



Impact Assessment on Deposit Mobilization of Banks: A Study on Selected Commercial Banks in Ethiopia

**A Research Paper Submitted to School of Graduate Studies of St. Mary's
University for the Fulfillment of a Masters Degree of General Business
Administration (GMBA)**

BY:

Binyam Dejene

Advisor:

Areaga Seyoum (PhD)

July, 2019

Addis Ababa, Ethiopia.



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Declaration

I, the undersigned declare that this work entitled “**Impact Assessment on Deposit Mobilization of Banks: A Study on Selected Commercial Banks in Ethiopia**”, is outcome of my own effort and study, to the best of my knowledge and belief, which had not been presented before for the award of any other degree or diploma of this university or other institute of higher learning, and that all sources of material used for the project have been duly acknowledge.

Declared by:

Binyam Dejene W/Kidan

Student signature

July, 2019

Date

Statement of Certification

This is to certify that I, *Binyam Dejene W/Kidan*, have carried out this research work on the topic entitled “**Impact Assessment on Deposit Mobilization of Banks: A Study on Selected Commercial Banks in Ethiopia**”, and that the work is original in nature and is suitable for submission for the reward of the Degree in General Masters in Business Administration from St. Mary’s University.

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Signature _____ *Date* _____

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List of Acronyms and Abbreviations

AB	Abay Bank s.c
AIB	Awash International Bank S.C.
BoA	Bank of Abyssinia S.C.
CAB	Stiff Competition Among Banks
CBE	Commercial Bank of Ethiopia
DB	Dashen Bank S.C.
DEP	Total Deposit volume of commercial banks
DRWD	Weighted Deposit rate against saving and fixed deposits
ETB	Ethiopian Currency (Birr)
GDP	Gross Domestic Product
GINF	General Annual Inflation
IMF	International Monetary Fund
M1	Money Supply in terms of Narrow Money
NBE	National Bank of Ethiopia
NBSF	Non-Bank specific factors
NIB	Nib International Bank S.C.
RPGDP	Real per capital Gross Domestic Product Growth Rate
SPSS	Statistical Program for Social Science
UB	United Bank S.C.
USD	United States Dollar
VIF	Variance Inflation Factor
WB	Wegagen Bank S.C.
YOYPC	Year on Year percentage change

Abstract

The objective of commercial banks in Ethiopia is to make profits and thus satisfy the needs of their respective owners (share holders). The making of profits and even staying on board of these conventional banks depend on the strategies adopted by each bank to mobilize deposits from the public that is an input to earn income for most conventional banks. In order to make good strategies, however, the banks should know major impacts of deposit mobilization activity in the real world.

This paper then assessed the theoretical as well as empirical analysis of those impacts that determine deposit volume in banks with their significance level. To do the practical investigation in terms of commercial banks in Ethiopia, the researcher collected qualitative and quantitative data from NBE annual reports of eight years (2016/17) and questionnaires and interviews made to senior bank officers and managers of eight banks. The data is analyzed using ordinary excel sheet analysis.

The study reveals that branch expansion and competition among banks are the most significant factors of deposit volume. Besides, the other variables—Money supply, non-bank specific factors and deposit interest rate respectively has moderate and smaller power to influence deposit mobilization activity. The study also exposes that the deposit mobilization activity is become challenging due to its associated costs and the competition also becoming stiff, the outcome of the competition favoring the big size state banks. Beyond that, the government policies are also favoring the latter in an effort to mobilize huge fund for a national development activities. The research recommends that banks have to do much in branch expansion by exploring potential deposit areas.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

After the emergence of liberalized economic policy in Ethiopia a number of private financial institutions were established to facilitate rapidly growing economy through collecting resources which is largely dominated by widely accepted and practiced semi-formal and informal mechanisms such as *Iddir & Iqub*.

Economic development of any country depends on capital accumulation which in turn depends on investments and an equivalent amount of savings to match it. Two key issues for developing countries are how to stimulate investment and the level of savings to fund increased investment (Giragn, 2015).

According to (Bello, 2005), banking system is the backbone of financial intermediation through the mobilization and channeling of financial resources. Banks in performing their pivotal role in the economy through effectively channeling the idle resources of the general public in to valuable sectors of the economy in terms of loan and investment, facilitate financial settlement through the payment system, influence money market rates and provide a means for international payment. Moreover, it enables people to save for their future, invest in profitable business opportunities and to protect themselves against unpredictable shocks. Hence, Banks in the process increasing the quantum of national saving and investments. (Mordi, 2004).

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 industry. Acceptance of deposits is the primary function of commercial banks.

Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for banks. Deposit mobilization is an indispensable factor to increase the source of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sector of the economy. The commercial banks must tap deposit from urban and rural areas. This helps the banks to provide large amount of funds to priority sectors for development. The success of the banking greatly lies on the deposit mobilization.

Performances of the bank depend on deposit, as the deposits are normally considered as a cost effective source of fund. Mobilization of rural savings is one of the important objectives of the commercial banks. It helps to expand banking operations. (Shettar, 2014).

In general there has been a high level of liquidity in the financial system over the last decades. There are several reasons for this. Among this the private sector households and enterprise combined had a significant financial surplus that was in excess of savings over investment, which had been mobilized through financial intermediaries. Among the situations that favored savings mobilization were; the expansion of commercial bank branches which increased rapidly, the positive real interest rate, and the limited opportunities for the investments and consumption expenditure by the private sector, private investment, in manufacturing or services industries had been tightly regulated and subject to fixed asset ceiling and case-by-case licensing. The main commercial outlet for private investment was trade only, but, even here, opportunities had been reduced through strict licensing which reduced the number of traders very significantly (Itana, n/d).

Financial records indicates that net deposit (demands, savings & time deposits) by the commercial banks and other specialized institutions increased from birr 185.6 million to birr 499.8 million showing an increase of 269% on average, net deposit increased by 23% per annum during the period (Itana, n/d).

In the present context, banks performance is basically measured by the deposit mix and the quantum of low cost deposits in the mix. Under the condition, tight competitions emerges between banks, deposit is a must to survive. Since the inter-bank factors such as interest paid for various types of deposits and a cost of introducing new banking technology forms a burden on banks (Girgan, 2015).

1.2 Statement of the Problem

The growing demand for fund from the economy forces the expansion of existing public and private banks to compete for resources to meet the growing liquidity requirement of the economy. Demand for credit, which is already high, would be expected to further increase with the continued high economic growth which calls for an enhanced effort to mobilize resources.

As today's competitive and tight regulatory based banking industry, it is difficult to maintain sufficient level of deposit by banks. It enables banks to provide necessary funds for various economic sectors in terms of lending and in return maximizing their target profit. The current pace of the banks to mobilize resources would not be sufficient, given the large fund requirement of the economy as well as corresponding strategic goal of the banks in deposit growth, Presence of strong correlation between deposits, loan and interest income also makes profitability and sustained growth of the banks to be hugely dependent on mobilized deposit (Girgan, 2015).

Moreover, the total investment required for implementation of Ethiopian Growth and Transformation Plan is estimated at ETB1.26 trillion (US\$77 billion). About 54.8% of this will be funded directly from the budget, out of which 11% is expected from development partners while 45.1% will be contributed by state enterprises. Given the financing challenge, the government of Ethiopia plans to expand tax revenues and domestic savings mobilization, to reach 15% of GDP, respectively. In order to increase domestic sources of capital, the Ethiopian government is in dire need of savings from the public to effectively implement GTP plans (African Development Bank Group, Country Strategy Paper 2011-15, pp. 18-24).

Commercial bank of Ethiopia (CBE) is the main instruments that facilitate resource mobilization effort of the government through various methods aimed to finance the huge developmental activities of the country. This in reverse put under pressure other private commercial banks to compete with government owned bank (CBE) to get enough financeable funds to stay competitive, become profitable and generally fulfill the business objectives of their respective shareholders by increasing their deposit base.

Therefore, banks use various strategic techniques to overcome those challenges in terms of branch expansion, providing modern banking operation technologies, up-to-date deposit mobilization strategies and the like. But all these activities have an impact on the financial performance of banks due to a cost that are directly related to providing these services.

Study indicates that large chunk of deposits are lying idle under pillows and in bamboos in the rural areas being left out of the banking stream. Previous researchers have not paid attention on impacts for deposit mobilization in this particular area. So, to fill this gap the researcher has added some impacts such as competition among banks and number of branches into the study to see their impacts on deposit mobilization. Therefore, understanding of these pushing forces of deposit mobilization activity of commercial banks in Ethiopia is the most important for participants in the industry to exert their maximum effort to explore the deposit market accordingly.

1.3 Objective of the Study

1.3.1 General Objective

The study is aimed to assess impacts of deposit mobilization activity of commercial banks and identify strategies that help to overcome the existing challenge in deposit mobilization of banks in Ethiopia.

1.3.2 Specific Objectives

Specifically, the study assumes the following objectives:

- i. To assess the major non-bank specific (external) forces that has an impact on deposit mobilization strategies of selected commercial banks in Ethiopia.
- ii. To assess the major bank specific determinants of deposit mobilization of Commercial banks in Ethiopia.
- iii. To identify significant strategies for deposit mobilization.

1.4 Research Questions

- 1) What are the major bank-specific determinants of deposit mobilization strategies of commercial banks in Ethiopia?
- 2) What are the impacts of non-bank specific (external) forces on the deposit mobilization activities of commercial banks in Ethiopia?
- 3) What are the best practices for deposit mobilization?

1.5 Significance of the Study

Deposit mobilization has a vital role in economic development of a country. Banks also contribute through channeling the fund collecting from the public for viable economic sectors.

The above facts prove that, the availability of deposit ensures consistent provision of loans and facilities for investments by which, maintaining financial profitability.

Hence, most of the banks in Ethiopia are in a tight and shortage of deposit to satisfy their customers demand. Therefore, understanding the impacts pushing factors for deposit mobilization activities and their level of significance assist banks to develop best practices and capable strategies for deposit mobilization activity.

The study also helps the regulatory organs to provide fair play ground for participants of the industry in terms of formulating various directives and facilitating equal opportunities that contributes in satisfying the growing fund demand of economy.

As the research conducted in this particular area is rarely available academicians lacks the reference material of this area. The researcher was motivated to undertake a research in this particular area to fill these gaps.

1.6 Scope and Limitation of the Study

Deposit mobilization activity in Ethiopia is essentially undertaken by the entire banks and microfinance institutions.

However, the current study is based on quantitative data obtained from eight (8) purposively selected sample commercial banks operating in the country. The sample commercial banks were selected purposefully based on the availability of data and large share of deposit in the industry. For instance, in the fiscal period 2016/17 the eight sample banks together held more than 75% of the total deposits in Ethiopia (NBE Annual Report, 2016/17).

Finally, the study is based on a panel data of eight commercial banks for a period of eight years (from 2010 – 2017) with a total of 64 observations (i.e., $8 \times 8 = 64$ observations).

The study also considered year-end total volume of deposit of all banks as dependent variable and the independent variables includes weighted average deposit interest rate, non-bank specific factors reflected by GDP, Competition among banks, weighted annual deposit rate (saving & time deposit volume and their deposit rate), Money supply and total number of branches of selected banks.

As deposit mobilization activity is undertaken by the entire banks and other financial institutions such as microfinance institutions; the findings of this study would have had paramount importance if all existed banks had been included in the research. However, it was particularly difficult to involve all commercial banks operating in the country mainly because of lack of data required for the study.

1.7 Organization of the Study

The study has been classified in to five basic chapters such as Introduction, Related literature review (theoretical and empirical evidence), Research methodology (type, source, collection instruments) of data population and sampling strategies, validity and reliability of the data, Results (findings, discussion and interpretation) and Conclusions and recommendations based on the finding were made.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses about the theoretical as well as empirical review. In this topic the researcher has reviewed related literature regarding the role of financial sector for economic development of a country and included certain explanations as to what deposits are and the types of deposits. The researcher also picked out the major factors identified by other researchers that have an impact on deposit mobilization activity on banks.

2.2 The Role of Financial Sector for Economic Development of a Country

Theoretical View

Financial sector mainly constitute financial markets and financial institution. A financial market is a market in which financial assets (securities) such as stocks and bonds can be purchased or sold. Financial markets, thus, facilitate the flow of funds and thereby allow financing and investing by households, firms and government agencies (Madura, 2011). Example includes commodity markets, money markets and capital markets. Financial institutions (intermediaries) are institutions that provide financial services for their customers. They play an important role in the economy because they provide liquidity services, promote risk sharing and also solve informant problems thereby allowing small savers and borrowers to benefit from the existence of financial markets.

Financial institutions can be divided into:

1. Depository institutions (such as commercial banks, saving institutions, credit unions) that obtain funds mainly through deposits from the public and
2. Non-depository institutions (such as finance companies mutual funds, securities firms, insurance companies, pension funds) that finance their investment activities from the sales of securities or insurances.

Commercial Banks are the most dominant depository institutions. They serve investors by offering a wide variety of deposit accounts, and transfer deposited funds to deficit units by providing direct loans or purchasing debt securities. Commercial banks serve both the private and public sectors, as their deposit and lending services are utilized by households, businesses and government agencies.

In the context of African continent, financial institutions in particular the banking industry carries the greater share of the financial system (Sheku, 2005). Most of the businesses rely on banking sector as a source of financing (Medhat, 2004). It is no exception that (MFI) are led by banks in terms of capital size, total assets employment capacity and profits (NBE Report, 2011/12).

It is being forwarded by (Llewellyn, 1996) that the capital market has become a more develop further in an increasing number of countries. Even though in some developed countries banks are losing their predominant role as deposit-takers and lenders, the traditional banking business of supplying funds to the economy is still of importance. For example most business organizations especially in developing countries are highly dependent on bank loans as a source of capital and the ability of banks in giving loans depend much on their ability to attract deposits.

Ethiopia's rate of domestic saving has been very low even by sub-Saharan African standards (IMF 2009a: 72 and 2009b: 216). From 1997 to 2010, the average saving rate in low-income countries of the region was about 9 percent, while it was about 19 percent for middle income counties. In the same period, the average saving rate of "fragile" sub-Saharan African stated 11.5 per cent, still significantly higher than Ethiopia's rate of 4 per cent (IMF 2009a:72 and 2009b: 2016).

The fact that Ethiopia is low income country has been the reason for reliance on foreign debt and aids for international community. In view of the severe development deficits in the country, in general the rate of investment in Ethiopia has remained very low.

Recently, the government has recognized the importance of mobilizing domestics saving for the huge investments like Renaissance Dam that is thought to pursue development efforts. The measures taken to mobilize deposits by the state include issuance of the new type of financial instruments i.e. bonds to the public and also by taking strategic moves in revitalizing the efficiency and increasing the outreach of the state banks. However, the implementation of public sector-led growth policy of Ethiopia requires large public sector borrowing and domestic resource mobilization and at the current negative real interest rates, mobilizing additional resources through the financial sector to facilitate GTP financing will be difficult to achieve (IMF Country Report, 2012).

2.3 Commercial Banks' form of Deposit & effects of deposits

According to Keynes's Liquidity Preference Theory of demand for money, there are three main motives as to why people save or deposit their money i.e. transactional, precautionary and speculative motives.

1. Transactional 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 businessman who require money and want to hold it in order to carry out their business activities.
2. Precautionary motive for holding money refers to the desire of people to hold cash balances for unforeseen contingencies.
3. Keynes took the view that money is a store of wealth and called this reason for holding money the speculative motive. 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 (Mishkin, 2004).

In order to cater for the above three motives of depositors transactional, precautionary and speculative needs commercial banks offer three major categories of deposit facilities that are demand, saving and time deposits respectively. The three types of deposits, namely saving, demand deposit and term or fixed time deposits accounts services, are provided by all the commercial banks in Ethiopia. Although the forms and varieties of the three deposits and how they are being opened and used differ, they are all installed to mobilize deposit to the banks. The definitions of the three deposit types are mentioned as follows.

- **Saving accounts:** These accounts are opened by many people who need to save their wealth usually beyond current consumption and in anticipation of future investment such as building own house, buy car and to self-sponsor education etc. In doing so the account holder earns interest on the minimum saving balance. Saving accounts are the most favored deposit account for commercial banks as they are cheap and are usually stable in nature. They are the services with which banks reach out the broad mass of people.
- **Demand or current accounts:** These deposits are generally used by business persons to settle debts usually through use of cheques. They are most often ready for payment upon demand anytime and mostly interest is not paid on these accounts.
- **Time or Term Deposit:** These deposits are kept by the bank for specified period of time per the agreement between the bank and depositor. Higher interest rate are paid by the banks for such kinds of deposits depending upon the amount of deposits and the length of period for keeping the deposits provided, there is no breach of the agreement.

According to the revised interest Rate Directive No NBE/11/2010 issued on December 1, 2010 E.C, banks are allowed to freely determine the interest rate on demand deposits, but for saving and time deposits it set the minimum interest rate to be used by banks as 7% per annum. For the later types each bank can have the option of paying interest rate beyond the required minimum if it wants to. Practically, however, most banks pay the minimum 7percent per annum on saving accounts and set no interests for current accounts.

The majority of microfinance institutions interviewed perceived deposits as the cheapest form of funding available, as well as stable, plentiful, and a valuable service to client (CGAP Brief, August 2007).

Research works on effects of deposit mobilization by banks are not sufficiently available to refer and explore the case at hand. However, the Consultative Group to Assist the Poorest (CGAP) of the microfinance institution on its December 2010 has reviewed and published a report on the true operating expenses of deposit mobilization revealing that a significant contribution to total deposit expenses was financial expenses, or the interest paid to deposit. Other expenses included in the survey are administrative costs such as accounts opening related one, account service expenses, handling expense of cash transaction and account sustaining expense that are indirect expenses related to audit or risk management issues. However, the study do not say about the office rent, promotional and advertising expenses usually incurred for attracting deposits at the time that there are deposit shortages in banks.

2.4 The Necessity of Deposits for Banks

Banks get their funds from two sources i.e. from capital contribution and from debt/deposit liabilities. Depositors' money is the core funding sources for many commercial banks. (Kelvin, 2001) said that deposits of commercial banks accounts for about 75% of commercial bank liabilities. The banks are using the deposit so collected with costs to channel them to those demanding loans at a profit margin. In the process of being used as intermediaries between depositors and borrowers, the banks are facing risks of default in doing so. Deposits are crucial for commercial bank's profitability and sustainability.

Through financial intermediation, deposit is far more convenient and efficient for a bank, which has on-going relations with thousands of depositors, to raise the funds from them, and then lend the money to the company (Brealey, 2003). Funds acquired from deposit sources are cheaper than those from capital sources.

In a study made by Harvey and (Spong, 2001) on bank funding sources and their effects on community banks in the Tenth District of Kansas City, it is learnt the deposit is shifting away from community banks and maintaining and attracting retail deposit would be a significant problem.

A bank's success in finding depositors consequently plays a critical role in its ability to satisfy customer credit demands and perform other banking functions. Moreover, much of a bank's profitability is derived from

gathering deposit at one set of interest rates and then lending or investing these funds at higher rates. These key roles that deposits play in overall bank performance have thus drawn much attention to bank funding practices and the ability of individual banks to maintain or expand their deposit base (Brealey, 2003).

2.5 Factors affecting deposit mobilization

The process of financial liberalization has intensified competition among financial institutions thus forcing commercial banks to compete for deposits in various forms (Sudin, 2006). This is because deposits are the major raw materials for provision of loans on which banks make the intended profits to the owners. Besides, the deposit volume of commercial banks in Ethiopia totals Br. 136.3 billion which constitutes about 72.96% of total assets of the banks for the year ended 2016/17 (NBE Annual report 2016/17). This indicates the significance of deposits liabilities to the Ethiopian banks and factors that affect deposit mobilization have a huge impact on the performance of commercial banks. Therefore, banks should make an all-out effort to mobilize deposits. However, as (Desinga, 1975) indicates deposit mobilization is a very difficult task.

Though deposits have great significance to the banks in developing world, few have been studied as the factors that have an impact on it. Study made by (Kose, 1999) indicates that developing economies are characterized by unstable macroeconomic environments such as inflation, inappropriate fiscal and monetary policies, interest rate controls. The net effect is the change in liquidity which affects saving and capital formation. Where the macroeconomic environment is favorable to savings then the commercial banks are in a better position to increase saving. On the contrary, where macroeconomic policies erode liquidity from the hands of the people then deposits reduce and may negatively impact on capital growth and investment in the country. In order to increase the quantity of deposits in the banking industry (Schmidt, 2000) recommends the dissemination of a banking habit. From the works of (Finger, 2009) it is found out that there are macro-level and micro-level factors that have significant influence on deposit. Domestic factor such as economic activity, prices, and the interest differential from the U.S Dollar are found to have significant impact in explaining deposit demand at macro level. At the micro level, they found that in addition, bank-specific variables, such as the perceived riskiness of individual banks, their liquidity buffers, loan exposure, and interest margins bear a significant influence on the demand for deposit (Finger,2009). Based on the research (Venkatesan, 2012) made on the overall deposit mobilization performance of all the scheduled commercial banks of India during the period 1985-98 and concluded that the GDP and Branch expansion were among the significant factors of time deposit mobilization during the period under consideration. Another study (Siyanbola, 2012) found that there is a positive relationship between the interests rate (the independent) has a major influence on the volume of deposit mobilization (the dependent).

In Caribbean and sub – Saharan Africa public banks tend to have a much larger share of demand deposits than private and foreign banks (Alejador, 2004). Ethiopian commercial banks have 33.3% of their branches located in the capital city and 46.7% of the total branches of private commercial banks in Ethiopia are located in Addis Ababa whereas the percent was 21.2% for public banks (NBE Annual Report 2011/12). Increasing accessibility to rural areas is thought to be the solutions for attracting stable deposits for private banks.

From the findings of the research work (Giragn Garo, 2015) on Determinants of deposit mobilization and related costs of commercial banks in Ethiopia, it is learnt that branch expansion, money supply, general inflation rate and exchange rate of birr to USD have significant effects on the total deposits of commercial bank of Ethiopia for the years under review covering 12 years from 2001/2-2012/13G.C.

In general, various research works are reviewed and the following factors are identified to influence deposit mobilization activity of commercial banks in general and private banks in particular. For ease of understanding they are classified in to two bank specific factors and non-bank specific factors.

2.5.1 Bank Specific Factors for Deposit Mobilization

(a) Deposit Rate or Interest rate on deposit

Banks usually pay interest on money collected from depositors. Particularly saving deposits commonly earn interest for depositors at a rate determined by individual banks whereas it must be above the minimum per the directive issued by the regulatory body of the country. Savings or deposit according to classical economists is a function of the rate of interest. The higher the rate of interest, the more money will be saved, since at higher interest rates people will be more willing to forego present consumption.

According to the study by (Siyanbola,2012) there is a positive relationship between the deposit interest rate and the volume of deposits and that interest rate has a major influence on deposit mobilization. The study recommends Banks should increase the interest rate on savings so as to encourage people to save more and to spread their investment rather than to keep money under their pillows. Low interest rates on saving forced depositors to take their money out of banks and seek out higher-yielding investments. At the same time attempts to get around deposit rate ceiling and reserve requirements led to the financial innovation of money market mutual funds, which put the banks at an even further disadvantage because depositors could now obtain checking account like services while earning high interest on their money market mutual fund account (Mishkin, 2004).

(b) Liquidity of the Bank

Liquidity can be defined as the ability of a financial institution to meet all legitimate demands for funds (Yeager and Seitz, 1989). It is also defined as the ability of bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses (Bank for International Settlement 2008). It follows that depositors has to make sure that they get their money back when they have demand for it. Therefore; bankers are always sensitive to the issue of liquidity and liquidity risk and the central bank is also there to monitor that banks are liquid enough to meet their respective obligations when the public demands. The more liquid the banks are the better they attract deposits.

Higher liquidity buffers tend to signal greater bank soundness which could be a factor favoring deposit (Herald and Heiko, 2009).

(c) Service provision and convenience of bank's office

As banks are service providers-the bank that has the best service quality to its customers attract many more depositors. Service quality defined as a measure of how well the service level delivered matches customer expectations. Understanding the inspirations, expectations and requirements of both provide a foundation in how to provide best services to the customers. It may even provide information on making improvements in the nature of business (Heiko, 2009).

Service quality for a bank could be efficiency and speed, friendliness of bank personnel, value adding technology of the bank to the customer, proximity and convenience of the bank customer and extra services provided for minimal costs.

(d) Competition among the banks and effects on Deposit mobilization

Prior to 1994, the Ethiopian financial sector was owned controlled and monopolized by the state mainly meant for fulfilling the objective of the state. There was minimal or insignificant competition among the three state-owned banks i.e. Commercial Bank of Ethiopia, Construction and Business Bank and Development Bank of Ethiopia as the purposes of their establishment were somewhat different. However, consequent to the issuance of a proclamation (No.84/94) (currently proclamation no. 592/2008) that allowed for introduction of privately owned domestic banks, the number of privately owned banks flourished and stood at 16 as at June 30, 2017.

The addition of private banks to the banking sector of Ethiopia coupled with their presence to serve most dominantly the retail commercial banking function and the bank branches are concentrate in major cities and towns, it is clearly noticeable that commercial banks in Ethiopia are nowadays operating under stiffer

competition to each other than before for resource mobilization. The huge technological investments they are making on core banking software supplied from internationally known vendors, on purchases of Automatic Teller Machines and the rapid branch expansion by many commercial banks in the country to capture customers are few of the evidences.

In an effort to fulfill the government's development agenda, the biggest and strongest bank of Ethiopia – CBE is making aggressive promotional campaign to attract customers aiming deposits and foreign currency resources. The campaign comprises coupon prizes for depositors, providing a condominium housing loans through periodic savings and increasing by each of the banks in Ethiopia to catch the eyes and ears of public.

(e) Bank profitability, size and security and numbers of bank branches

(Herald and Heiko, 2009) stated that higher bank profits would tend to signal increased bank soundness, which could make it easier for these banks to attract deposits. (Erna and Ekki, 2004) find that there is a long run relationship between commercial banks deposits and the profitability of the banks. One of the reason as to why people deposit in banks is to ensure a feeling of security of their money. Larger banks in terms of total assets or capital attract better deposit amounts than smaller ones in absolute terms (Herald and Heiko, 2009). This is largely because of the bigger banks have many branches, huge capital and or assets and provide a better sense of security to savers apart from their low transaction costs due to economies of scale.

According to the study made by (CGAP, 2010) Financial Access 2010, Ethiopia has low geographic and demographic penetration of bank branches in the sub-Saharan Africa. The population is hugely unbanked and there is only 1.39 branches open for every 100,000 adults whereas 5.11, 4.38 and 2.25 for Ghana, Kenya and Uganda respectively. Most banks are head quartered in Addis Ababa and their branches too are concentrated in the capital (Muluneh, 2012). But 2015 onwards National bank of Ethiopia forced private banks to expand their branch distribution at double rate.

(f) Degree of Financial Intermediation (Proxied by the loans-to-asset ratio)

(Rodrik and Subramanian, 2008) argue that an improvement in financial intermediation, which rises domestic saving and enhances access of firms to domestic finance in an investment-construction economy. A higher degree of intermediating 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.

2.5.2 Non-Bank Specific Factors for Deposit Mobilization

Non-bank specific factors are defined for this research as factors that have an effect on deposit mobilization that are beyond the control of the banks themselves.

(Cardenas and Escobar, 1998) studied the savings behavior in Colombia and found that higher government expenditure led to the decreasing national savings and investments were perfectly correlated and savings caused growth. This study also indicated that higher taxation; urbanization and age dependency had negative effect on savings. (Loayza and Shankar, 2000) used co-integration approach in measuring the relationship between saving in India and factors such as real interest rate, per capita income, the dependency ratio, financial development the government saving rate and the share of agriculture in gross domestic product (GDP). They found that real interest rate, per capita income and the share of agriculture in GDP had a positive relationship with savings, whereas, inverse relationship were found for variables such as financial development, inflation and dependency ratio.

Another study which used India as a case study was conducted by (Athukorala and Sen, 2003) and they found that with the exception of the changes in the external trade, factors such as rate of growth, real interest rate on bank deposits, spread of banking facilities and inflation has significant positive relationship with savings. (Kiiza and Pederson, 2001) presented evidence to show that factors such as the availability of information, the accessibility of the saving facilities, level of education of the head of the household and the density of financial institution could influence customers to start savings with the financial institution in Uganda.

(Loayza, 2000a) examined the effects of policy and non-policy variables on savings and reported several interesting findings: (1) private saving rates are highly serially correlated,(2) positive saving rates with the level and growth rate of real per capita income and the influence of income is larger in developing than in developed countries, (3) life cycle hypothesis is supported by the negative relationship between dependency ratio and saving rate, (4) inflation was found to have a positive impact on saving thus supporting the precautionary motive for Saving(5) fiscal policy is a moderately effective tool to raise national saving, and (6) financial liberation is detrimental to private saving rates because greater credit availability reduces saving rate and similarly larger financial debt and higher real interest rate do not increase saving.

From the above, we can see that macroeconomic policy of a country, inflation, per-capita income, economic growth (as measured by GDP) are among the many other factors affecting deposit mobilization.

2.6 Empirical Reviews

From among the articles written on the subject, the researcher has selected the study made by (Wubitu, 2012) on the title 'Factors Determining Commercial Bank Deposit: An Empirical Study on commercial Bank of Ethiopia'.

The article used data from commercial Bank of Ethiopia is done through mixed methodologies of the investigation. The data of total deposit of CBE for 12 years regressed against three independent variables namely deposit rate, number of branches and inflation rates.

Given the summary result of descriptive and empirical analysis, as saving deposit is the major sources for financial resources of commercial bank and has a significant influence on its profitability matrix; the study concluded the following as an opportunity for better deposit mobilization of banks:

- The main source of capital for commercial banks is deposit and saving deposit is the most used kind of deposit in banks.
- Deposit rate improvement, Service excellence, good will of the bank, branch expansion, promotional effort, awareness creation and coupon prize can be an opportunities for deposit attraction and mobilize more deposits.

However, this study needs to explore more by fairly taking more samples from both the government and private banks i.e. eight banks as samples for the study including CBE, AIB, DB, NIB, BOA, WB, UB and CBO. Furthermore, independent variables are also includes beyond what was used by Wubitu (2012) in the quantitative part. The researcher also needs further focus on the effect of deposit mobilization and its impact on financial performance of commercial banks in Ethiopia.

Another study by (Sudin, 2006) on 'Deposit Determinants of Commercial Banks in Malaysia investigates the structural determinants of deposits level of commercial banks in Malaysia, using co-integration techniques. This study classified the variables for saving mobilization into two, namely financial and economic variables. Financial variables consist of interest rates on savings account (RSCV) and fixed deposit accounts (ARFDCV), rates of profit for Islamic savings account (RSIS), and Islamic investment accounts (ARIIS) (Fixed deposit accounts are normally known as investment account at Islamic banks). Whereas, based lending rate (BLR), composite index of Malaysian Bourse (KLI), consumer price index (CPI), money supply (M3), and gross domestic product (GDP) are economic variables.

The study used monthly data covering the period January 1990 to December 2003. In examining the determinants of deposit levels of both Islamic and conventional banks, the paper employed recent advances in

time series econometrics. These techniques are co-integration and error correction framework, which are conducted within the vector auto-regression (VAR) framework.

The results of the study suggested that determinants such as rates of profit of Islamic bank, rates of interest on deposits, Base Lending Rate, Kuala Lumpur Composite Index, Consumer Price Index, Money Supply and Gross Domestic Product have significant impact on deposits. It is also found out that in most cases, customers of conventional system behave in conformity with the savings behavior theories.

2.7 Conceptual Framework of the Study

The research is going to reveal that there are independent factors impacting on the total deposit volume of the commercial banks in Ethiopia (the dependent variable). The factors are drawn from the environmental players such as the actions and policies drawn by the government regarding the general macro-economic situations of the country. Specifically, it is related with the performance of the economy as a whole in the country as reflected on GDP, inflation and exchange rate and the society and its awareness on deposits at large. Such factors are organized as non-bank specific factor for the purpose of this study. There are also banks' own policy factors and their strategies and capacities on issues like branch expansion, service excellence, bank size, deposit interest rate beyond the minimal deposit rate set by National bank of Ethiopia and security having an impact on deposit collection.

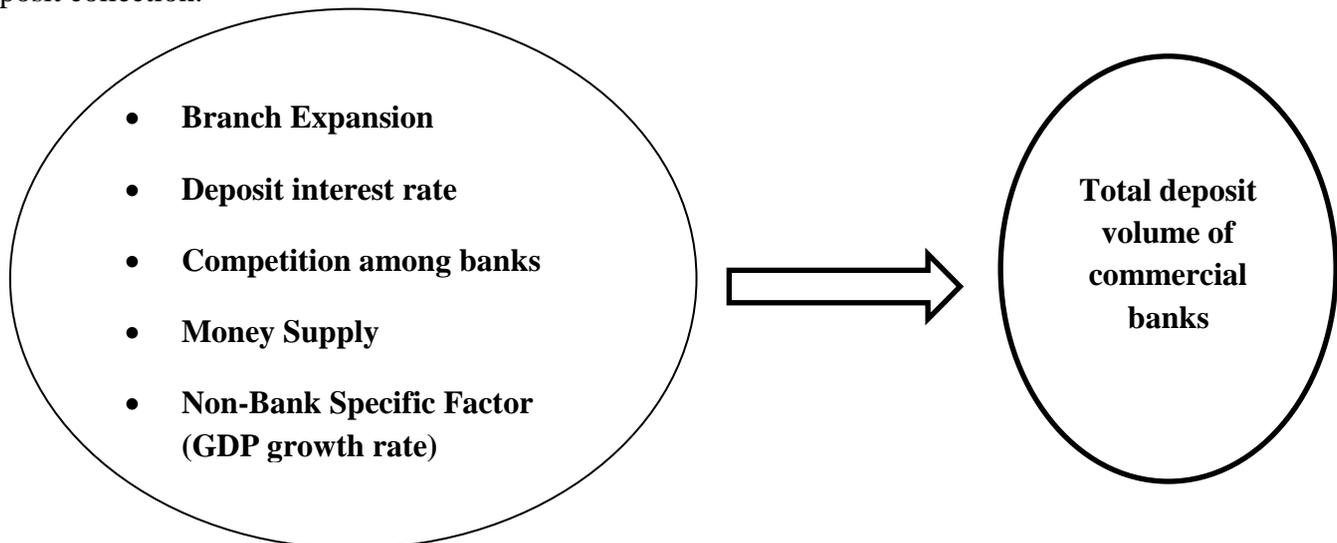


Figure 1: Conceptual framework of the study

Source: Developed by the researcher from the literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The researcher provides strategies which are adopted to address the research topic identified. In subsequent section; the research design, the type of data, source of data, data collection instrument sampling strategy and reliability and validity analysis should be presented along with testing methods used for the dependent and independent variables.

3.2 Research Design and Methods

3.2.1 Research Design

The research could employ a number of variables that describe the study from various aspects of the phenomenon. In its popular format, descriptive research is used to describe characteristics and/or behavior of sample population (Bayat, 2007).

3.2.2 Research Approach

The main objective of the study as mentioned in chapter one is to assess the impact of deposit mobilization activity and identify viable strategies that help to overcome the existing challenge in deposit mobilization of banks in Ethiopia. In order to fulfill this objective and thus answer the research questions, the researcher utilized a descriptive way of investigation for both quantitative and qualitative data.

3.3 Source and Type of Data

3.3.1 Source of Data

The researcher used annual reports of the banks and reports from National Bank of Ethiopia (NBE) as secondary data sources and used in quantitative analysis. Questionnaires and interview responses were also included as primary data source examined in qualitative analysis.

3.3.2 Types of Data

3.3.2.1 Quantitative Data

The researcher used eight years annual reports of selected commercial banks (2009/10-2016/17) from National Bank of Ethiopia as a secondary data sources. The data includes; year-end total volume of deposit of all banks, non-bank specific factors (GDP), weighted annual deposit rate (saving, Demand & time deposit volume and their deposit rate), money supply and the like.

Those data were analyzed to find the percentage change of the value of the variables year on year basis from 2009/10-2016/17 using ordinary excel sheet analysis. The money supply would be taken as an impact and it indicates the money in circulation and yearly required deposit balance of banks.

3.3.2.2 Qualitative Data

As the nature of the research work has descriptive format, Questionnaires & interviews were prepared and conducted to selected bankers of sample commercial banks so as to elicit their views on the existing reality about the current deposit mobilization activity of selected banks and also which indicate significant factors that attract deposit to banks.

The researcher identifies variables that have an impact on deposit mobilization of banks in various level of significance and such variables are;

- (i) Non-bank specific factors (GDP).
- (ii) Competition among banks.
- (iii) Weighted annual deposit rate (saving, Demand & time deposit volume and their deposit rate).
- (iv) Money supply (Money supply).
- (v) Year-end total number of branches of banks.

Then the above data were assessed to find the impact of independent variables over the dependent variable-yearend total volume of deposit of all banks under the stated period.

3.4 Data Collection Instruments

Eight years annual reports from National Bank of Ethiopia were collected through time series method and used in the analysis to show the existing reality and progress of such variables in quantitative data.

Questionnaires were distributed to senior bankers to know the impact of the proposed variables on deposit mobilization of banks as a primary data source. Furthermore, interview were held or conducted with senior branch managers of banks to understand the reality in depth.

3.5 Sampling Strategy

3.5.1 Population of the Study

The study comprised all commercial banks in Ethiopia including private as well as public that exist in the fiscal year 2016/17. According to NBE 2016/17 reports, there were seventeen commercial banks (Excluding the specialized development Bank of Ethiopia) such as Commercial Bank of Ethiopia (CBE), Awash Bank S.C (AB), Dashen Bank S.C (DB), Wegagen Bank S.C (WB), Bank of Abyssinia (BOA), United Bank S.C (UB), Nib International bank S.C (NIB), Lion International Bank S.C (LIB), Cooperative Bank of Oromiya (CBO), Berhan Bank S.C (BB), Bunna International bank S.C (BUIB), Oromiya International Bank S.C (OIB), Zemen Bank S.C (ZB), Enat Bank S.C (EB), Addis International Bank S.C (ADIB), Abay bank (AB) and Debus Global Bank (DGB). The first one is publically owned and the remaining sixteen were privately owned commercial banks.

3.5.2 Sample Frame

For secondary (Quantitative) data the researcher has used purposive sampling techniques, based on their seniority of establishment and volume of deposit mobilized among the existing population, the study were drawn a sample frame for a total of eight commercial banks the seven banks were serving at least for fourteen years until 2016/17 and one of the youngest bank, Cooperative bank of Oromia, has significant deposit mobilization performance recorded birr 12.8 billion for the year 2016/17. The researcher employed seven private and one government owned commercial banks as a sample to distribute questionnaires and make interview questions. Banks selected for the survey includes Commercial Bank of Ethiopia (CBE), Awash International Bank S.C (AIB), Dashen Bank S.C (DB), Wegagen Bank S.C (WB), Bank of Abyssinia (BOA), United Bank S.C (UB), Nib International bank S.C (NIB) and Cooperative bank of Oromia (CBO). Therefore, the matrix for the frame was 8*8 that includes 64 observations.

Based on a panel data of eight commercial banks for a period of eight years (from 2009/10 – 2016/17) 64 questionnaires were distributed to selected bank staffs and interview also conducted for senior staffs of selected banks with convenience sampling method. Proportionally 8 questionnaires to one branch or head office organs of each of the bank selected. Branches and head office organs were selected based on convenient sampling method based on proximity and personal convenience to the researcher.

3.6 Validity and Reliability of the Data

The validity is concerned with the accuracy or trustfulness of the data. That is, the validity refers to the extent to which the data obtained is accurate for the purpose (Oliver, 2010). The researcher exercised validity of secondary (Quantitative) data by soliciting published annual reports of selected banks and report of National Bank of Ethiopia. This helped the researcher to get relevant information for the purpose of the study.

Reliability is a concern every time a single observer is the source of data, because we have no certain guard against the impact of that observer's subjectivity (Babbie, 2010). Therefore, the researcher has tested the data for the study is specifically taken from the annual reports of the banks were agreed to data found on NBE publications.

3.7 Variable and their Measurement

Few studies made on the impacts of deposit mobilization activity of commercial banks show that the impacts revealed are categorized differently. For instance, the study made by (Wubitu, 2012) divides the impacts in to two namely the country specific and the bank specific determinants whereas the study by (Sudin, 2006), categorizes the as financial and economic determinants. Another study by (Ozcan, 2003) outlined six groups of potential saving determinant namely government policy variables, financial variables, income and growth variables, Demographic variables, uncertainty variables and external variables, Yet again the other study by (N. Designa, 1975) groups the impacts under exogenous and endogenous impacts to the banking system.

This study categorizes the variables basically in to two, namely bank specific and non-bank specific variables. The bank specific variables are those that are manipulated and controlled by the Ethiopian commercial banks themselves whereas the non-bank specific impacts are operating beyond the control of banks, macro-economic and policy issues. The bank specific variables for this study include deposit rate, bank size, branch expansion and service excellence whereas the non-bank specific impacts are GDP growth rate and money supply. Some of the impacts may have both the bank specific and the non-bank specific nature in which case the researcher categorizes those impacts based on subjective judgment as to where they incline in the Ethiopian context.

The expected relation of the independent variables against the dependent variable (total deposit of commercial banks) is summarized below from the past empirical studies done on the subject.

Though many impacts can be raised under this category that have influence on deposit mobilization activity of banks as illustrated in the literature review part, the researcher focused on the following major bank specific and non-bank specific impacts on the basis of their competencies and degree of significance for analysis of the research variables.

3.7.1 Independent Variables

3.7.1.1 Bank Specific Impacts

(a) Deposit Interest Rate

Interest rates determine the returns savers earn on their deposits and the price that institutions pay for the use of the funds. The increase in deposit rate on deposits is expected to improve the deposit volume in commercial banks as people are better attracted to get the advantage of higher interest payments on the deposits they held in banks. (Herald and Heiko, 2009) stated interest rate 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. (Wubitu, 2012) stated that there is a positive insignificant relationship between the two taking commercial bank of Ethiopia's deposit trend on her study.

(b) Branch Expansion

The increase in the number of bank branches will have an effect on getting many customers particularly those in far remote areas who are unbanked society. According to the article on NBE's magazine (Birritu No. 113, February 2012), Ethiopia has low geographic and demographic penetration of bank branches. Although the expansion of banks in terms of branching since 1995 is significant, most rural people have to travel very long distance to access bank branches. Many of the bank branches in Ethiopia are concentrated in the capital city. The number of bank branches went up from 2291 in 2015 to 3191 as at June 30, 2016 and as at June 30, 2017, grew to 4147. As a result the ratio of bank branch to total population stood at 24,114. Out of the total of branches, 27.1% were located in Addis Ababa, making mainstream branches hardly accessible to the rural area. (NBE Annual report 2016/17).

More recently the branch expansion by the existing banks is fast increasing to reach out remote locations too to seize the resources available particularly deposit. This practice shows that branch expansion has positive and significant rotation with deposit volume. (Wubitu's, 2012) study shows that the number of braches available has positive and significant effect on total deposit of commercial banks. The number of branches of the selected banks was considered for the purpose of this study.

(c) Competition among banks

The addition of private banks to the banking sector of Ethiopia coupled with their presence to serve most dominantly the retail commercial banking function and the bank branches are concentrate in major cities and towns, it is clearly noticeable that commercial banks in Ethiopia are nowadays operating under stiffer competition to each other than before for resource mobilization.

Now a time Competition in the banking industry operates is fierce; the competitive advantage strategy would be that the bank would be able to compete on deposit mobilization. Differentiation would be viable strategy in this case as there is like hood that the loyal customer would stay with bank.

3.7.1.2 (D) Non-Bank Specific Impact (GDP)

These are macroeconomic conditions or sometimes policy factors that are not under the control of the commercial banks categorized for the purpose of the study.

GDP is one of the explanatory variables commonly used as determinants of economic growth. According to (Jim, 2008), the level of GDP divided by the population of a country or region is what is known as per capita income. 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. Thus the relation between income of the society and deposit volume is expected to be positive and significant. Studies by (Mhendra, 2005) and (M.A. Baqui, 1987) both reveal that growth in income (GDP) have a positive effect on deposit.

(e) Money Supply

Money supply is one of the tools used by the government in the conduct of its monetary policy. Hence, any changes in money supply can have a major impact on economic conditions. An increase in money supply makes loanable funds cheaper, thus reducing cost of borrowing for corporate and individual customers. In this case it is expected that people will increase consumption and reduce savings and thus money supply will have an inverse relationship with deposits. On the other hand, it could also be argued that as more money is supplied to the economy, more deposits could put in banks accumulating the fund for transactional and investment purpose. When money is supplied to the economy to fill the countries budget deficit, the banks deposit also increase. Because, it circulates within the economy

3.7.2 Dependent Variable

(f) Bank Deposit Volume

Bank deposit is an amount of money held at a financial institution on behalf of an account holder for safekeeping, Most bank deposits are insured by organizations to reduce their risk. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The deposit itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this as liability rather than to the actual funds that are deposited (Adam, 2005).

3.8 Data Analysis Techniques and Descriptive Analysis

The researcher has used quantitative data which were collected from annual reports of the National Bank of Ethiopia for eight years (from the year 2009/10- 2016/7) and qualitative data from questionnaires and interviews to assess the impact of independent variables which are Non-bank specific factors (GDP), branch expansion, deposit interest rate, money supply (MS) and competition among banks against the dependent variable-Deposit volume of banks in Ethiopia over the period under study. This shows that the research is more of descriptive in its nature. The researcher has used Excel sheet for analysis of the questionnaires and describe the result.

The researcher also summarized the information obtained through interview responses from the bank staffs in the manner that gives the necessary information. Considering the nature of the study and research design that has been employed, descriptive statistics of the dependent and independent variables were also made.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Descriptive Analysis

The researcher presented the qualitative analysis in the following pages. Firstly, the quantitative data obtained from the National Bank of Ethiopia for eight years was analyzed through the ordinary excel sheet form and presented on the paper. Secondly, the qualitative analysis and presentation follows from the responses obtained from the questionnaires and interview questions. Thirdly, the summary of both are included at the end of the chapter.

4.1.1 Analysis of Quantitative Data

Ordinary Excel Sheet Analysis and its outputs

Total Deposit of local banks in Ethiopia

Total deposit volume data of eight years (from fiscal year 2009/10 to 2016/17) were taken for all private versus public banks and presented in area chart in figure 2 below.

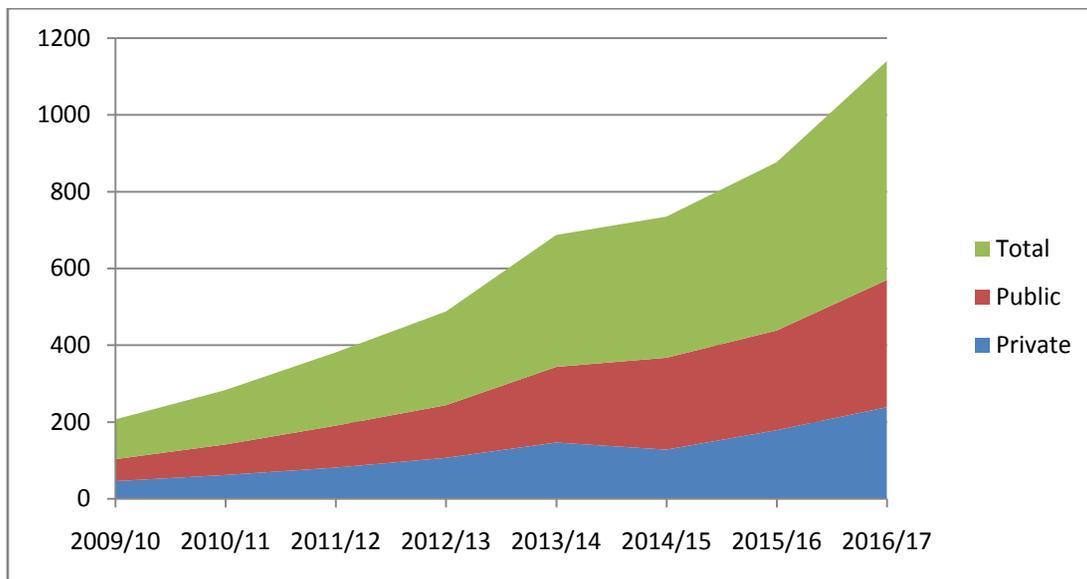


Fig. 2 Total Deposit of Private versus public banks (in millions of Birr)

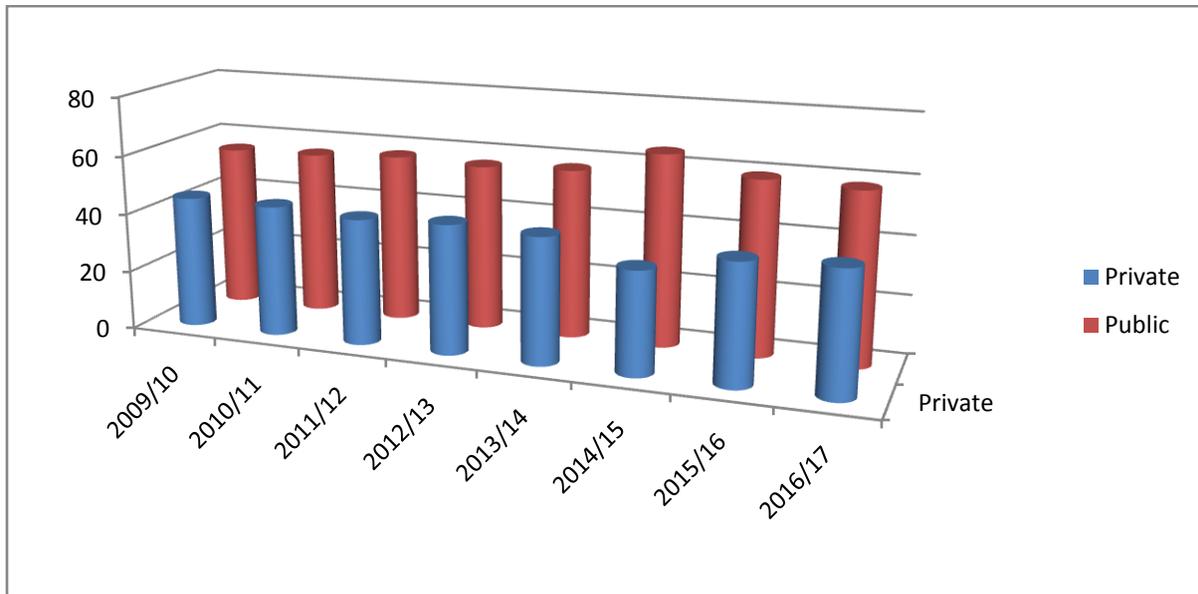
Source: Researcher's computation

Figure 2 shows that the deposit balances of both the private banks and the state banks were growing every year which coincides with the opinion received from the responses of the questionnaires as detailed in the qualitative part. However, it seems that the gap between the total volume of deposit collected by public banks and that of private banks is widening. The reason for the widening of the gap has something to do with the researcher's findings from the interviews that the government policy (such as saving for condominium housing project

should be directly channel only for commercial bank of Ethiopia-CBE) and there is intense competition from the huge size of public bank have made an impact on deposit collection of private banks.

The following graph is presented to show the clear view of the performance of private banks versus the public banks in deposit market.

Public vs. Private Banks deposit Share



X- Period in Years

Y- Market share in %

Fig. 3 Market share of deposits for private versus public banks in Ethiopia

Source: Researcher's computation

From the above, the public bank-CBE has enjoying the lion share of the deposit market in the country even though the numbers of commercial banks has been increasing and reached seventeen during the fiscal year ended 2016/2017.

The following figure shows the direction of the deposit volume in all commercial banks in Ethiopia for the period under study.

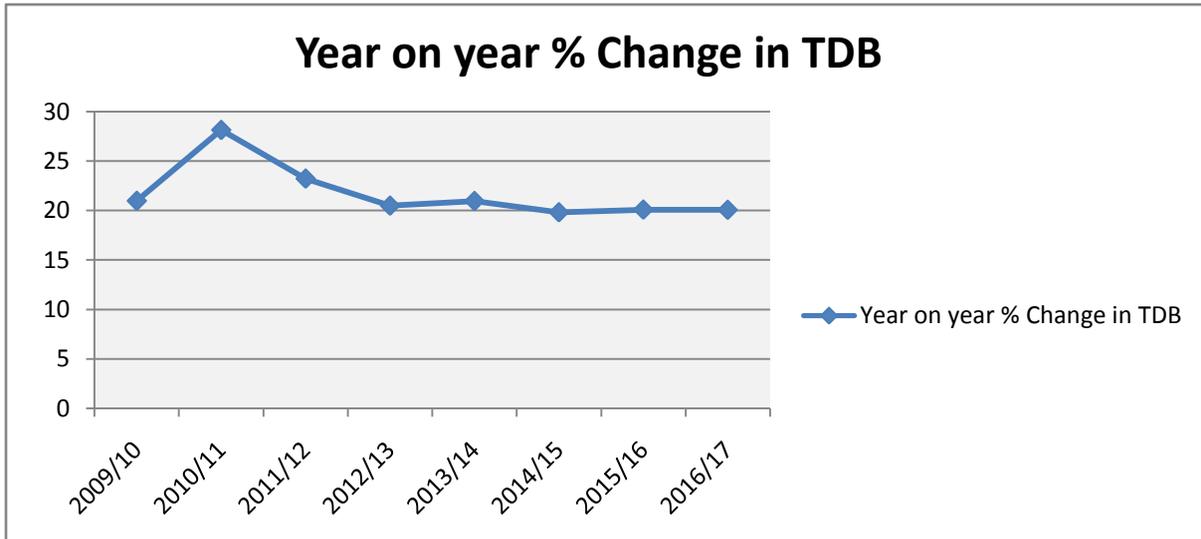


Fig. 4 Year on year percentage change of total deposit volume of commercial banks in Ethiopia

Source: Researcher's computation

Figure 4 shows the year-on-year percentage change of total deposit in banks is declining in the final years of the study revealing even though there is a growth in absolute value of deposit across banks the rate of increase is showing a decline slope from the middle of the year 2010/11 the period was government issues various policies such as condominium housing saving and bond purchase burden for Renaissance Dam especially for private banks from their loanable fund. Paradoxically, the timing of the downward decrease of the graph coincides with the time when the supervising authority of banks, NBE, raised the minimum saving deposit rate. As a result of the increase in deposit interest rate banks forced to incur additional deposit interest expense and by which they challenged to mobilize the required amount of deposit.

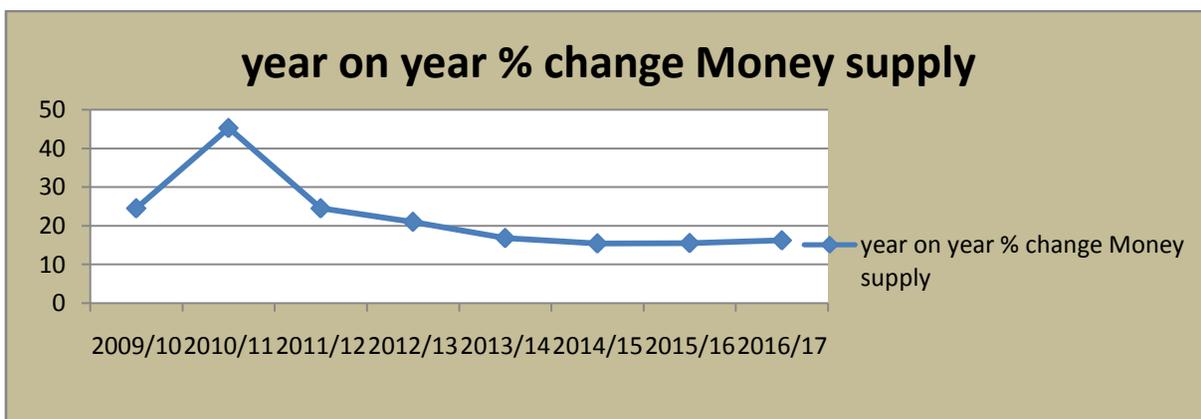


Fig. 5 Rate of change in money supply (broad Money)

Source: Researcher's computation

The money supply constitutes both narrow money (currency outside banks and demand deposits) and quasi-money (saving and time deposits available in banks). The above figure shows the trend in total aggregate money supply of the country for eight years. This trend is similar to the rate of change of deposits at banks for similar period indicating that the monetary policy has attributes to the deposit trend.

Annual Weighted Deposit trend Deposit Rate Trend of Commercial Banks

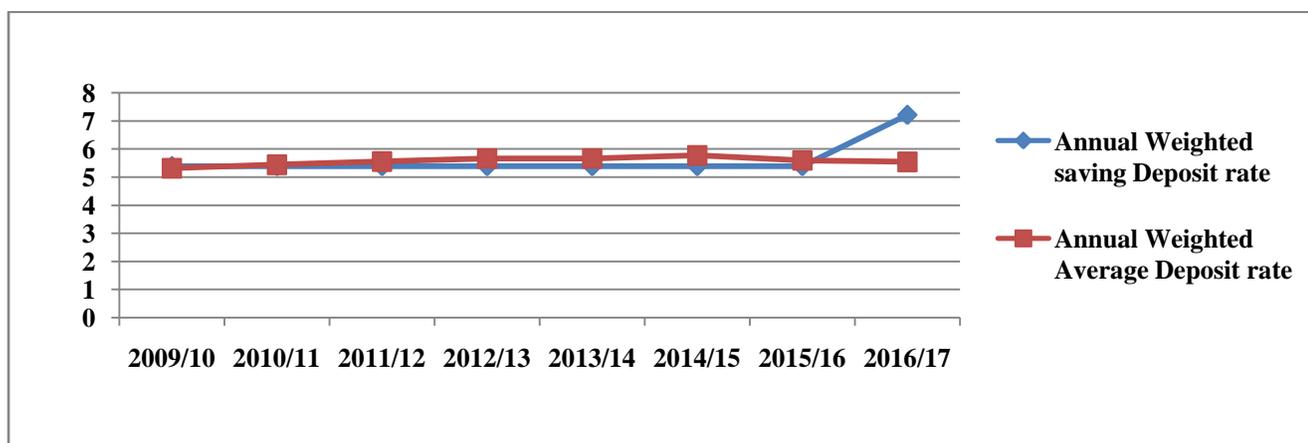


Fig.6 The yearly weighted deposit rate trend of banks in Ethiopia

Source: Researcher's computation

The significant factor of deposit mobilization as the finding of the qualitative approach reveals later in this study is the deposit interest payment and most banks hold the major share of their deposit in the form of saving that earns interests to their customers but costs them much. The above figure shows the trend of weighted (saving and fixed deposits) deposit rates over the years of the study.

4.1.2 Analysis of Primary Data

The researcher has used questionnaires and interviews to collect data regarding the qualitative aspect of deposit mobilization activity. In total 64 questionnaires were distributed and 15 branch managers were interviewed. The response rate was (58 questionnaires) 90.6% for the questionnaires. In the process eight branches and head office organs of the eight banks namely, Commercial Bank of Ethiopia, Awash International Bank, Dashen Bank, Bank of Abyssinia, Wegagan Bank, United Bank, Nib International Bank and Cooperative bank of Oromia were involved. Accordingly, the written responses from both the questionnaires and the open ended interview questions were analyzed as follows using ordinary excel sheet.

A. Respondents' personal information

Table 1. Work experience of the respondents in the bank

Work experience	Count	Percent
Below five years	17	29.3%
6-15 years	28	48.3%
16-25 years	9	15.5%
26 years and above	4	6.9%
Total	58	100.0 %

Source: Survey Data, 2018

The majority of the respondents (48.3%) have worked in the bank for over 6 years which the researcher believes that their experience would earn them sufficient knowledge in the area of this study.

Table 2. Position of the respondents in the bank

Position	Count	Percent
Branch manager	15	25.9%
Accountant/Supervisor	5	8.6%
Auditor	3	5.1%
Customer service officer	20	34.5%
Other positions	15	25.9%
Total	58	100.0%

Source: Survey Data, 2018

The position of the respondents included 25.9% branch managers, 8.6% accountants/Supervisors, 5.1% auditors and 34.5% customer service officers and the rest 25.9% are currently held other positions such as finance officers, International banking officers, and loan officers.

Table 3. Besides being employee; are you the customer of a bank?

Response	Count	Percent
Yes	51	87.9%
No	7	12.1%
Total	58	100.00%

Source: Survey Data, 2018

The respondents were asked whether they are also deposit account holders in any bank in order for them to look ideas from outside-in perspective as customers. Thus, the lion share of respondents i.e. 87.9% of them were

found to be account holders of a bank enabling this study to get wider view of the bank staffs and only 12.1% are not.

Table 4. What is the ownership status of your bank?

Type of bank	Count	Percentage
Privately owned	50	86.2%
Government owned	8	13.8%
Total	58	100.00%

Source: Survey Data, 2018

86.2% of the respondents of this survey were working in the privately owned banks whereas the remaining 13.8% were from state-owned bank which is Commercial Bank of Ethiopia.

B. Respondents Views on Deposit mobilization

Table 5. Who are the most significant depositors of your bank?

Customer Type	Count	Percentage
Individual customers	21	36.2%
Business organizations	18	31.0%
Government entity	9	15.5%
NGOs*	10	17.2%
Others	0	0.0%
Total	58	100.0%

Source: Survey Data, 2018

From the views of the respondents it is learnt that individuals and business organizations are the major depositors of the selected bank branches with respective percentages of 36.2% & 31.0% each where-as government and NGO's depositors hold only 15.5% & 17.2% respectively.

Table 6. Which deposit types is with the significant volume in your bank?

Account Type	Count	Percentage
Savings account deposits	36	62.1%
Current account deposits	20	34.5%
Fixed time deposits	2	3.4%
Total	58	100.0%

Source: Survey Data, 2018

Among the three common type deposits namely saving, current and time deposit accounts, saving account is found to have the significant volume of deposits as viewed by 62.1% of the respondents.

On the other hand, 34.5% of the respondents answered that current accounts hold the significant volume of deposits in their branches.

The next two questions were raised to know the status of the selected banks about the branch expansion and solicited the respondents about the main reasons why the branch expansion is done by the banks.

Table 7. How many branches does your bank currently possessed?

No. of Branches	Count	Percent
Less than 50 branches	0	0.00%
51-100 branches	0	0.00%
101-150 branches	0	0.00%
151-200 branches	15	25.9%
More than 200 branches	43	74.1%
Total	58	100.0%

Source: Survey Data, 2018

74.1% of the respondents' work in banks that possess more than 200 branches whereas 25.9 % of the respondents operate with banks having 151-200 number of branches range.

Table 8. What are the main causes of branch expansion?

Causes for Branch Expansion	Count	Percentage
Deposit mobilization	45	77.6%
Loan provision	10	17.2%
To lead the banking sector by having greater number of branches	2	3.4%
To reach out foreign currency sources	8	13.8%
Other	0	0.0%
Total	65	112.1%

Source: Survey Data, 2018

This research has found out that the main cause for the branch expansion by the selected banks is for the purpose of deposit mobilization as shared by the views of 77.6% of the respondents. The combinations of the listed reasons i.e. loan availing, source of foreign currency and market share expansion are claimed to be the main reasons by 34.5% of the respondents who participated in the survey.

From the above results one can infer that local banks are engaged in branch expansion as venue for sourcing deposits and even competing with each other.

Table 9. Does the volume of deposit mobilized by each of your branches differs?

Response	Count	Percentage
Yes	52	89.7%
No	1	1.7%
I do not know	5	8.6%
Total	58	100.0%

Source: Survey Data, 2018

The above table show us that 89.7% of the respondents perceived that the volume of deposit by their individual bank branches were differ.

Table 10. What are the major causes for the difference in deposit mobilization among bank branches?

Cause for deposit increment	Count	Percentage
Convenience of bank office (type of building)	5	8.6%
Service provision (Customer centric operational excellences)	29	50.0%
General appearance office & materials	1	1.7%
Proximity	15	25.9%
Awareness of the society	5	8.6%
Other	3	5.2%
Total	58	100.0%

Source: Survey Data, 2018

The majority of respondents (50.0%) believe that the service excellences that are becoming the reason for deposit mobilization and branch expansion represented by proximity taking the lion share for factors of deposit mobilization. Awareness of the society and the bank office convenience cited for that reason.

Table 11. What inter-bank factor is more significant to deposit mobilization?

Inter-bank factors	Count	Percentage
Liquidity of the bank	10	17.2%
Service provision /service excellences/	11	19.0%
Provision of coupon of prizes	9	15.5%
Prizes deposit interest rate	13	22.4%
Good will of the bank	15	25.9%
Total	58	100.0%

Source: Survey Data, 2018

25.9% of the respondents perceived that the goodwill of the bank would affect deposit of banks. Prized deposit interest rate, service excellences, liquidity of the bank and coupon prize provision have 22.4%, 19.0% and 17.2% effects on deposit mobilization activities of banks according to the responses of the participants.

Table 12. What type of external factor could affect deposit?

Factors affecting deposit	Count	Percentage
Economic environment of the country	5	8.6%
The money demanded by Government for infrastructure developments	13	22.4%
The volume of business transactions of the country	20	34.5%
The confidence of the people on the bank	5	8.6%
The banking habit of the people	15	25.9%
Total	58	100.0%

Source: Survey Data, 2018

34.5% of the respondents perceive that the volume of business transaction of the country should affect deposit of banks. Banking habit of the societies, money demand of the government and the country economic environment have 25.9%, 22.4% and 8.6% effects on deposit mobilization activities of banks according to the responses of the participants.

Table 13. What special service does your bank gives for its depositors?

Special Services	Count	Percentage
Prize/award for the depositors	24	41.4%
Offering bonus, paying lesser commission or premium over normal interest Rate payment	16	27.6%
Special consideration on foreign currency allocation	11	19.0%
Loan facility for future investment	7	12.1%
Others	0	0.0%
Total	58	100.0%

Source: Survey Data, 2018

all the responses shows banks are giving one or a combination of the special services to attract deposits such as prize, offering bonus, priority for other bank facilities like foreign currency allocation (if the customers are importers) and for loan facilities for depositors.

C. Views summarized from interview

The researcher has made interview with branch managers of selected bank branches as well and summarized the main findings as follows.

- 1) All the interviewees agreed that deposit is the most preferred source of fund to their banks from other types of debts and/or rising of capital through issuance of shares in the country. For this same reason, the ratio of deposit in most private banks is higher than that of other fund sources. With regard to the question as to which source of fund (deposit or capital source) is expensive, the interviewees were equally divided.
- 2) The NBE directive, policy of the bank, attractiveness of the source of the fund in terms of cost, availability, simplicity and shareholders' need and capacity are mentioned by the interviewees as basic criteria to develop a strategy on which sources of fund has to be selected and searched.
- 3) With regard to whether the task of deposit mobilization is becoming easing or challenging, all interviewees have agreed on the latter year over year. This goes with the stiffness of the competition for deposits by local banks as responded in the questionnaire part.
- 4) All interviewees have the same opinion that the banks they represent are not having sufficient deposit that could satisfy the level of loans demanded by their borrowers. In other words, though local banks are

making an all-out effort in raising their deposit balances, they are still far away in narrowing the gap between the demand for loans from increasing number of businesses and the deficit of supply side-the volume of deposits in their respective coffers.

- 5) All the interviewees believe that there are no equal opportunities and challenges to private banks versus government owned banks with searching and obtaining deposits.
- 6) Government offices are implicitly or explicitly urged to use government owned banks for placing their deposits. This also extends to certain international non-governmental organizations.
- 7) Various government policies are designed in a way that could benefit the state banks to collect much deposit from the public on the presumption to undergo developmental activities such as condominium projects,
- 8) The imposition by the government on private banks to purchase government bonds (for Renaissance Dam) i.e.27% of the loan they avail at lower interest rate (3%) below the minimum saving rate is challenging their liquidity.
- 9) The huge bank size, significant number of branch outlet and capital would make the state bank-CBE almost a monopoly over the deposit market by playing with pricing such as setting charges, giving gifts, advertising and expending relatively huge costs to modernize its services. Following a counter marketing on these issues would not be a disadvantage to many small private banks in this regard.
- 10) The interviewees all agree that their respective banks did not face any financial, economic, political and social shocks that could have affected the deposit volume at any time in their working experience.
- 11) The interviewees further pointed out that the current deposit rates are not attractive to depositors and depositors have better opportunities to invest the money elsewhere than making deposits in the bank if they think about it.
- 12) All interviewees agreed that the costs incurred for mobilizing deposit has been increasing year after year with the following order of significance i.e. interest on deposits, rent, system related costs, advertising and publicity and staff costs from high to low order.

4.2 Summary of the findings from both methods of investigation

The following are presented as the summary of the research findings entitled **Impact Assessment on Deposit Mobilization of Banks: A Study on Selected Commercial Banks in Ethiopia**.

- Though deposit volume is seemingly increasing every year, the rate of deposit growth for Ethiopian commercial banks is declining recently whereas the challenges deposit mobilization is escalating.
- The branch expansion and competition among banks are the most significant factors of deposit volume. GDP and money supply moderate influence on deposit volume.
- Savings, according to classical economists, is a function of the rate of interest. The higher the rate of interest, the more money will be saved, since at higher interest rates people will be more willing to foregone present consumption. Studies results by Syanbola, (2012) and Wubitu's (2012). Here in our country agree with the economic theory. And the researcher's excel computation results agreed with them.
- The major sources of deposits for the commercial banks are individuals and business organizations. As compared to other sources such as capital contribution and plough back of earnings, deposit is the most preferred source of fund for the banks in Ethiopia.
- In order to grant loans demanded by the public and thus stay profitable to the shareholders, commercial banks prefer deposit as sources of fund. From three common types of deposits namely saving, current and fixed deposit accounts, saving account constitutes significance balance of the banks studied.
- Branch expansion is found out to be the major strategy of many banks to secure better sources of deposit base. However, dense population of bank branches in the capital city is creating stiff competition among them.
- As securing comfortable deposit base is the question for survival of the banks, many banks are also engaged in modernizing their services to excel the others.
- It is also learnt that the deposit volume of the commercial banks are growing year after year, however, recently the share of private banks' deposit market is declining after the year 2009/10 and that of the public banks is surging up to regain the lost market share in the prior years. Contrary to what the bankers feel about the trend of deposit year after year, the quantitative analysis shows that deposit is not increasing at an increasing rate from year to year.
- Saving and fixed time deposit accounts are the only accounts on which interest is paid in most of the banks but the interest rate on saving accounts is considered to be low as agreed by the interviewees compared to the earning from the fixed asset value appreciation with the same magnitude of money. In spite of the privilege given to the individual banks to determine their own higher interest on saving and

time deposits beyond the minimum limit set by NBE i.e. 7 per cent per annum. Current accounts do not bear interest on many banks though the banks are free to pay any rate without the limit.

- The major forces to the growth of deposits are branch expansion, competition among banks, and growth in per capita income-GDP of the country, the impact of changing of awareness of the society and the money supplied to the economy. Further, proximity and convenience of the bank branches for the public and the growing competition among banks and its effect on service modernization were also mentioned as causes.
- Government policies are also impacting the competitiveness of private banks on deposit mobilization activity favoring the public banks. Besides, the latter ones have also the size advantage to risk themselves to utilize potential deposit areas.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary and Conclusions

The study revealed that deposit mobilization is the main focus of many banks. However, finding deposit is becoming a challenging job for banks in Ethiopia compatible with the growing need of the economy. Owing to the growing need for finances from new and existing businesses of the country coupled with the banks' own desire to make profits from those finances, deposit mobilization is becoming the critical success factor for banks. The fast increasing number of branches, the service modernization activities and the growing competition among banks all justify this fact.

There are limited types of deposit products mainly three namely saving, current and fixed time deposits services commonly sold to the customers by the local banks. The great majority of customers are saving account holders. The total deposit volume of banks is growing year after year whereas their deposit market share is declining beyond the fiscal year 2009/10.

The study shows that the main factors for deposit growth were the changing awareness of the people for savings, growth in the number of branches of banks, in per capita income and in money supply. Service excellence, proximity and convenience of bank branches to the public were also mentioned.

Most banks pay the minimum interest rate on saving accounts set aside by the regulatory body. The rates are not attractive to the public particularly for those who are saving aiming the interest income.

The deposit volumes of private commercial banks are also found to be impacted by the policies of the government. The competition over the deposit market favors the public banks due to their size.

5.2 Recommendations

Based on the findings and conclusions of the study, the researcher recommended the following to the commercial banks:

- As deposits are the critical resource for the banks to stay profitable, the banks have to give more emphasis than ever to the activity. To increase their deposit base banks have to intensify branch expansion to areas where there are potential deposit sources even to remote locations and cross border branches where potential deposits in form of foreign currencies is obtained.
- The commercial banks should also provide competitive deposit interest rates on selected stable deposits keeping sufficient margin of profitability. The issue of paying fair interest rates to selected demand deposit customers could also be considered.
- The banks should also try to introduce new deposit product types that are appealing to the public to increase market share. There are areas that have to be looked at like online account opening and account maintenance to attract foreign depositors and in the process the legal requirements for account opening has to be comfortable.
- The banks have to search for other alternative fund sources such as sale of their shares during the severe liquidity problems and loan securitization. Inter-bank lending could be other sources if the market warrants.
- The government has to give equal playing ground for all banks and its policies should be impartial to all banks operating in the country. The existing institution of the banks, Ethiopian Banks Association, has to broaden its authorities and responsibilities and instigate fair practices among individual banks.
- Banks should use cost effective methods of mobilizing deposit as much as possible such as agent and mobile banking service to reach out potential resource areas. These cost saving strategies could include systematic sharing of infrastructure costs among banks such as ATMS and POS terminals.
- Collective awareness creation strategies about the advantages of savings have to be intensified to reach the unbanked society by all banks. The Bankers Association still has to do much in this regard as saving plays great role not only for the individual banks but also for the economic development of the country as a whole.

5.3 Further Research Direction

This study has covered outcome of the impact on deposit mobilization activity of banks and some recommendations are made based on the findings and conclusions. Yet, there are other impacts such as the level of education and the dependency ratio of the population identified by some literatures to have impact on saving mobilization. Thus a study has to be further strengthened on the significance of these factors on deposit mobilization of commercial banks.

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