89%
10-15 years	1	11%	100%
16 years and above	0	0%	
Total	9	100%	

Source: own survey and computation

With regard to Experience, many of the respondents (56%) are staffs who stay 1 to 5 years. 22% of respondents have a banking experience of 6 to 10 years. 11% each respondents have a banking experience of below one year and 10 to 15 years.

II. Deposit Mobilization issues

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

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

- Deposit growth measured as compared to the previous month balance, The branches budget for the month and balance of previous year same period;
- Number of accounts growth during month;
- Number of ATM cards (NIB card) sold during the month;
- Number of re-active or re-instated customer accounts which had been inactive before. Respondents also identify the strengths and weaknesses of the current deposit mobilization efforts/practices of the bank;
- Strength

It encourages branches to exert their efforts consistently for deposit growth

Through the effort of reactivating inactive accounts, it helps to recall loyal Customers of the bank

Being net increase in number of accounts as a performance criterion, it helps To widen the customers of NIB

The activities broaden the marketing knowledge of staff's

➤ Weaknesses

In evaluating branches, it considers only branches month end deposit balance; It doesn't consider location advantages/disadvantages of branches

The respondents were asked whether they agree or not that deposit is the matter of survival for NIB international bank

Table 4.7. Deposit is a matter of survival for NIB international bank of Ethiopia

	Frequency	Frequency percentage	Cumulative frequency
Yes	8	89%	89%
No	1	11%	100%
Total	9	100%	

Source: own survey and computation

As can be seen in the above table, 89% of the respondents believed that Deposit is the matter of survival for the bank. Only 11% of the respondents don't believe that deposit is the matter of survival for NIB international bank of Ethiopia.

Table 4.8.NIB International Bank of Ethiopia is mobilizing enough deposit

	Frequency	Frequency percentage	Cumulative frequency
Yes	4	44%	44%
No	5	56%	100%
total	9	100%	

Source: own survey and computation

As can be observed on the above table, 44% of the respondents believe that NIB international bank is mobilizing enough amount of deposit. 56% of respondents don't believe that NIB is mobilizing enough deposit.

Table 4.9. Major depositors of NIB International Bank

Major depositors of NIB	Frequency	Frequency percentage	Cumulative frequency
Individual customers	4	44%	44%
Business organizations	5	56%	100%
Government	0	0%	
All	0	0%	
Total	9	100%	

Source: own survey and computation

As can be observed in the above table, 44% of each respondents view individuals and 56% business organizations as the major source of deposit of NIB..

Table 4.10. Main reason for NIBs continuous deposit growth

Reason for continuous deposit growth	Frequency	Frequency percentage	Cumulative frequency
Societies preference to deposit their savings than other investment	1	11%	11%
Large market share of NIB	1	11%	22%
Service given by the bank	2	22%	44%
Awareness creation	3	34%	78%
Wide branch network	2	22%	100%

Others	0	0%	
Total	9	100%	

Source: own survey and computation

As it is observed in the annual reports, NIB is registering a continuous deposit growth for the last consecutive fiscal years. With this regard, the reason for continuous deposit growth is asked for the respondents. 11% of them picked societies preference to deposit their savings rather than to invest. 11% picked large market share of NIB,. 22% of respondents picked service given by the bank. 34% of respondents picked Awareness creation by the Bank and 22% of respondents picked Wide branch network of the Bank.

Table 4.11. The volume of deposit increase because of special service given by the Bank

	Frequency	Frequency percentage	Cumulative frequency
Yes	9	100%	100%
No	0	0%	100%
Total	9	100%	

Source: Own survey and computation

With the intension of expanding its product base, NIB introduced Various types of special deposit accounts including special account for children’s, students, Nib kefo saving, New born baby, prestige saving account, Gojo Guzo saving account “A”, Gojo guzo saving account”B”, executives special, senior citizens, Digital banking, Lucy saving for women, Yenege tesfa for youth, Platinum card for corporate customers, prepaid and fuel cards, mobile banking, ATM service and others. These accounts have special features such as higher interest rate, gift, term loan facility and protection of cheque bouncing.

With this regard, 100% of the respondents believe that the deposit of NIB is grown due to these special services.

Table 4.12. Customers' satisfaction rating

Rating of customers satisfaction	Frequency	Frequency percentage	Cumulative frequency
Very good	1	11.1%	11.1%
Good	2	22.2%	33.31%
Satisfactory	4	44.4%	77.71%
Poor	2	22.2%	100%
Total	9	100%	

Respondents are asked about their evaluation on the level of customer satisfaction. 11.1% of Them respond that the level of satisfaction is very good while 22.2% of the respondents say the level of satisfaction is good. However, 44.4% of the respondents believe that the level of customer satisfaction is only satisfactory and 22.2% of the respondents say that there is poor customers' satisfaction on NIBs services.

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

- Suggestion boxes
- When the bank staffs interview or ask their customers about their services
- Direct reporting to the branch manager
- Through telephone number of the branch

Table 4.13. Time taken for a customer to open a new account

Time to open account	Frequency	Frequency percentage	Cumulative frequency
Less than 10 minute	6	67%	67%
10 to 30 minutes	3	33%	100%
More than 30 minutes	0	0%	
Total	9	100%	

Source: own survey and computation

Pertaining to the time taken for a customer to open a new account, 67% of the respondents observed that it takes less than 10 minutes to open an account whereas 33% of them witness that it needs 10-30 minutes to open the account.

Table 4.14. Time taken for a customer to withdrew/ deposit cash from/to account

Time to withdrew from account	Frequency	Frequency percentage	Cumulative frequency
Less than 10 minutes	7	78%	78%
10-30 minutes	2	22%	100%
More than 30 minutes	0	0%	
Total	9	100%	

Source: own survey and computation

Concerning the time taken for a customer to withdrew/ deposit cash from/to account, 78% of the respondents observed that it takes less than 10 minutes to withdrew/deposit cash from/to account whereas 22% of the respondents witness that it takes 10-30 minute to withdrew/deposit cash to/from account.

What has been done in NIB International Bank to promote awareness of the society pertaining to NIBs service?

- Use of advertisements on TV, Radio;
- By using Logos
- By sponsoring different programs
- Donations

What banking software systems are the bank familiar with?

- Temenos T24 banking software platform

What are the challenges and problems that your branch is facing with respect to deposit mobilization?

- The presence of high number of banks in a small town

- Less customer awareness; customers didn't trust private banks
- Network dalliance
- NBE Directive in which states that a customer cannot withdraw a cash exceeding 50,000 per day as a result customers kept their money at home ➤ Electricity

The manager responds that there is a difference on the total volume of deposits among the branches of NIB Branches because of;

- Accessibility of the branch offices
- Convenience of the branch offices
- Effort of the branch staffs

Chapter Five

Summary Conclusion and Recommendation

5.1 Summary

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

- NIB mobilizes funds from shareholders contribution, operational profit and customers' deposit. From these sources, the largest proportion is deposit.
- Nibs' profitability is mainly dependent on the amount of deposit mobilized.

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

Deposit growth measured as compared to the previous month balance

The branches budget for the month and balance of previous year same period.

Number of accounts growth during month;

Number of ATM cards (NIB card) sold during the month;

- Number of re-active or re-instated customer accounts which had been inactive before
- The understanding and commitment of NIBs staffs on deposit mobilization is partially good.
- NIB introduced various types of special deposit accounts including smart Children's account, student solution account, Lucy for women's, Yenege tesfa for youth, Check payment solution scheme, mobile banking and others.
- NIB deposit is increasing due to such special services.
- NIB uses the following mechanisms to promote awareness of the society pertaining to its services;

Use advertisement on TV and Radio

By using Logos

By sponsoring different programs

Donations

- Majority of NIBs customer satisfaction level is satisfactory; they are not satisfied Enough

- Customers express their satisfaction/dissatisfaction to the bank using the below listed mechanisms;
 - Suggestion box
 - When the bank staffs interview or ask their customers about their services
 - Direct reporting to the branch manager
 - Through telephone number of the branch
- In most of the cases, account opening, cash deposit and cash withdrawal takes less than 10 minutes.
- NIB is registering a continuous deposit for the last few years because of the availability of many branches, owning larger market share, service quality given by the bank, society's preference to deposit their savings rather than investing their money in other business and awareness of the society.
- Individuals and business organizations are the major source of deposit for NIB.
- NIB is facing problems because of;
 - The presence of high number of banks in a small town
 - Less customer awareness; customers didn't trust private banks
 - Network dalliance
 - NBE Directive in which states that a customer cannot withdrew a cash exceeding 50,000 per day as a result customers kept their money at home
 - Electricity
- NIB uses temenos T24 banking software platform.

5.2 Conclusion

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

- NIB mobilize funds mainly from deposit. Shareholders contribution and operational profit contribute some as a source of fund and so NIBs profitability is mainly dependent on the amount of deposit mobilized.
- NIB introduced various types of special deposit accounts including special account for children's, students, Nib kefo saving, New born baby, prestige saving account, Gojo Guzo saving account "A", Gojo guzo saving account "B", executives special, senior citizens, Digital banking, Lucy saving for women, Yenege tesfa for youth, Platinum card for corporate customers, prepaid and fuel cards, mobile banking, ATM service and others. And these special services have a positive on the increment of NIBs deposit.
- NIB uses the following mechanisms to promote awareness of the society pertaining to its services;

Use advertisement on TV and Radio

By using Logos

By sponsoring different programs

Donations

- NIB, in order to attract and retain big depositors, provides special services for corporate depositors and because of the special services given to the corporate customers, volume of deposit is increasing.
- The customers of NIB express their satisfaction/dissatisfaction to the bank using the below listed mechanisms.

Suggestion box

When the bank staffs interview or ask their customers about their services

Direct reporting to the branch manager

Through telephone number of the branch

- In most cases, account opening takes more than 10 minutes and cash deposit and withdrawal takes less than 10 minutes.
- NIB is registering a continuous deposit growth for the last few years.
- NIB is facing different problems such as;
 - The presence of high number of banks in a small town
 - Less customer awareness; customers didn't trust private banks
 - Network dalliance
 - NBE Directive in which states that a customer cannot withdraw a cash exceeding 50,000 per day as a result customers kept their money at home
 - Electricity
- NIB has the following strength and weakness respectively;
 - It encourages branches to exert their efforts consistently for deposit growth
 - Through the effort of reactivating inactive accounts, it helps to recall loyal customers of the bank;
 - Being net increase in number of accounts as a performance criterion, it helps to widen the customer base of NIB;
 - The activities broaden the marketing knowledge of staffs
- Weaknesses
 - In evaluating branches, it considers only branches month end deposit balance;

5.3 Recommendations

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

- NIB should develop a procedure on standard service delivery time to facilitate delivery of fast and quality services to its customers.
- NIB should work in acquainting customers with the newly introduced various types of special deposit accounts.

- Since the main source of fund for banks is deposit, they should give more attention and effort to mobilize deposit.
- In evaluating branches for their performance in deposit mobilization NIB should consider average of the month deposit balance instead of month end deposit balance. Moreover, it should take location advantage/disadvantage of branches in to consideration.
- NIB should go through more promotional effort and awareness creation campaigns to have well informed society.
- NIB should have convenient office environment with hard working employees to attract depositors.
- NIB should go after customers' preference and compete with other commercial banks to attract more depositors.
- NIB should have more ways to customers to give their opinions freely.
- NIB should use different mechanism to get better satisfaction of their customers.

Reference

- Abebaw Kassie G. and Depaack K. (2011), “What drives the performance of commercial banks in Ethiopia?” Panjab University.
- Andreas Dietrich A. and Gabrielle Wanzenriedb (2009), “What Determines the Profitability of Commercial Banks” Lucerne University of Applied Sciences, Switzerland.
- Belayneh Hailegeorgis (2011), “Determinants of Commercial Banks Profitability: An empirical study On Ethiopian Commercial Banks” Addis Ababa University.
- Bourke, P. (1989), “Concentration and other determinants of bank profitability in Europe, North America and Australia”.
- Daniel C. Giedeman (2005),” Branch banking restriction and finance constraints in early twentieth century” America.
- Devinaga Rasiah (2010). “Theoretical framework of profitability as applied to commercial bank in Malaysia”.
- European Journal of Economics, Finance and Administrative Sciences, Multimedia
▪ University, Faculty of Business and Law, Melaka, Malaysia.
- Dorothee Holl and Andrea Schertler (2009). “Why do savings banks transform sight deposits into illiquid assets less intensively than the regulation allows?”
- Erna Rachmawati & Ekki Syamsulhakim (2004). “Factors Affecting Mudaraba Deposits in Indonesia.
- Eshetu Bekele & Mammo Muc (2009). “Promoting Micro Small & Medium Enterprises (MSMEs) for sustainable rural livelihood”.
- Eustacius N. Betubiza and David J. Leatham (1995). “Factors Affecting Commercial Bank Lending to Agriculture” Southern Agricultural Economics Association.

- Evan Gatev, Til Schuermann and Philip E. Strahan (2006). “Managing Bank Liquidity Risk: How Deposit-Loan Synergies Vary With Market Conditions” Federal Reserve Bank of New York.
- Fraser, Donald R. and Peter S. Rose (1972), “Bank Entry and Bank Performance”
- Gebeyaw Aychile (2008), ”Financial Performance of National Bank of Ethiopia Workers
“Savings and Credit Association with special emphasis to adjustments (NBE WSACA)”
- Geodesy, B. (1990), “money, banking and insurance in Ethiopia” Addis Ababa.
- George G. Kaufman (1972). “Deposit variability and bank size”.
- Guru, B.K., J. Staunton and B. Balashanmugam (1999), “Determinants of commercial banks profitability in Malaysia”.
- Herald Finger and Heiko Hesse (2009). “Lebanon-Determinants of commercial banks Deposits in a Regional Financial Center” IMF Working paper.
- Ismael, Rifki (2010), “The management of liquidity risk in Islamic banks: the case of Indonesia.
- Mahindra Varman P. (2005). “Impact of Self-Help Groups on Formal Banking Habits”
- Mark Carlson and Kris James Mitcheer (2006). “Branch credit banking, Bank Banking, competition and financial stability”. Ohio State University.
- Mohammad Namazi and Mahdi Salehi (2010). “The role of inflation in financial repression” Evidence from Iran.
- Mustafa K. Mujari and Sayera Younus (2009). “An Analysis of Interest Rate Spread in Bangladesh”.
- N. Desinga Rao, 1975. “Deposit Mobilization by Co-operative Banks”.
- NBE - Annual Report 2019-20
- NIB - Annual Report 2019-20

- Richard Goode and Richard S. Thorn (1959). “Variable Reserve Requirements against Commercial Bank Deposits”.
- Rose W. Ngugi (2001). “An empirical analysis of interest rate spread in Kenya”.
- Sheku A.F. Bangura (2005). “Statistical Information and the Banking Sector”.
- Tihitina Ayalew (2009), “Legal problems in realizing non-performing loans of Banks in Ethiopia”. Addis Ababa University.
- Voon-Choong, Yap, Hway-Boom, Ong, Kok-Thim, Chan and Yueh-Sin, Ang (2010).
- V. V. Bhatt (1970). “Some Aspects of Deposit Mobilization”.
- www.nbe.gov.et
- [www.nib .com](http://www.nib.com)

Wolkite University

School of graduate studies

BA degree of Accounting and finance

This Questionnaire is prepared to Managers of NIB International Bank. The objective is to get an input for the accomplishment of BA degree research paper on the title of Assessing challenges of deposit mobilization in case of selected private commercial banks in Ethiopia (the case of Nib bank). The information you provide is valuable for the success of the research paper and will only be used for academic purpose. It shall also be kept confidential.

❖ No need of writing your name

I. Personal Information

1. Sex

Female

Male

2. Age

Below 30 years

41-50 years

31 -40 years

51 and above

3. Work experience in the banking industry

▪ Below one year

▪ 1-5 years

▪ 6-10 years

▪ 10-15 years

▪ 16 and above years

II. General Information

1. What are the mechanisms that the bank use encourage/motivate deposit mobilization efforts made by the branch?

2. Do you agree deposit is a matter of survival for NIB international bank of Ethiopia?
Yes No
3. Is NIB international bank of Ethiopia mobilizing enough deposits, currently?
Yes No
4. Mostly where does NIB international bank of Ethiopia collecting its deposits?
Individual customers' Business organizations
Government All
4. From the information that I identified that, the total deposit of NIB international bank of Ethiopia is growing, what is its major reason?
Society's preference for NIB bank deposit than other investment
NIB international bank of Ethiopia have large market share
The service given by the bank
Awareness creation
Wide branch network if others specify _____
5. What banking software systems are you familiar with?

6. What are the challenges and the problems that your branch is facing with respect to deposit mobilization?

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

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

Yes

No

9. Is there volume of total deposit difference among NIB international bank of Ethiopia branches? Yes No

10. If your Answer on question number “9” is yes what are the major causes for the differences in total deposit among NIB international bank of Ethiopia branches?

Awareness of the society
the staff

Awareness of

Accessibility of branch office

Service

Excellency

All

11. How do you rate your customer satisfaction/ dissatisfaction?

Very good

Good

Satisfactory

Poor

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

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

▪ Less than 10 minutes

▪ 10 to 30 minutes

- More than 30 minutes

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

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

15. What has been done in NIB international bank to promote awareness of the society pertaining to NIBS services?

Wolkite University

School of graduate studies

BA degree of Accounting and finance

This Questionnaire is prepared to employees of NIB International Bank. The objective is to get an input for the accomplishment of BA degree research paper on the title of Assessing challenges of deposit mobilization in case of selected private commercial banks in Ethiopia (the case of Nib bank) . The information you provide is valuable for the success of the research paper and will only be used for academic purpose. It shall also be kept confidential.

❖ No need of writing your name

I. Personal Information

1. Sex

Female

Male

2. Age

Below 30 years

31 -40 years

41-50 years

51 and above

3. What is your position in NIB International Bank?

- Assistant branch Manager
- Customer service officer
- Planning officer
- Supervisor
- Employee
- Others

If others please specify _____

4. Work experience in the banking industry
- Below one year
 - 1-5 years
 - 6-10 years
 - 10-15 years
 - 16 and above years

II. General Information

1. Do you agree deposit is a matter of survival for NIB international bank of Ethiopia?
 Yes No
2. Is NIB international bank of Ethiopia mobilizing enough deposits, currently?
 Yes No
3. Mostly where does NIB international bank of Ethiopia collecting its deposits?
 Individual customers' | Business organizations
 Government All
4. From the information that I identified that, the total deposit of NIB international bank of Ethiopia is growing, what is its major reason?
 Society's preference for NIB bank deposit than other investment
 NIB international bank of Ethiopia have large market share
 The service given by the bank
 Awareness creation
 Wide branch network if others specify _____

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

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

Yes

No

7. What are the challenges and the problems that your branch is facing with respect to deposit mobilization?

8. How do you rate your customer satisfaction/ dissatisfaction?

Very good

Good

Satisfactory

Poor

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

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

▪ Less than 10 minutes

▪ 10 to 30 minutes

▪ More than 30 minutes

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

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

12. What has been done in NIB international bank to promote awareness of the society pertaining to NIBS services?

13. What banking software systems are you familiar with?

Thank you for your cooperation.