Journal of Business and Administrative Studies (JBAS)

Volume 10, No. 1 ISSN-2077-3420 June 2018

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EDITORIAL COMMITTEE

St. Mary's University (SMU) is one of the leading private higher education institutions spearheading the dissemination of knowledge in the country. Over the past ten years, **SMU** has achieved remarkable progresses as well as successes in the transmission of knowledge.

Journal of Business and Administrative Studies (JBAS) is a peer-reviewed bi-annual journal published by St. Mary's University and dedicated to the promotion and production of knowledge through the scientific methods of enquiry to achieve independent analysis as well as collection, processing and interpretation of data.

Cognizant of the complementary functions of transmission of knowledge (through teaching) and the conduct of scholarly inquiry (through research), SMU has aggressively been promoting publications of journals and conducting conferences for well over a decade. On one hand, while SMU recognizes that its faculty staff, academics and practitioners in the country possess a wealth of untapped scholarly and research potential. On the other hand, we believe that this immense potential has not been realized due partly to lack of resources and partly to the absence of a reliable outlet (i.e. journals). This concern has prompted the academic leadership at SMU to launch JBAS.

JBAS shall hopefully fill the vacuum created by the absence of outlets in the realm of business, economics and administrative studies in the country. The purpose of this Journal is to provide practitioners and scholars with a forum through which they would get opportunities to publish their research based debate as well as discourse in the fields intimated. Equally important, it shall offer insight into developments in the fields bringing Ethiopian realities under purview.

Contributors shall thus come from a broad range of fields and disciplines seeking to reflect on the theoretical and practical developments in the areas of accounting and finance, economics, management, marketing, public management as well as governance and related fields.

Relationship between Income Inequality and Economic Growth in Ethiopia

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Abstract

The objective of this study is to investigate the relationship between income inequality and economic growth in Ethiopia. The study hypothesized the existence of long -run and short -run relationship between income inequality and economic growth. It used time series data for 2002 to 2017 and employed Auto Regressive Distributed Lag Model (ARDL) in a time series econometric framework. In the long-run co-integration analysis economic growth is found to be statistically significant, and if income inequality is increased by one percent, real GDP will grow by 13.8 percent. In the short-run, the error correction model was found to be statistically significant at 5% significance level with a negative sign implying that the error correction procedure converged monotonically to the equilibrium path relatively quickly and high significance of ECM (-1) is evidence to the existence of established stable long-run relationship between the variables. The positive relationship between income inequality and economic growth indicates that high income inequality followed the Kuznets hypothesis since Ethiopia is a low income country.

Keywords: *Economic Growth, Income Inequality, ARDL, ECM, Ethiopia.*

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1. INTRODUCTION

1.1 Background of the Study

The relationship between GDP and the distribution of income is an essential subject in macroeconomics (Galor, 2011). The function of income inequality plays in economic growth has additionally takes quite limit of attention in policy area and the press recently. According to Charles-Coll (2013), economic theories traditionally was targeted on issues like productiveness and efficiency, the role of income inequality in economic change has been present but not apparent for a long time. Economic growth is measured as the annual rate of increase in a country's gross domestic product (GDP). This is due to the fact high level of income inequality produces an unfavorable condition for economic growth and improvement (British Council, 2012). The center of attention on income inequality and economic growth starts in 1955 when Simon Kuznets presented his idea to the American Economic Association that of an inverted U relationship between per capita GDP and inequality in the distribution of income. He explained that the manner of economic growth had decreased income inequality in most countries by means of increasing per capita income, which came go together with labor movements from the agricultural to industrial sectors.

Field (1980) income inequality linked with three types of economic growth. The first one is modern-sector expansion growth where the economy develops through enlarging the modern sector. He grouped the modern area as industrialized sector that uses considerable amount of capital in production. Examples consist of advance economies and to some extent Asian economies like China and Taiwan. This type of growth will increase absolute incomes and reduces poverty levels. The impact of modern sector growth on income inequality in the initial stages depends upon whether the rich or the poor advantage from the increase in economic growth. As the modern sector expands, there is a redistribution of labor as workers move from the traditional sector or low income to the modern sector or upper income, and reducing income inequality and poverty levels. The second is modern-sector enrichment growth where growth is restricted to certain groups of people in the modern sector with the traditional sector experiencing little or no growth. Though this type of growth tends to raise average incomes and it leads to decreasing income inequality and few or no change in poverty levels. This type of growth has mostly exercise in Latin American and sub-Saharan African. The last sector is traditional sector enrichment growth which occurs when aggregate incomes will increase in the traditional or subsistent sector, with little or no income amplify in the modern sector. Field explained that countries with this type of growth achieve reductions in absolute poverty even at very low incomes because they focus policies on poverty reduction. This type of growth leads to a more equal distribution of income and a significant reduction in poverty levels.

1.2 Statement of the Problem

The Global Income Inequality Trend showed income inequality, on average, increased from 38.6% to 41.8% during the period 1990-2014 (Sudip, 2017). According to Bhorat *et al.* (2015) and Beegle *et al.* (2016) SSA countries has the second highest levels of income inequality next to Latin America and the Caribbean. Despite relatively high overall growth in recent years, inequality seems to have remained broadly unchanged, although there is quite a bit of variation across countries.

Ethiopia is a country which is one of the fastest developing economies in the world with GDP growing at 10.5 per cent per year since 2005 (Seid *et al.*, 2015) and targets to become a low middle-income country by 2025 (MoFED, 2015). Ethiopia has also managed to keep income inequality at a relatively lower level in the early 1990s (MoFED, 2013; World Bank Group, 2015). Despite this evidence on the state and path of inequality over the decade obtained from the national household income and consumption surveys pointed out that it has been clearly rising in urban areas, and remained more or less at its initial level in rural areas (Alemayehu *et al.*, 2009; Tassew *et al.* 2009).

The relationship between income inequality and economic growth is one of the most interesting, important and challenging areas in modern society (McKay, 2002). Alemayehu *et al.* (2009) showed strong correlation between growth and inequality. They further estimated that over ten years, as growth per capita increases by four percent, poverty would decline from forty-four to twenty-six percent, but with no change in the aggregate income distribution. Alemayehu & Addis (2014) also examined the relationship between growth, poverty and inequality in Ethiopia. They found growth and distributions as important determinants for change in poverty. In rural areas poverty reduction is totally accounted by growth (inequality was not significant).

Few studies have been done on this topic in Ethiopia. Most of them (see example, Tassew *et al.*, 2009; Alemayehu *et al.*, 2009; Alemayehu & Addis, 2014) studied about relationship between poverty, inequality and economic growth and are concentrated on relationship between poverty and growth. The empirical research carried out on the relationship between income inequality and economic growth in different countries showed contradictory findings with inconclusive outcomes. In a situation of inconclusive outcomes, there is a need to do more research in different contexts and inform policies for specific country contexts accordingly. This study is therefore an effort to fill up this lacuna in knowledge by investigating the relationship between income inequality and economic growth in Ethiopia using a macro level data and by adopting relevant analytical methodology.

2. LITERATURE REVIEW

2.1 Concept of Economic Growth and Income Inequality

Economic development takes place when there is accelerated economic growth accompanied by major changes in social structures, popular attitudes and national institutions, reduction of inequality and eradication of poverty (Todaro, 1994). Economic growth is a necessary condition but not sufficient to ensure social welfare (Mamoudou, 2011). Inequality is the degree to which distribution of economic welfare generated in an economy differs from that of equal shares among its nations (SID, 2004). According to Gehring & Kulkarni (2006), in a nation with perfect income equality, each and every individual has an equal share of the total income. This is opposite with perfect income inequality, where one individual has all of the total income. But neither of these extreme situations exists in any national economy.

2.3 Relationship between inequality and economic growth

During the 1970s, in the developed world, there was a growing concern with the quality of life, and which was manifested in protests against the consequences of economic growth, such as pollution and depletion of natural resources. In the developing world the main concern was focused on the relationship between economic growth and income distribution, since many countries that had experienced growth rates above their historical standards realized that such growth seemed to have negatively affected the income distribution, leading to increased inequality and a failure to eliminate the level of poverty (Todaro, 1994). In 1955s, Simon Kuznets formulated the most important contribution to the study of inequality which is known as the "inverted U-curve" hypothesis. Kuznets (1955) hypothesis suggests that, during a country's economic development, inequality rises at the initial stage and it declines as economy growth continuously which is resulted inverted U-shaped relationship between per capita income and income inequality. His primary example was the shift from the low-income agricultural sector to the high-income industrial sector but his theory can be applied to any major innovation or new technology.

Barro (1999) constructed theory on how growth can be affected. These theories can be classed into four broad categories such as; credit-market imperfections, political economy, social unrest, and saving rates. Credit market imperfection reflect balance information and limitations of legal institutions because creditors may have challenge in collecting on defaulted loans because law enforcement is imperfect. Higher inequality through credit-market imperfections thus reduces the possible economic output. Political economy perspective argues a greater degree of inequality motivates more redistribution through the political process especially transfer payments and the associated tax finance. High inequality motivates the poor to engage in crime, riots, and other disruptive activities and this participation represents a direct waste of resources because the time and energy of the criminals are not devoted to productive activities and destabilize the economy of the country. A rise in inequality tends to raise investment and then more inequality would enhance economic growth at least in a transitional sense and the saving rate provide an explanation why inequality could have a positive impact on economic growth. Galor and Moav (2004), on the other hand, provided a single theory in which the relationship between the distribution of income and growth is not stable over time. It rather depends on the stage of development in a country. The positive impact of inequality upon growth reflects the situation of an economy during its early stage of industrialization. At the early stage, the accumulation of physical capital is the principal engine of growth and it is promoted by inequality among people. Once the economy has passed the early stage, the accumulation of human capital becomes the prime engine of growth and a more equal distribution of resources allows more people to invest in education. Galor (2000) and Galor and Moav (2000, 2004) also suggested that the relationship between income inequality and growth depends on the stage of economic development or industrialization.

Aghion (1999) summarized three points why inequality has been seen to have an effects on growth. The first argument is the hypothesis of marginal propensity to save of the rich people is greater than that of the poor people. Second, in the separate investment and large sunk costs, the concentration of wealth is an important for the creation of new activities. The third argument is that the trade-off between equity and efficiency through incentives to workers. If output depends on the work effort of agents and an equal distribution of wages might discourage them from making any additional effort and thus reduce the efficiency of the production system (Mirrlees, 1971). Clark (1995) argued that the nations experiencing high rates of income inequality are less developed countries and developing countries. It has been argued that in the future, income inequality and the accumulation of wealth in a small proportion of individuals would result in higher growth. On the other hand, Alesina and Rodrik (1991) and Persson and Tabellini (1990) argued that inequality actually slows growth. This is because increased inequality causes greater conflict over distributional issues, thereby encouraging greater government intervention into the economy and higher taxes.

Perotti (1996) summarized the arguments why income inequality will be harmful for economic growth. The first argument is that an unequal distribution of income will lead to pressure for redistribution through distortionary taxes and incase reducing growth. The second argument is that inequality may lead to sociopolitical instability, which will in turn reduce investment and hence growth. The third argument is that in the presence of imperfect capital markets inequality will reduce investment in human capital, which will in turn reduce growth. The fourth and final argument is that as inequality increases, fertility is likely to rise and human capital investment fall, both reducing growth.

2.4 Empirical Evidences on the Relationship between Inequality and Growth

Studies are conducted to examine the relationship between income inequality and economic growth for cross country differences, in both developed and developing countries. The findings are, however, mixed: positive, negative, no interaction and following Kuznets curve. Tian (2012) investigated the relationship between income inequality and economic growth in China by using OLS method using 22 years data from 1985 to 2007. The results showed that income inequality had negative impact on economic growth rate. Along with this effect, it achieved the expectation that increased income inequality results decreased saving rate and decreased GDP growth rate. Barro (1999) with evidence from a broad panel of countries showed little overall relationship between income inequality and rates of growth and investment. The study suggested that income inequality have positive effects for high level income but negative for low income per capita. Shin (2012) used heterogeneous agent growth model and found that in the early stage of economic development. Dahan and Tsiddon (1998) investigated the dynamic interactions among demographic transition, income distribution, and economic growth. They showed that fertility and income distribution followed an inverted U-shaped dynamics in the process of economic development. Voitchovsky (2005) analyzed the influence of the shape of income distribution on economic growth for a panel of 25 countries, and claimed that inequality within a country is positively correlated to growth at the top quartiles of the distribution, but negatively linked at the lower end of the distribution.

Medgyesi and Toth (2009) analyzed the different growth effects on the distribution of labour incomes by using a high-productivity modern sector and a low-productivity/low-wage sector. They argued that when employment increases with the same proportion, growth does not necessarily change income distribution. Gelaw (2009) analyzed the relationship between poverty, inequality and growth in rural Ethiopia and he argued that change in inequality significantly affected the poverty gap in Ethiopia. Hsing (2005) examined the relationship between income inequality and economic growth by incorporating investment and human capital in economic growth function in the US. The results showed income inequality retarded economic growth while investment and human capital stimulated it. Jong (2010) used the data set of Forbes (2000) and applied dynamic panel technique. The result showed that long term economic growth is inversely affected by income inequality. In the short term to the medium term, income inequality affects economic growth but impact is uncertain and same is true from sub-group analysis. Fields (1988) used cross-sectional data, inter -temporal data, and micro data states that considering the two possible conclusions, that are income inequality must increase before it decreases and the other one is that income inequality may increase or decrease depending on the type of country and the policies pursued. Herzer and Vollmer's (2012) study on 46 countries by using a panel co-integration analysis showed on average income inequality has a negative long-run influence on economic growth. Castelló-Climent (2010) applied the GMM approach and showed that income inequality leads to human capital inequality that in turn retards economic growth. Binatli (2012) examined the relationship between income inequality and per capita income during the periods of 1970–1985 and 1985–1999. The results showed positive impact of income inequality on economic growth in the nineties and negative effect of income inequality in the seventies. Zouheir and Imen (2012) examined the nexus between income inequality and economic growth using data from North African countries. They found that high income inequality is harmful for economic growth but trade openness and physical and human capital investment enhanced economic growth. Malinen (2013), investigated the relationship between inequality and growth in 70 OECD and non-OECD countries using GMM estimation technique and found a negative relationship between inequality and growth.

Fawaz *et al.* (2014) discovered that high-income developing countries (HIDCs) and low-income developing countries (LIDCs) showed different relationships. The HIDCs showed a positive relationship between economic growth and inequality, while the LIDCs possessed a relationship opposite of the HIDCs. As economic growth increased, then income inequality decreased. Lee *et al.* (2015) have argued that the long-held view that inequality was an inevitable outcome of structural transformation had been based on a partial reading of Kuznets. Reducing inequalities in the context of structural transformation is not automatic. Rather, it is a matter of social and political choice, and robust policies. UNDESA (2013) supported that inequality decrease much depends on country-specific conditions and national policies.

Betselot (2015) investigated the relationship between income inequality and economic growth in Ethiopia by using secondary data for 1981/82-2013/14 using Auto Regressive Distributed Lag Model. She argued that in the long-run economic growth is significantly and negatively related to income inequality.

2.4 Conceptual Framework

Theoretically, income inequality within nations rises in the early stages of economic growth, becomes more pronounced at intermediate levels of development, and decreases thereafter as countries become wealthy (Galor, 2000; Galor & Moav, 2000 & 2004; Kuznets; 1955). Based on the literature, the study has developed the following conceptual framework.

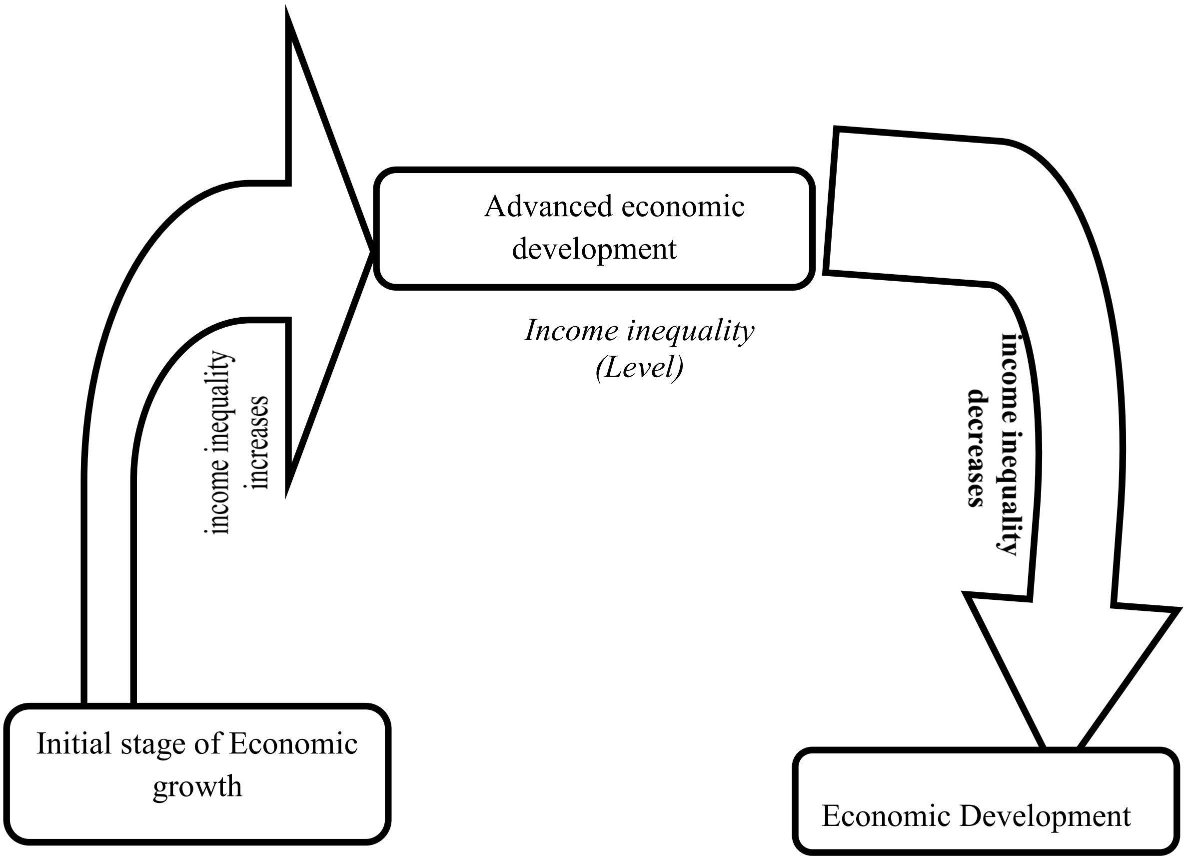

Figure 1: Conceptual framework of the study

Source: Authors' construction based on literature (2018)

3. RESEARCH METHDOLOGY

3.1 Research Approach and Design

Quantitative research approach involves the collection of data which involves data collection that is typically numeric and tends to use mathematical models as the methodology of data analysis (Leedy & Ormrod, 2001; Creswell, 2003). The descriptive research design is a basic research method that describes the situation as it exists in its current state. Causal research design helps to examines how the independent variable are affected by the dependent variables and involves analysis of cause and effect relationships between the variables (Vogt, 1999). The study employed a quantitative type of research approach as well as both descriptive and causal research design as they are appropriate to achieve its objectives.

3.2 Data Source, Description of Variables and Hypothesis

The research used secondary data collected from National Bank of Ethiopia (NBE) and the World Bank (WB) dataset. The study covered the time period from 2002 to 2017 by using time series data from different sources. Real GDP, which is the total market value or monetary value of all finished goods and services produced in a country borders in a specified time period and calculated on annual basis, was collected from NBE. Income inequality, measured using the GINI coefficient been collected from the World Bank Database. In view of the fact that Ethiopia is a low income country, according to Kuznets (1955), positive relationship between inequality and economic growth is expected.

3.3 Methods of Data Analysis

The collected data were analyzed by using both descriptive and econometric method. Descriptive statistical methods which are used to describe the variables are presented using graphs and tables. Econometrics tools and techniques were used to do necessary diagnostics tests, and to explain long-run and short-run relationship between economic growth and income inequality. The econometric tools were estimated using Eviews 9 application software. The analysis of long run and short run relationship between income inequality (GINI coefficient) and economic growth (Real GDP) can be computed by sing Autoregressive Distributed Lag (ARDL) model. Pesaran and Shin (1999) introduced the ARDL model to co-integration and error correction depending on the degree of stationary levels of the variables. This method has certain econometric advantages as compared to other co-integration procedures. The first one is, it is applicable irrespective of the degree of integration of the variables (i.e., whether the variables are purely I(0), I(1) or mixture of both) which avoids the pre-testing problems associated with standard co-integration, which requires that the variables be already classified into I(1) or I(0) or mixture of both (Pessaran *et al.*, 2001). Secondly, the long run and short run parameters of the model are estimated simultaneously since it takes into account the error correction term in its lagged period. Third, with the ARDL approach it is possible that different variables have different optimal numbers of lags of the order of integration of the variables. The fourth advantage is, the ARDL approach is more robust and performs better for small sample sizes and by applying the ARDL technique we can obtain unbiased and efficient estimators of the model (Narayan, 2004). Mathematically, the model is presented below.

The ARDL *(p, q1, q2......qk)* model specification is given as;

$$\Phi\ (L, p)\ yt = \sum_{i=1}^{k} \beta_i\ (L, q_i) x_{it} + \delta w_t + \mu_t ut \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(1)$$

Where: $\Phi\ (L, p) = 1 - \Phi 1L - \Phi_2 L^2 - \ldots. - \Phi_p L^p$

$\beta(L,q) = 1 - \beta_1 L - \beta_2 L^2 - \ldots. - \beta_q L^q$, *for* $i=1,2,3\ldots\ldots.k$, $\boldsymbol{u}_t \sim iid(0;\delta^2)$.

L is a lag operator such that $L^0 y_t = X_t$, $L^1 yt = y_{t-1}$, and w_t is as x1 vector of deterministic variables such as the intercept term, time trends, seasonal dummies, or exogenous variables with the fixed lags. *P=0,1,2…,m, q=0,1,2….,m, i=1,2….,k:* namely a total of *(m+1)k+1* different ARDL models. The maximum lag order, m, is chosen by the user. Sample period, *t = m+1, m+2…., n.*

Or

The ADRL (p, q) model specification:

$\boldsymbol{\Phi}$ *(L) yt =* $\boldsymbol{\varphi}$ *+* $\boldsymbol{\theta}$ *(L) xt +*μ_t*, …………………………………………..(2)*

With

$$\boldsymbol{\Phi}(L) = 1 - \boldsymbol{\Phi}_1 L - \ldots - \boldsymbol{\Phi}_p L_p,$$

$$\boldsymbol{\theta}(L) = \boldsymbol{\beta}_0 - \boldsymbol{\beta}_1 L - \ldots - \boldsymbol{\beta}_q L^q.$$

Hence, the general ARDL *(p, q1, q2......qk)* model;

$\Phi(L)y_t = \boldsymbol{\varphi} + \boldsymbol{\theta}_1(L)x_{1t} + \boldsymbol{\theta}_2(L)x_{2t} + \boldsymbol{\theta}_k(L)x_{kt} + \mu_t$ *…………………………(3)*

Using the lag operator L applied to each component of a vector, $L^k y = y_t - k$, is convenient to define the lag polynomial *Φ(L,p)* and the vector polynomial *β(L,q).* As long as it can be assumed that the error term u_t is a white noise process, or more generally, is stationary and independent of *xt, xt-1, … and yt, yt-1, …,* the ARDL models can be estimated consistently by ordinary least squares.

Given the above model specification, model for the study is rendered as the form:

$\boldsymbol{\Phi} \ln Y_t = \beta_o + \beta_1 \ln x_{1t} + \beta_2 \ln x_{2t} + \beta_3 \ln x_{3t} + \ldots\ldots\ldots + \beta_{ki} \ln x_{kt} + \varepsilon_t$…… (1)

$\boldsymbol{\Phi} \ln RGDP_t = \beta_o + \beta_i \ln GINI_t + \varepsilon_t$………………………………………… (2)

Where: $\ln RGDP_t$ - Natural logarithm of real GDP

$\ln GINI_t$ - Natural logarithm of inequality

β_o – Constant and β_1 are partial regression coefficients

ε_t- Error term

t- Time trend to capture the effect of time

The study employed OLS estimation procedure for the regression parameters. Thus, the general ARDL structure for two variables (Y_t and X_t) can be expressed as follows:

$$Y_t = \sum_{i=1}^{n} \alpha_i Y_{t-i} + \sum_{j=0}^{n} \beta_j X_{t-j} + \varepsilon_t \quad \text{.............................} \quad (3)$$

The OLS estimation of the ARDL model of the variables in this study is presented as:

$$\Delta \ln RGDP_t = \alpha_0 + \sum_{i=1}^{n} \alpha_{1i} \Delta \ln RGDP_{t-1} + \sum_{i=0}^{n} \alpha_{2i} \Delta \ln GINI_{t-1} + \beta_1 \ln RGDP_{t-1} + \beta_2 \ln GINI_{t-1} + \varepsilon_t \quad \text{........} \quad (4)$$

The left-hand side is Economic Growth; which is real GDP, the expressions (β_1 and β_2), correspond to the long-run relationship and the remaining expressions with the summation sign represent the short-run dynamics of the model. The null hypothesis of no co-integration in the long-run between the variables in the above equation is:

$Null\ hypothesis\ (H_0)$: $\beta_1 = \beta_2 = 0$ (no long run relationship among the variables) against the alternative one:

$Alternative\ hypothsis\ (H_1)$: $\beta_1 \neq \beta_2 \neq 0$. The F-test has no standard distribution which depends on whether the variables include in the model are I(0), or I(1), the numbers of repressors', and whether the model contains an intercept and/or a trend (Narayan, 2004). To test the significance of lagged level of the variables under consideration, the appropriate statistic is F or Wald test as Pesaran *et al.* (2001) proposed for bound test approach will be applied. The short run Error Correction Model (ECM) integrates the short-run dynamics with the long-run equilibrium without losing long-run information. After testing the existence of a long run relationship between the variables through the Bound Testing, a short run error correction model (ECM) can be derived from ARDL through a simple linear transformation (Banerjee *et al.,* 2003). The error correction model is a short-run dynamic model, consisting of differenced variables, except the error correction term. The error correction term reflects the difference between the dependent and explanatory variable, lagged one time period. This model can incorporate a number of lags on both the dependent and explanatory variables. The diagnostic and the stability tests are conducted to ascertain the adequacy of the ARDL model. Many economic and financial time series exhibit trending behavior or non-stationery in the mean. Therefore, it is necessary to test the stability of the series before identification of the relationship between variables.

1) Stationary (Unit Root) Diagnosis: A time series is said to be stationary if its mean and variance are constant over time and the value of covariance between the two periods depends only on the distance or gap or lag between the two time periods and not the actual time at which the covariance is computed. (Gujarati, 2004). Time series data are rarely stationary in level forms. Regression involving non-stationary (I.e., variables that have no clear tendency to return to a constant value or linear trend) time series are lead to the problem of spurious regression. This occurs when the regression results reveal a high and significant relationship among variables but no relationship exist in fact. Stock and Watson (1988) have shown that the usual test statistics (t, F, DW, andR^2) will not possess standard distributions if some of the variables in the model have unit roots. The other precondition for testing unit root test when we applying ARDL model is to check whether the variables enter in the regression are not order two (I.e. I(2)). So, it is necessary to test for time series variables before running any sort of regression analysis because it affects the estimation procedures. In general non-stationarity can be tested using Augmented Dickey-Fuller (ADF) test, Phillips Perron (PP) test and Kwiatkowski- Phillips-Schmidt-Shin (KPSS) test. However, to ensure reliable result of test for stationarity, this study employs both Augmented Dickey-Fuller (ADF) test and Philip-Perron (PP) tests.

2) Heteroscedasticity and Stability Test: The diagnostic test examines the serial correlation, normality distribution of the residuals, functional form and heteroscedasticity associated with the model. The stability test employs the cumulative sum of squares of recursive residuals (CUSUMSQ) and the cumulative sum of recursive residuals (CUSUM) and examines the structural stability of the model.

4. RESULTS AND DISCUSSION

4.1 Results of Descriptive Statistics

The descriptive statistics describes the basic futures of the data in a study. It provides simple summaries about the sample and the measures and a better look about the variables by summarize the statistical properties of the series in the model. Table 1 presents the statistical summary of income inequality and real GDP for the period under consideration. With the average (mean) value of 439422.8, the dependent variable (real GDP) has minimum and maximum values of 197604.4 and 803357.4 respectively. The mean, minimum and maximum value of GINI is 0.32, 0.29 and 0.391. The implications of the high range, is that the presence of out layers which in turn affects the mean value of data. The standard deviation of RGDP and Gini is 200890.1and 0.030 respectively, which shows the actual observation of the RGDP is highly dispersed from the mean values while GINI has lowest standard deviation of 0.03 implies its mean value and actual observations are close each other.

Table 1: Descriptive statistics for Dependent and Independent Variables

Statistics	Variables	
	RGDP	GINI
Mean	439422.8	0.32
Median	399290.1	0.31
Maximum	803357.4	0.39
Minimum	197604.4	0.29
Std. Dev.	200890.1	0.03
Observations	16	16

Source: Authors' estimation based on NBE and World Bank data sets (2018)

According to Todaro (2012) the Gini coefficient for countries with highly unequal income distributions typically lies between 0.50 and 0.70, relatively equal distributions, it lies between 0.20 and 0.35 and it is approximately 0.44 for a relatively unequal distribution. The average (mean) value of GINI in Ethiopia which is 0.32 lies between 0.20 and 0.35, represents there is relatively equal distributions.

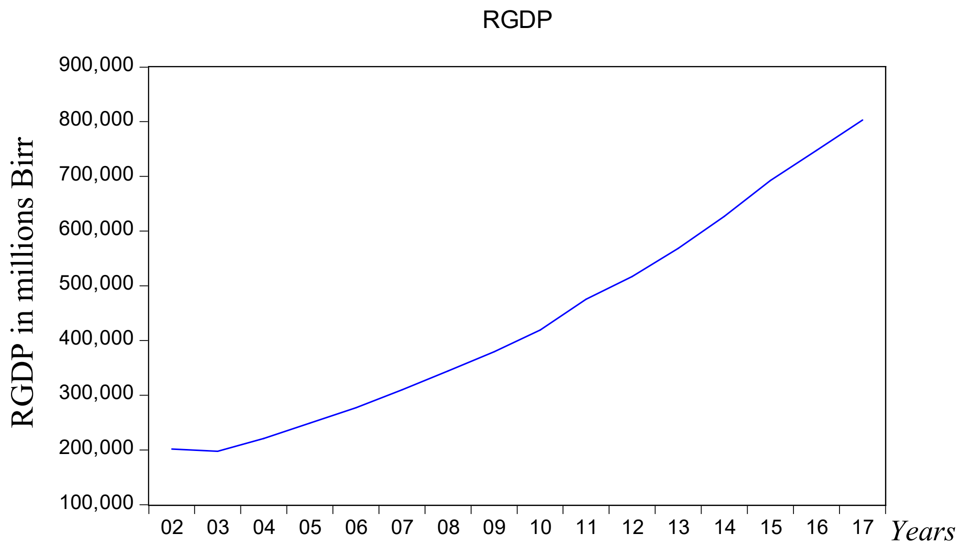

Figure 1: Trends of Total real GDP in Ethiopia from 2002−2017

Source: Authors' computation based on NBE data (2018)

According to NBE, the real GDP of Ethiopia was 201,840.04 million birr in 2002 and it reaches 803357.42 million birr in 2017. Figure 1 above showed that from 2002 to 2017 the graph is sharply upwards that indicates higher rate of growth. This unprecedented high growth rate is attributed due to a combination of pro poor growth policy (since 2003 on wards) and state led development program (since 2005 on wards) and the present government implementing a development program aimed at poverty reduction through rapid economic growth and macroeconomic stability (Zerayehu 2013).

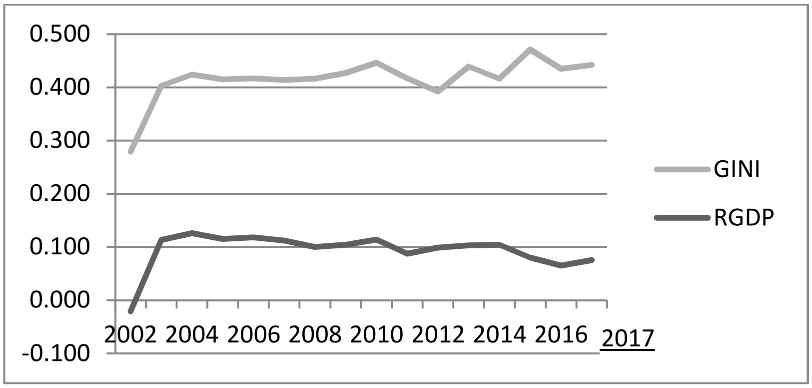

Figure 2: Trends of GINI coefficient and growth rate of RGDP

Source: Authors' computation based on World Bank data and NBE (2018)

The trend of income inequality (GINI) and growth rate of real GDP relatively low at starting year and shows increase. Figure 2 illustrates the same properties that increase or slight decrease at the same periods. This shows positive relationship between GINI and RGDP. Therefore according to Kuznets hypothesis an increase in income inequality as economy growth at initial stage, Ethiopian income and growth relationship follows Kuznets hypothesis. Since Ethiopia is a low income country.

4.2 Results of Econometric Analysis

1) Results of Unit Root Test

Most macroeconomic time series are trended and therefore in most cases are non-stationer. In order to receive consistent, reliable results, the non-stationary data needs to be transformed in to stationary data. Unit Root test is used to make the data stationary. So before to utilizing the data in estimating ARDL model, it is very important to check the time series properties of each series. When a series contains unit root, it is common to transform the variables through differencing so as to make it stationary. In order to determine the degree of integration, a unit root test is carried out using the standard Augmented Dickey Fuller (ADF) and Phillips Perron (PP) tests. Moreover in applying ARDL model all of the variables should be integrated of order zero (I (0)), integrated of order one I (1) and a mixture of two. But it should not be integrated of order two (I (2)). To check these conditions, unit root test is conducted before any sort of action taken. Therefore the unit root test could convenience us whether or not the ARDL model should be used. The result in table below shows that there is I (1) but not any order two.

Table 2: ADF Unit Root Test Results

Variables (At level & 1st difference (D))	With intercept only		Test critical values:			With intercept and trend		Test critical values:		
	t-statistics	Prob	1% level	5% level	10% level	t-statistics	Prob	1% level	5% level	10% level
LNRGDP	0.23	0.97	-3.96	-3.08	-2.68	0.67	0.99	-4.89	-3.83	-3.36
D(LNRGDP)	-8.24	0.00	-4.0	-3.10	-2.69	-3.04	0.16	-4.99	-3.88	-3.39
LNGINI	-0.04	0.94	-3.96	-3.08	-2.68	0.71	0.99	-4.89	-3.829	-3.36
D(LNGINI)	-7.35	0.00	-4.0	-3.10	-2.69	-3.23	0.13	-4.99	-3.875	-3.39

Source: Authors' estimation based on NBE and World Bank data sets (2018)

Based on the above ADF Unit root test result, both variables are stationary in first difference. This result indicates that, none of the variables are I (2).

Similarly, the PP test shows that both variables are stationary in first difference. Form table 2 and 3 we can conclude that none of the variables entered in the regression are order two, which are not desire in applying ARDL model. So ARDL co-integration technique proposed by Pesaran *et al.* (2001) is the most appropriate method for estimation or to check the long run relationship among the variables.

Table 3: Phillips-Perron test statistic test (unit root test) results

Variables (At level & 1st difference (D))	With intercept only		Test critical values:			With intercept and trend		Test critical values:		
	Adj. t-Stat	Prob	1% level	5% level	10% level	Adj. t-Stat	Prob	1% level	5% level	10% level
LNRGDP	0.25	0.97	-3.96	-3.08	-2.68	-4.01	0.03	-4.73	-3.76	-3.33
D(LNRGDP)	-7.48	0.00	-4.06	-3.1	-2.69	-30.55	0.00	-4.80	-3.80	-3.34
LNGINI	-0.02	0.94	-3.96	-3.08	-2.68	-3.20	0.12	-4.73	-3.76	-3.33
D(LNGINI)	-6.15	0.00	-4.0	-3.1	-2.69	-35.20	0.00	-4.80	-3.79	-3.34

Source: Authors' estimation based on NBE and World Bank data sets (2018)

2) ARDL Bound Tests for Co-integration

After checking the stationarity of the variables, the next step is checking the bound test for co-integration. The first task in the bounds test approach of co-integration is estimating the ARDL model using the appropriate lag length selection criteria. A maximum lag of order 1 was automatically chosen for the conditional ARDL model. Because according to Pesaran and Shine (1999) for the annual data are recommended to choose a maximum of one or two lag lengths. In addition the stationarity of the results confirmed that both variables were of order 1 and according to Wooldridge, (2000) the more lags we include, the more initial values we lose. The F-test through the Wald test (Bound test) is performed to check the joint significance of the coefficients. . Then Wald (bound test) is performed and the value for F-statistic obtained. The computed F-statistic value is compared with the lower bound and upper bound critical F-values that have been provided by Pesaran *et al.* (2001) and Narayan (2004). As it is indicated in Table 4.

Table 4: Results of the ARDL Bound Test

Test Statistic	Value	K	Critical Value Bounds		
			Significance	I0 Bound	I1 Bound
F-statistic	100.9355	1	10%	4.04	4.78
			5%	4.94	5.73
			2.50%	5.77	6.68
			1%	6.84	7.84

Source: Authors' estimation based on NBE and World Bank data sets (2018)

As indicated in the above table, the calculated F-statistic i.e. 100.9 is higher than the upper bounds of the critical values at all significance levels. Since the computed F-statistics is greater than the upper bound critical value, it implies that it rejects the null hypothesis (H_0= No long run relationship exist among the variables) and accepts the alternative hypothesis (Long run relationship exists).

3) Model Stability and Diagnostic Test

From Table 5 the test for serial correlation is the Langrangian Multiplier (LM) test for autocorrelation, the test for functional form is Ramsey s RESET test, the test for normality is based on a test of skewness and kurtosis of residuals and the test for a hetroskedasticity is based on the regression of the squared residuals on square fitted values. Table 5 indicates that the long run ARDL model estimated in the study passes all the diagnostic tests. This is because the p-values associated with both the LM version and the F version of the statistics was unable to reject the null hypothesis specified for each test.

Table 5: Results of Diagnostic Test

Test Statistics	LM Version	F Version
A:Serial Correlation	CHSQ(2)= 2.378143[.3045]	F((2,12)= 1.047497[.3808]
B:Functional Form	CHSQ(1)= 2.585998[0.1078]	F(1, 13)= 2.280450[.1549]
C:Normality	CHSQ(2)= .079476[.961041]	Not applicable
D:Heteroscedasticity	CHSQ(1)= .330476[.5654]	F(1,14)= .295265[.5954]

A: Lagrange multiplier test of residual serial correlation

B: Ramsey's RESET test using the square of the fitted values

C: Based on a test of skewness and kurtosis of residuals

D: Based on the regression of squared residuals on squared fitted values

Source: Authors' estimation based on NBE and World Bank data sets (2018)

The first test is answers the question whether there is or not an interdependence/correlation between the two residuals. This is called an autocorrelation test. The Brush God Fray LM test failed to reject the null hypothesis because the p-values associated with test statistics is greater than the 5% standard significance level (i.e. 0. 3045 > 0.05). This implies that there is no problem of autocorrelation in the model. Secondly, the results of the Ramsey's RESET test, which tests whether the model suffers from omitted variable bias, showed that the model is correctly specified (see Table 5). The third test is about the nature of distribution of the residual. Since the p-value associated with the Jaque-Berra normality test is larger than the standard significance level (i.e. 0.96 > 0.05), we fail to reject the null hypothesis. The last diagnostic test deals about the variance nature of the residual i.e. hetroskecedasitcity test. The null hypothesis is constant variance of the residual or homoskecedasitcity as we observed from the above table the p-value of the test statistics is higher than the associated significance level (i.e.

0.57 > 0.05), then we fail to reject the null hypothesis. Therefore, it can be concluded that there is no specification error.

4) Stability Tests (Plot of CUSUM and CUSUMQ)

The cumulative sum of recursive residuals (CUSUM) and cumulative sum of squares of residuals (CUSUMQ) plotted against the critical bound of the 5% significance level which shows that the model is stable overtime. The stability of the long run coefficients is used to form the error correction term in conjunction with the short run dynamics. Having this in mind, in this study the CUSUM and CUSUMQ tests which are developed Brown et al. (1975) are conducted. CUSUM test is based on the first set of n observations.

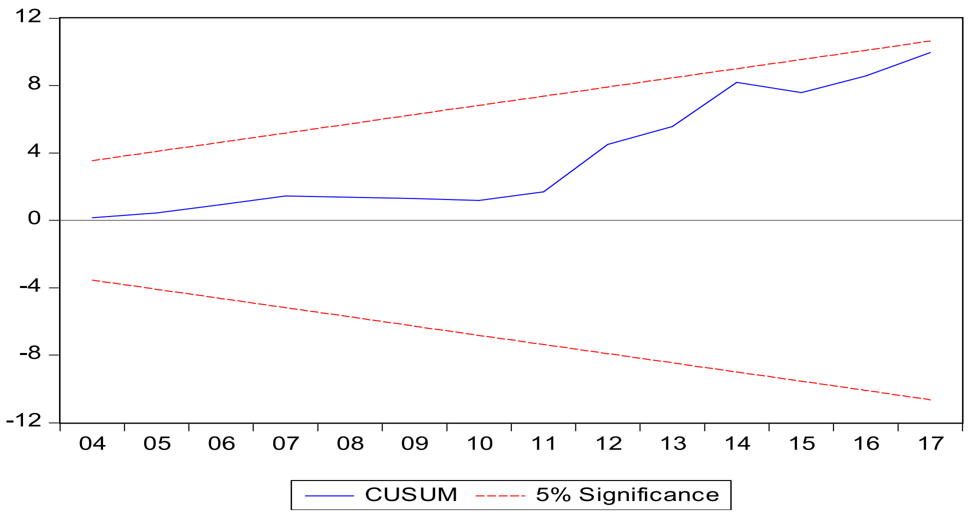

Figure 3: Plot of Cumulative Sum of Recursive Residuals (CUSUM)

Source: Authors' estimation based on NBE and World Bank data sets (2018)

If the plot of CUSUM stays within 5% significance level, then estimated coefficients are said to be stable which is similar to carry out the CUSUMQ that is based on the squared recursive residuals. Depending on the plotted graph, one can identify at what point of time a possible instability (structural break) occurred. If the plot of CUSUM and CUSUMQ statistic moves without crossing the straight lines, then the estimated coefficients are said to be stable.

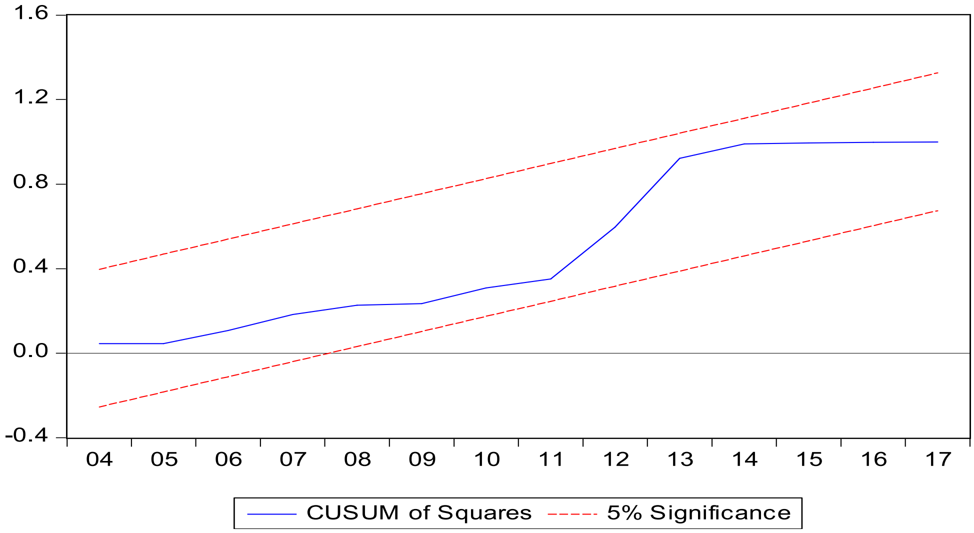

Figure 4: Plot of Cumulative Sum of squares of Recursive Residuals

Source: Authors' estimation based on NBE and World Bank data sets (2018)

As the above figure indicates both CUSUM and CUSUMQ test statistic for the model did not cross the critical value lines, so it is safe to conclude that the model is stable. Accordingly, the results of the estimated model are reliable and efficient.

4.2. Estimation Results of Econometric Model

1) Long Run Relationship between Economic Growth and Income Inequality

After testing the bound test for integration the next step is long run model estimation. The results of the bound test indicates us the existence of a long run relationship between Gini coefficient and real GDP. The estimated long run ARDL model is presented in table 6.

Table 6: Results of ARDL Long-run Estimation

ARDL(1,1) selected based on Akaike Information Criterion			
Dependent variable is LNRGDP			
16 observations used for estimation from 2002 to 2017			
Regressor	Coefficient	Standard Error	t-Ratio [Prob]
LNGINI	13.76	0.39	35.55(0.000)
C	-22.23	0.97	-22.89(0.000)

Source: Authors' estimation based on NBE and World Bank data sets (2018)

According to the result from the long run test statistics, gini coefficient is significantly and positively related to real GDP. In case it follows Kuznets hypothesis since Ethiopia is a low income country, so the income inequality and economic growth rise at the same time. Since the researcher has specified the growth model in a log-linear form, the coefficients of the dependent variable is interpreted as elasticity with respect to real GDP. The long run model result indicates that Gini coefficient is statistically significant at 1% significance level. Since the coefficient of Gini is 13.8%, which is the income inequality elasticity of Real GDP. Thus, holding other things constant a one decrease in income inequality will decrease 13.8% real GDP. The finding of the study is similar to the findings of by Perotti (1996), Forbes (2000), Delbianco *et al.* (2014) and Lee *et al.* (2015). Based on the above result, the estimation equation becomes:

$$LnRDP = -22.23 + 13.\ 76 lnGINI$$

2) Short-Run Error Correction Model

After the acceptance of long run coefficients of the growth equation the short run Error Correction Model (ECM) is estimated. ECM indicates the speed of adjustment to restore equilibrium in the dynamic model. It is one lagged period residual obtained from the estimated dynamic long run model. The coefficient of error correction term indicates how quickly variables converge to equilibrium. Moreover it should have a negative sign a statistically significant at standard significant level (i.e. p- value should less than 0.05). The result presented in Table 7 shows that the value of ECM (-1) is statistically significant at the 5% significance level with negative sign which implies that the error correction process converges monotonically to the equilibrium path relatively quickly and such very high significance of ECM (-1) is further proof of the existence of established stable long run relationship between the variables (Banerjee *et al.*, 2003).

Table 7: Error Correction Representation for the selected ARDL model

ARDL(1, 2, 1, 0) selected based on Akaike info criterion (AIC)				
Dependent variable is D(LNRGDP)				
16 observations used for estimation from 2002 to 2017				
Regressor	Coefficient	Standard Error	T-Ratio	[Prob]
D(LNGINI(-1))	26.87**	6.85	3.92	0.01
ECM(-1)	-0.37**	0.09	-3.99	0.01
C	-1.28	0.42	-3.02	0.03
R-squared = 0.956429				
Adjusted R-squared = 0.880180				
F-statistic = 12.54347				
Prob(F-statistic) = 0.013891				

Source: Authors' estimation based on NBE and World Bank data sets (2018)
Note: the coefficients are statistically significant at 5%.

The equilibrium error correction coefficient is equal to -0.37 implies that approximately 37% of the disequilibrium from the previous year's shock converges back to the long-run equilibrium in the current year. Since, its coefficient has the correct negative sign and significant at 5% level, it results in a very high speed of adjustment to equilibrium after a shock. As it is shown in the result table, similar to the long run coefficients, the main variable, i.e, the Gini coefficient is positively related to RGDP. The coefficient of determination (R-squared) is high explaining that about 95.64% of the variation in the real GDP is attributed or explained by the variations of the variable that is used in the model. In addition the F-statistics is significant that shows the model is good to explain the relationship between the variables in the short run.

5. CONCLUSION

The main objective of this study is to investigate the relationship between income inequality and economic growth in Ethiopia ranging the time from 2002 to 2017. The study have investigated the long run and short run relationships between income inequality and real GDP by using Autoregressive Distributed Lag (ARDL) model to co-integration bound test approach to error correction. Before applying the ARDL model, all variables are tested for their time series properties (stationary properties) using ADF and PP tests. ADF test result shows the variables are stationary at their first difference and the PP test indicates the same as ADF test. This confirms the reason why the researcher uses ARDL model. As we have seen from the finding part a one percent increase income inequality will increase real GDP will grow by 13.76 percent and 26.87 percent in the long run and short run respectively during the study period. The short run error correction model (ECM) formulation reveals that there is convergence towards equilibrium in the long run and the adjustment is fairly strong(36.62%) per annum and statistically significant.

According to Kuznets (1955) in the early stages of economic growth inequality within nations rises as economy growth. That means there is positive relationship between income inequality and economic growth and also he explained that the process of economic growth had reduced income as labor shifts from the agricultural sectors to industrial sectors. From the above finding result income inequality and economic growth are positively related, which is the same to the Kuznets hypothesis. Therefore the relationship between income inequality and economic growth in Ethiopia follows the Kuznets curve since Ethiopia is a low income country whose economy is dominated by agriculture and targets to become a low middle-income by transform the country into a manufacturing hub.

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Assessment of Challenges and Performances of Ethiopian Export Market

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Abstract
Export is an important ingredient for country's economic growth and sustainable development, like in Ethiopia; it is the back bone of the country's economy. The main objective of the study was to assess challenges, opportunities and performance of Ethiopian export market in the past three years (2015 -2017). The study was conducted by the relevant primary and secondary data from the key staff member of the exporting companies, their associations and the government bodies through questioners and deep interviews. After the data has been collected, it was analyzed by using simple statistical techniques which is tables and percentages. The findings of the study showed that, there are many challenges in the internal and external environment of the exporters. The major factors are strong international competition, high transportation costs and ineffective national export promotion programs. In the overall export performance as country wide was deteriorating year after year and the firm's perception about their performance was extremely dissatisfied. However, the country has opened many doors for promoting the sector in many incentive packages. Finally, based on the findings, results and analysis of the study a general and policy implication recommendations are forwarded. In general recommendations, top management of the company should work on the improvement of their product quality and uniqueness, the firm should be cost sensitive for their products by minimizing costs and increase their competitive advantages in the global market. In additional, the policy implications to increasing the availability of credit facilities, simplifying export sector regulations and formulation short-term and long-term export growth policies are essential to improve export performance of the country.

Keywords: Competition, Export Performance, global market, marketing strategy, Ethiopia.

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1. INTRODUCTION

1.1 Background of the Study

Nowadays, export trade is vital for the nation's economy. Export performance and economic growth relations are becoming the main agenda in the international and regional development programs around the world (International Labour Office, 2015). Ethiopia is a developing East African country going through political, economic, social and technological transitions. The country's development strategy has the objectives of promoting rapid economic growth with a stable economic atmosphere and enhancing the integration of country's economy with a global economy (Allaro, 2012).

Ethiopia's potential for export of manufactured goods lies in textile, leather and leather products, as well as products of agro-processing. Exporters have a good possibility of increasing export due to the availability of all-important elements in the country at a reasonable price. These elements are, "raw materials, low wages and low energy costs" (Abadi, 2015, p. 36). This is highly important for a country to attract the industry investments and also it gives a comparative advantage of other countries.

1.2 Statement of the Problem

To generate sustainable growth in the country, the government has developed Growth and Transformation Plan to bring about a shift in the export sector. Export items such as "flower, fruits, vegetables, coffee, sesame and cereals" are the major exportable commodities of agricultural sector; however, during the plan period, performance of these sub sectors fell short of the planned targets (National Planning Commission, 2016, p. 65). Export is regarded as the most common international market entry mode (Saravanavel, 2009). While, countries want to achieve sustainable economy, it gives to priority for the export sector. Ethiopia export sector is expected to serve as a key driver for economic transformation through "expanding output, employment creation, technology transfer and introduction of new products" (National Planning Commission, 2016, p. 105). Thus, aggressively expanding the export sector will be a key direction to ensure sustainable economic growth and development. But, over the past three years, the weak performance of the export sector was the main constraint in ensuring reliable and adequate supply of foreign exchange required for imported capital goods and services that are "essential for industrialization, infrastructure development and technological upgrading" (National Bank of Ethiopia, 2017, p. 68). Therefore, the paper has assessed and explored the challenges, opportunities and performance of the country's export market in the past three years from 2015 to 2017. Consequently, attempts have been made to find answers for the following basic research questions:

1) How is export trade performing during 2015-2017 and what is the level of performance?
2) What are the main factors that influence performance of the export market?
3) To what extent the opportunities available in the export sector?
4) What should be done to improve the performance of export trade?

2 LITERATURE REVIEW

2.1 Importance of Export Marketing

Exports are significant contributions for all developed or underdeveloped countries. The International Journal of Fundamental Psychology and Social Sciences (2011) article listed out the main advantages of export marketing at the national level are:

i. *Foreign exchange earnings:* Exports are very important for exporting countries by earning foreign exchanges. It is vital for the country to pay for the import of raw materials, components, spares, capital goods and advanced technical knowledge.

ii. *Balance of payment:* Potential exports in the country are a capacity to solve the balance of payment problems and enables the country to bring favorable balance of payment positions.

iii. *Promoting economic development:* Exports are required for encouraging industrial development and economic growth. Rapidly rising of export business has bringing fast and sustainable economic development in a country.

2.2 Overview of the Ethiopian Export Sector

Ethiopia is a developing East African country going through political, economic, social and technological transitions (Allaro, 2012). The country's development strategy has the objectives of promoting rapid economic growth with a stable economic atmosphere and enhancing the integration of country's economy with a global economy. Ethiopia's potential for export of manufactured goods lies in textile, leather and leather products, as well as products of agro-processing. Clothing offers a good possibility of increasing export due to the availability of all-important elements in the country at a reasonable price for the development of textile industry. These elements are, "raw materials, low wages and low energy costs" (Abadi, 2015, p. 36). This is highly important for a country to attract the industry investments and also it gives a comparative advantage of other countries.

2.3 Determining Factors of Ethiopian Export Performance

As NPC (2016) report identified the constraints of the export sector was shortage of investment land, inputs, electricity; weak trade and custom services facilitations, regulations, weak administrative and logistics support and monitoring system; the production capacity and the investment flow to the manufacturing sub-sector was not sufficient and the performance of the existing manufacturing industries was also weak in terms of volume and quality during the GTP I period. Debas (2006) study concluded that, "market access, low level of private investment, high transaction costs, infrastructural deficiencies, delays in service delivery, limited market knowledge and shortage of skilled work force" are the main constraints and challenges of Ethiopian export sector (p.103). The World Bank (2016), in a report entitled 3rd Ethiopia Economic Update: Strengthening Export Performance through Improved Competitiveness have considered exchange rate overvaluation, low level of investment in the economy, coffee surtax, inadequate marketing infrastructure, high tariffs on imports of raw materials, high trade costs and insufficient adjustment of producer prices are some of the limiting factors to the country's export growth.

2.4 Improving Market Access with Global and Regional Economic Integration

Agreements for the objectives of increasing export market and to reduce tariff and non-tariff barriers between two and more countries in a regional, continental or worldwide level for achieving a common goal of the free flow of goods and services between them is referred to as economic integration. According to the World Bank, Country Department for Ethiopia (2014), Ethiopia has market access to Common Markets for Eastern and Southern Africa (COMESA), Access to African Growth and Opportunity Act (AGOA), for Everything But Arms (EBA) trade and Generalized System of Preference (GSP) into the European Union. Especially, under the AGOA program, like other countries in the region, Ethiopia has also eligible for the US market as a duty and quota free access. In similar way, the country is entitled to get a free market access for many products in other countries market (United Nations Development Program, 2014). Some of these countries are; Canada, Japan, Australia, Russia, United Kingdom and most European Union member countries under different economic integration programs.

Africa is moving toward regional integration. There are eight Regional Economic Communities approved by the African Union (AU). These are: Community of Sahel Saharan States (CEN-SAD), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Inter- governmental Authority on Development (IGAD), Arab Maghreb Union (UMA) and Southern African Development Community (SADC) ((Ethiopian Investment Agency, 2016). Ethiopia has preferential trade agreements with key international markets. Some of these are: The African Growth and Opportunity Act (AGOA) offers market access privilege to the US market, Everything but Arms (EBA) of the EU offers market access privilege and Duty free and quota free (DFQF) privilege extended by international markets of China, India, Japan and Korea (Ethiopian Investment Agency, 2016).

2.5 Synopsis of Ethiopian GTP II Export Sector at a Glance

The export sector is expected to serve as a key driver for economic transformation through “expanding output, employment creation and technology transfer and introduction of new products” (Muhabaw, 2014, p. 76). It broadens market opportunities through serving as outlets for local producers. Export is critical for sustainable economic growth and development by enhancing competitiveness of the overall economy and expanding market opportunities. In the long run, it leads to increased competitiveness in international markets, increases efficiency in production and marketing, in the process showing other domestic producers the possibilities to penetrate into the global market. Emphasis will be given to revamping the merchandize export sector given its crucial role through boosting and sustaining overall economic growth and development. Hence, efforts will be made so as to bring a significant shift in export performance during the Growth and Transformation Plan II (GTP II) period (National Planning Commission, 2016).

3. RESEARCH METHODOLOGY

A descriptive study explores and describes the way things are. It is also concerned with the assessment of attitude, opinions, performance, demographics, practice and procedure (Kothari, 1990). For these reasons, to answer the basic research questions, this study adopts a descriptive survey method. The study used both quantitative and qualitative data that will collect from both primary and secondary data sources. The primary data was collected by self-administered questionnaires including both open and close ended questions and interviews by purposive sampling methods of the country's major valuable exportable commodity exporting companies which is represented by their associations. The secondary sources such as reports, magazines, different published and unpublished materials, journals and articles from National Planning Commission, Ministry of Trade and Industry, Ethiopian Customs Authority, National Bank of Ethiopia, Ethiopian Investment Agency and Ethiopia chamber of commerce sources will be utilized.

To conduct this study, the researchers chose the non-probability sampling techniques. This method is appropriate when the study places special emphasis upon the control of certain specific variables. At the World's Top Exports (2017) and National Bank of Ethiopia (2017) report indicated that the top 10 most valuable export product categories are representeing 92% of the overall export market of the country in 2017. These are; those products exporting company has establish their own associations for facilitating administration and other operational issues in different category. These are: depending on the two tables below, the researchers tried to select the top three most valuable export products, which accounts of 68% for the study samples. These products are coffee, tea, spices, vegetables and oil seeds.

Table 1*: Top ten export products in Ethiopia*

S.N	Product	Amount (USD Million)	Percent of the total exports
1.	Coffee, Tea, Spices	963.0	33.6
2.	Vegetables	538.4	18.8
3.	Oil Seeds	446.3	15.6
4.	Plants, Cut Flowers	221.9	7.8
5.	Gems, Precious Metals	125.7	4.4
6.	Meat	97.1	3.4
7.	Raw Hides, Skins Not Fur Skins, Leather	74.8	2.6
8.	Live Animals	61.9	2.2
9.	Electrical Machinery, Equipment	56.2	2
10.	Footwear	45.5	1.6
	Total	**2,630.8**	**92**

Source: Addis Ababa Chamber of Commerce and Sectoral Associations (2018)

Table 2: Exporters Association in Ethiopia

R. No	Name of the Association	Number of Companies	Percentage
1.	Ethiopian Coffee Exporters Association	61	19.1
2.	Ethiopian Pulses, Oilseeds and Spices Processors Exporters Association	45	14.1
3.	Ethiopian Horticulture Producer and Exporters Associations (EHPEA)	34	10.6
4.	Ethiopian Tanners, Footwear and Leather Products Manufacturing Association	38	11.9
5.	Natural Forest and Forest Products Exporters	7	2.1
6.	Live Animal Exporters	11	3.4
7.	Ethiopian Textile and Garment Manufacturers Association	49	15.3
8.	Ethiopian Handicraft Manufacturers and Exporters Association	16	5
9.	Ethiopian Honey and Beeswax Producers and Exporters Association	26	8.1
10.	Ethiopian Meat Producers Exporters Association	4	1.3
11.	Other Agricultural Related Export Companies	29	9.1
	Total	**320**	**100**

Source: Addis Ababa Chamber of Commerce and Sectoral Associations (2018)

The top ten exportable products are also represented by their 10 associations. From those associations, Ethiopian Coffee Exporters Association, Ethiopian Pulses, Oilseeds and Spices Processors Exporters Association and Ethiopian Horticulture Producer and Exporters Associations are an umbrella of 140 companies. It means that, they are 43.8% of the total exporters in the country and produced more than 65% of the country's total export value. Through these expressive data, the researchers used a sample size of 140 export companies which means 43.8% of the country exporters represented by their three associations are selected by purposive sampling methods for attained the study objectives during 2015 - 2017.

4. RESULTS AND DISCUSSION

4.1 Characteristics of Firms

1) Firm Competencies and Characteristics

Many of exporting companies are established from 1990 – 1997, these are 64% of the total. The other 7%, 18% and 11% are before 1990, between 1998-2007 and 2008-2017 respectively. On firm size, 79% are more than 100 employees and 21% of them are below 100 employees.

Table 3: Firm competencies and characteristics

Statements	Period	Total Sample (n=28)		
		Frequency	Percent	Cumulative Percent
Firm's years of establishment	Before 1990	2	7	7
	1990 - 1997	18	64	71
	1998 - 2007	5	18	89
	2008 - 2017	3	11	100
Size of the firm	0-50	-	-	-
	51-100	6	21	21
	>100	22	79	100
Export product Categories	Coffee	12	43	43
	Oil Seeds & Spices	9	32	75
	Plants & Cut Flowers	7	25	100
Effect on country of origin	Not at All	-	-	-
	Unsure	-	-	-
	Rarely	7	25	25
	Frequently	21	75	100
Quality control certification	Yes	23	82	82
	No	5	18	100

Source: Authors' survey result (2018)

The companies' major export products category is different, of this 43% are coffee products, 32% of oil seeds and spices and 25% are plants & cut flowers. Furthermore, customers' perception on the quality of those products in the country of origin is frequently perceived by 75%. But 25% of them are responded as rarely feedbacks. From these exporting companies 82% of them are certified by quality management system and 18% has not certified.

2) Firm's Level of Access

Firm's level of access is one of the measurements between company and external bodies who is involved in the export sector. In the modern theory of international trade, the Heckscher–Ohlin theory stated that; the capital rich countries are export capital intensive goods and import labor intensive goods. On the other hand, labor rich countries are exporting labor intensive goods and import capital intensive goods (Verter, 2015). This theory is absolutely true for Ethiopia, because Ethiopia exports labor intensive goods and imports capital intensive goods. Because, exporting companies in Ethiopia had shortage on capitals.

Table 4: Firms' level of access

Firm's location	Not at All		Rarely		Frequently		Convenient	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Access to necessary sources of supply.	5	18	3	11	16	57	4	14
Access to government agencies.	-	-	2	7	4	14	22	79
Access to export services such as financial, freight, insurance services and advice.	-	-	16	57	8	29	4	14
Access to the necessary general labor skills	-	-	-	-	18	64	10	36
Access to networking opportunities	-	-	7	25	2	7	19	68

Source: Authors' survey result (2018)

As the World Bank (2016) Ethiopia economic updates report identifies that, poor access of finance, low level of investment, inadequate marketing infrastructure, high tariffs on imports of raw materials are stated as some of the limiting factors to the country's export growth (The World Bank, 2016). So, as the data explained, export companies access to the necessary sources of supply was in convenient access only by 14%. The other firms are not getting sufficient access for exporting their products. In addition, government agencies access to exporting companies are by 79% of convenient. This means, the rest 21% are not access in the right time and right quality of services from them. Similarly, exporting company's access to export related activities such as finance, fright, insurance services and networking opportunities are not in convenient levels. Insufficient access of government service was listed the prior determining factors of the country's export performance reported by National Planning Commissions in 2016 (National Planning Commission, 2016).

4.2 Firm's Strategy and Export Performance

1) Firm's Export Marketing Strategy

Firm's position compared to their competitors in the safety of production and products, average cost of production, uniqueness of the product and company reputation are the major advantages by 79, 93, 82 and 86 percent's respectively. Proximity to foreign markets are 57% advantage in the company's competency. In addition, quality of personnel in the exporting companies is very essential. As stated in the Heckscher–Ohlin theory, labor rich countries are exporting labor intensive products. For exporting these products, the quality of personnel was very critical for the firms by 80%. For other 20% firms were not that much advantage, because those firm's higher number of employees working as daily laborers especially in the farm area of plants and cut flower companies.

Table 5: Firms export competencies

Statements	Major Disadvantage		Disadvantage		Advantage		Major Advantage	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Safety of production & products	-	-	-	-	6	21	22	79
Average cost of production	-	-	-	-	2	7	26	93
Product uniqueness	-	-	-	-	5	18	23	82
Quality of personnel	2	7	4	14	9	32	13	47
Export marketing knowledge	-	-	5	18	11	39	12	43
Company reputation!					4	14	24	86
Goodwill Proximity to foreign markets	-	-	1	4	16	57	11	39

Source: Authors' survey result (2018)

About the firm's major competitive advantage, the export products uniqueness was 79%, but 21% of the company's product were not unique at all. Standards of the quality like in superior levels were not by 43%. But, 39% had products of superior quality and 18% were not sure about their product's superior quality. Depending on the price competitive, 60% of the company's product was not competitive at all. Only 29% of the product was competitive in price. In promotional campaigns, 68% are not successful at all. Only 18% are certainly a successful promotional campaign.

Table 6: Firms' major competitive advantage

Statements	Not at All		Not sure		Certainly	
	Freq.	%	Freq.	%	Freq.	%
Are your export products unique?	6	21	-	-	22	79
Are your export products of superior quality?	12	43	5	18	11	39
Are your export product prices competitive?	17	60	3	11	8	29
Are your export promotion campaigns successful?	19	68	4	14	5	18

Source: Authors' survey result (2018)

As National Planning Commission (2016) and World Bank (2016) report identified that, country's export sector was inadequate marketing infrastructure, poor marketing strategy, weak custom services facilitation, regulations and logistic supports (The World Bank, 2016). In addition, firm's country of origin effect on customers' perception about their products was a higher negative response. And also, in the interview session, poor communication facilities, less export management and planning skills and poor promotional activities are the major drawbacks of their performance. The above studied major factors and firm's response about the promotion campaigns were showed that, the exporting companies' promotional campaigns were unsuccessful.

In export country destinations, 43% of the firms are exporting below 5 countries. 32% of the firms are exporting to 5-10 countries and 25% of them are exporting destinations for more than 10 countries. Depending on the continents in the export destinations, Europe is the major one by 36%. Asia

(25%) and North America (21%) are followed, but South America is the lowest by 7% of export destination continents.

Table 7: Country's Destination of Exports

Statements	Total Sample (n=28)		
	Frequency	Percent	Cumulative Percent
Numbers of regularly exporting countries			
<5	12	43	43
5 – 10	9	32	75
>10	7	25	100
Most important continents for exporting			
North America	6	21	21
South America	2	7	28
Europe	10	36	64
Asia	7	25	89
Africa	3	11	100

Source: Authors' survey result (2018)

2) Firm's Export Performance

Firm's performance on their export objectives in the market share are dissatisfied by 29%. Only 21% are satisfied by their performance. These results are also similar in the market share growth. In the firms export sales value, volume and growth 75% of them are dissatisfied. Only 14% are very satisfied and 11% are satisfied. The firms export profitability and its growth is very satisfactory by 39%, but 25% of them are dissatisfied. By new country market penetration, 82% are satisfied and very satisfied. Only 18% are dissatisfied. Like country's plan in export sector, every exporting firms were their own objectives for the total turnover and export division turnovers. From the table 12 firm's information gave a clear image about turnover performance of the firms.

Table 8: Firm's Performance on Export Objectives

Objectives	Dissatisfied		Not Sure		Satisfied		Very Satisfied	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Export market share	8	29	11	39	6	21	3	11
Export market share growth	8	29	11	39	6	21	3	11
Export sales value	21	75	-	-	3	11	4	14
Export sales volume	21	75	-	-	3	11	4	14
Export sales value growth	21	75	-	-	3	11	4	14
Export sales volume growth	21	75	-	-	3	11	4	14
Export profitability	7	25	-	-	10	36	11	39
Export profitability growth	7	25	-	-	10	36	11	39
New market penetration	5	18	-	-	9	32	14	50

Source: Authors' survey result (2018)

Firm's turnover performance depending on number of companies from 2015 to 2017 was different with up and down growth. Number of firm's which achieved USD 501,000 to 1 million turnovers was decreased from 2015 to 2016 by 14% and remained in the same number in 2017. Decrease in number of firms means, firms were shifted to the next higher-level turnover ranges. It was a good indication for the firm, because their turnovers were growing. From USD 1 to 5 million accomplished numbers of firms were increased by 6% from 2015 to 2016 and decreased by 19% in 2017. Firms from lower level were up warded in 2016 and out from this range by 2017 went to the next category. USD 5 to 10 million turnover firms were increased year after year by 11% up to 2016 and 7% by 2017. This was a good sign, because number of firms was growth from lower level and their turnover was increased. More than 10 million USD turnover performance firms were increased from 32% in 2015 to 43% in 2017 by 14% incremental rate. This was an excellent performance for the firms as well as the country, because turnover growth was a solution for liquidity problems, increasing efficiency and increase inflow of foreign currencies to the country. So, the turnover performance of the firms was increased from 2015 to 2017. In 2017, 43% of the exporting firms were more than 10 million USD turnovers per annum.

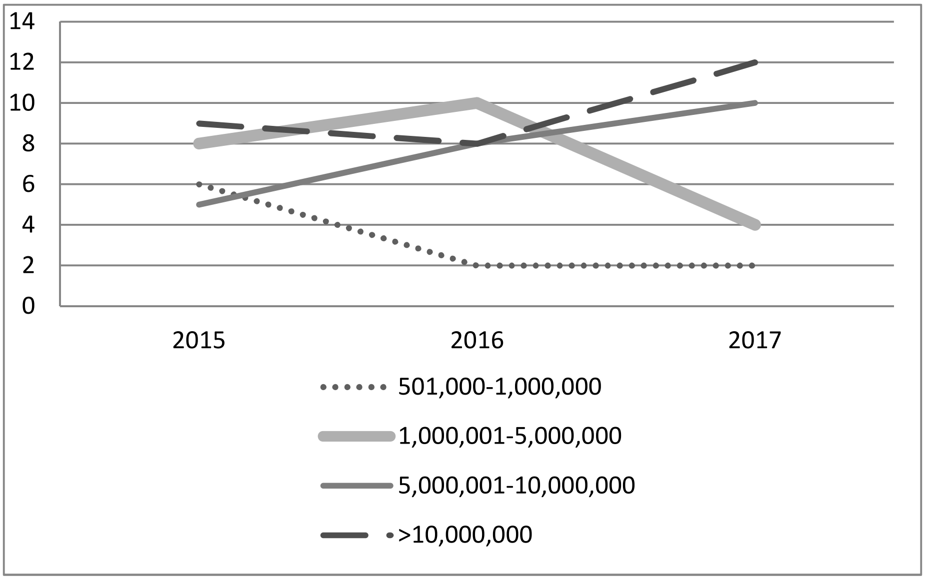

Figure 1: Number of Exporting Firms
Source: Authors' survey result (2018)

The firm's export sales performance was different from company to company and there were its own goals depending on their characteristics. But, all the companies were engaged in export business, they are expecting to all sales in the company were generated from export sales. In this understanding, as table 12 depicts, firms less than 100,000 USD sales were increased by 7% in 2017 from 2015. Growth the number of firms to lower sales range means decreased the firm's sales performance from year 2015 to 2017. While from USD 100 to 500 thousand sales in number of firms also increased by 7% from 2015 to 2017. More than USD 1 million export sales company in 2015 was 22 and in 2017 this number was decreased to 16. It means number of firms whose export sales were more than USD 1 million had decreased by 27% in 2017 from 2015.

As presented in table 8, the firm's turnover performance was in good status and increased from year to year. But their export sales were deteriorated. Because, exporting companies were dependence on short term liquidity through working capital requirements. Then, the firm were focused on domestic markets than international. The foreign market has many hassles, unpredictable changes in exchange rates, low production capacity, less commitments for facing exporting challenges and poor quality of products in export standard are the major reasons of the firm to focus on domestic markets than foreign markets (Berman & Berthou, 2011). Because of these effects the company's total sales turnover was in good progress, but export sales performance was decreased.

Table 9: Export Sales Performance of Firms

In US Dollar	2015		2016		2017	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
<100,000	2	7	-	-	4	14
100,000 - 500,000	1	4	3	11	5	18
501,000 – 1,000,000	3	11	8	28	3	11
1,000,001 – 5,000,000	11	39	12	43	13	46
5,000,001 – 10,000,000	7	25	3	11	2	7
> 10,000,000	4	14	2	7	1	4

Source: Authors' survey result (2018)

Firm's turnover and export sales performance was discussed in above. In the below table, firm's satisfaction level of their export performance was assessed. As firm's performance in terms of export sales were dissatisfied by 97%. This means, the company was not doing well in export sales performance. Additionally, firm's percentage of export sales were dissatisfied by 96%. The company's main business was export sales, but it couldn't be equal with their turnovers.

The main strategic goal of exporting company was increasing sales and growth their profits. However, their export sales showed poor performance and unsatisfactory (82% of them responded unsatisfactory). The less export sales were a negative impact on the firm's long-term profitability ratio. However, export sales were profitable and firms also satisfied by 85%. In overall export performance, 94% of firm's were not satisfied. This was a similar result reported by National Bank of Ethiopia (2017) and National Planning

Commission (2016). These reports concluded that, the country's export performance was at weak level and needs improvement in GTP II period.

Table 10: Firms' Export Performance Satisfaction Level

Statements	Extremely Dissatisfied		Dissatisfied		Satisfied		Extremely Satisfied	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Firm's performance in terms of export sales	19	68	8	29	1	3	-	-
Export sales as a percentage of total sales	16	57	11	39	1	4	-	-
Export profitability	1	4	3	11	11	39	13	46
Strategic goals achieved	12	43	11	39	2	7	3	11
Overall export performance	17	61	9	33	1	3	1	3

Source: Authors' survey result (2018)

4.3 Firm's Export Challenges

1) Similarity on export and domestic markets

Depending on the similarities between export and domestic markets, 94% of consumer products behavior is not similar. In buying characteristics of the consumer 96% are not similar, only 4% were similarities between them. In purchasing power (89%), socio-economic characteristics (93%) and distribution channel characteristics (94%) are not similar. But legal frameworks between export and domestic market were similar by 15% and not similar by 67%. 18% were not sure their similarities. To explore market similarity was very essential for expanding export markets in different countries.

Table 11: Similarity in Export and Domestic Markets

Characteristics	Not Similar		Not Sure		Similar		Very Similar	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Consumer product behavior	26	94	1	3	1	3	-	-
Consumer buying characteristics	27	96	-	-	1	4	-	-
Customer purchasing power	25	89	-	-	2	7	1	4
Socio-economic characteristics	26	93	-	-	2	7	-	-
Legal framework	19	67	5	18	3	11	1	4
Distribution channel characteristics	26	94	1	3	1	3	-	-

Source: Authors' survey result (2018)

2) Export Trade barriers

The firm's trade barriers of tariffs (78%), social and cultural barriers (50%) and lack of adequate distribution channels by 57% are important. The political situation of export target country (61%) and social & cultural barriers (46%) are very important barriers for export trade. But quota is not important by 68%.

Table 12: Export trade barriers

Barriers	Not Important		Not Sure		Important		Very Important	
	Freq	%	Freq.	%	Freq.	%	Freq.	%
Tariffs	3	11	-	-	22	78	3	11
Quotas	19	68	2	7	5	18	2	7
Political situation of export target country	-	-	2	7	9	32	17	61
Social and cultural barriers	-	-	1	4	14	50	13	46
Lack of adequate distribution channels	2	7	4	14	16	57	6	22

Source: Authors' survey result (2018)

3) Challenges encountered during exporting

In the firms export activity, highly repeated problems are: insufficient information for overseas market (68%), difficulty to identify capable collaborators in the host country (57), strong international competition (78%), high transportation costs (78%), ability of the company to adopt new challenges (53%) and ineffective national export promotion programs by 78%. As Debas (2006) study about the main constraints and challenges of Ethiopian export sector was limited market knowledge and delays in service delivery. In addition, the World Bank (2016) study also identified that inadequate marketing infrastructure is one of the factors. In the export firm's response also showed that, there was no any government or private agencies in the country to interpret and analyze international marketing data in continual bases.

Furthermore, the country's promotional programs were ineffective, because of limited skilled manpower with less expertise in international advertising and promotion (Gebreyesus & Demile, 2017).

Table 13: Problems during export activities

Statements	Never		Not Sure		Rarely		Always	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Insufficient information for overseas markets	-	-	-	-	9	32	19	68
Difficulty to identify capable collaborators in the host country	-	-	-	-	12	43	16	57
Strong international competition	-	-	1	4	5	18	22	78
Lack of qualified personnel for exporting	3	11	2	7	14	50	9	32
High transportation costs	2	7	1	4	3	11	22	78
Financial risks (e.g. country-related and business risk)	13	46	8	29	2	7	5	18
Ability of the company to adopt the new challenges	2	7	3	11	8	29	15	53
Ineffective national export promotion program	1	4	2	7	3	11	22	78

Source: Authors' survey result (2018)

On top of the above challenges, the researchers investigated from interview that lack of export management experience, poor systemization of export planning and lack of price competitiveness as challenges faced by firms. In addition to this, minimum production level and growth, poor communication facilities, different legal norms in the exported country, different customs and cultures, and finally the firm's low quality, high price and poor promotional activities are the main drawbacks of those companies. The most common problems, which were also identified by the international organizations are: poor quality and high cost of products, inadequacy of trade information systems, unfavorable world prices and lack of competitiveness with limited production capacity, inability to produce to potential client's standard, lack of reliable suppliers of inputs or raw materials and poor quality of institutional supports. Furthermore, lack of finance, differences in weights, measures and technical specifications, intense competition and fluctuating of costs are the main determinants of the export sector in Ethiopia.

5. CONCLUSION AND RECOMMENDATION

The main objective of the study was to assess challenges, opportunities and performance of Ethiopian export market from 2015–2017. Based on data collected, the research attempted to explore the recent export performance of the country. Depending on results and analysis of the study, the following major conclusions are identified. Most employees in the export sector are young and middle-age peoples. But those are mostly male and first-degree graduates. And also, there work experience is under 10 years. Many firms are established before 27 years, but many employees working experience are under 10 years, it showed that, employees' turnover is very high in the sector. In addition, many employees are working under the top management position. This may cause to lack of industry experiences in high positions.

Customer's perception in the country of origin effect is very high rate. This is a negative impact in the country's export product categories. Because, Ethiopia is the under developed country and their export product on the consumer perception is highly negative effect by their country of origin. However, the exporting companies knew this effect and tried to solve it by improve the product quality management system. About 96% company has a general awareness about the importance of this certification and more than 80% of this are already certified. This is one step to ahead for decreasing the consumer perceptions about the products effect in country of origin.

To achieve in company base or country wide of the exporting objectives, the exporters should get the full access for many facilities. In the study, the convenient access is only 42%. This result shows that, without the radical improvement and change about the facility access for all exporters, the country exporting sector will be in slow move and the company also have no significant contribution in the country's GTP. The important issue that the study identified about the product is product quality and price competitiveness in the export market. As the result, quality and price competitiveness of the product has a challenged for the firm as well as for the country. Currently, there are plenty of market opportunities around the globe, this is most important for the developing countries like Ethiopia for needs of export market. 86% of the firm knew this market opportunity as a global wide. But, the current export destination countries are small. 75% of the exporting countries are under 10, which is mostly Europe. As the result showed that, coffee is the most exported product in the country and the number of countries is small, the country's export performance in general is in trouble.

As the study general result about the firms export performance in terms of market share, sales volume, its growth and export strategic goals are extremely dissatisfied by 94%. This shows that, the firm as well as the country has major challenges about the sectors performance. The export firm has many internal and external challenges. More than 78% of the firm's challenge is internal especially related to the quality and price of their products. In addition, the government's poor support and minimal monitoring and evaluation in the sector has a negative impact of the export performance. But the exporting companies are failed to use properly the incentive packages those initiated by the government to strengthen the export. The country's export performance was incapacity to finance the import expenditure was forced the country to suffer from shortage of foreign currency which is crucial to import capital goods and other intermediate inputs that are required to sustain growth. All data and reports showed that, how the country's export sector is going to in trouble. Without sufficient export trade, the country will be in big problems as the shortage of foreign currency and high inflations. These effects will be showed up directly in the manufacturing industry, because, more of inputs used by many industries are importing from other countries. The industries are waiting longer time to get foreign currency could be a direct impact on operations of the company and not far to see closing of such industries. Furthermore, the country will work strongly for increasing export destination countries around the world. When the country will reach many countries by their export items, it will increase the volume and congruently raises export value. This will help to attract foreign currency inflows to the country. However, the government has an interest to strengthen the sector by establishing different strategies for the local and international exporting companies through the country. Some of the strategies are promoting different incentive package and implementing the country's export strategy by GTP II. More than this the government also tries to implement trade free zone, regional coordination for trade improvement with other countries throughout the world.

Based on the findings of the study the following recommendations are forwarded:

- The firm's top management should work to balance the male and female employees' ratio at least to 60:40. There are a superior talent and skill in female employees special in the promotional campaign activities.
- Top management of the company should work on the improvement of their product quality and uniqueness. In addition, the firm should be cost sensitive for their products by minimizing costs and increase their competitive advantages in the global market.
- The firm will establish a separate promotion and advertising team and implement unique strategy for increasing promotional campaign in the existing and new markets around the world.
- The government should work with the major business stakeholders and partners to facilitate the ambitions to join World trade organization (WTO) for helping the international trade benefits to reduce tariffs and other challenges in the exporting sector and maintains the country export growth.
- To develop and improve different facilities, policies and procedures in the export sector is very crucial. Government services for the firms should be very accessible and convenient for all exporting participants, this helps to increase production capacity and quality products with a competitive price in the global market for exporters.
- To Advance and upgrade the knowledge, experience and skills of the key members on the export sector like, supplier, processors, exporters, associations, commercial chambers and the regulatory bodies are very essential for the growth of the sector. Without the strong private sector economic participation in the economy, the government will be paralyzed.

- The government, exporters association and export companies could be establish bi-annually or annually meeting schedules to assess, evaluate and experience sharing with other stakeholders in finding solutions for their challenges and barriers.
- The government has responsibility to aware the quality certification and control mechanisms and also will assess continuously for fully certified exporting companies in the country.
- The government will restructure the export sector policy and strategy for giving the fully convenient access for all exporters in terms of many facilities what they want from them.
- The government should asses the implementation procedure about the incentive packages. Some policy and strategies are good for the exporters but, there is a big problem in implementing the policy. When the government assigned a separate institution for the exporting sector, this institution will have a regular contact with the exporters and it will be easy for supporting and strengthen the firm's activity in the regional or international markets with a continual base.
- Increasing the availability of credit facilities: the availability of credits especially long -term credit is very important to exporters. The government will consider these facilities for aiming to increase the country's overall economy growth.
- Simplifying export sector regulations: the government should shorten the export sector regulations in every aspects of the operations. It also increases their capacity about the collection and dissemination of the global market's information as a continuous base.

- Establishing and improving cooperation with the regional and global economic actors: export growth is getting by the cooperation activities with many stakeholders. The government will facilitate the cooperation programs and increase their connection with the highly experienced global companies.

- Formulation short-term and long-term export growth policies: the formulation of short- and long-term policies is crucial for the growth of export performance in the country. Especially the government support for the sector including the incentive packages is important.

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Practices and Challenges of Saving Mobilization: The Case of Specilized Financial & Promotional Institution

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Abstract

The objective of this study was to assess the practice & challenges of saving mobilization of Micro Finance Institutions in the case of Specialized Financial & promotional institution (SFPI). The lending activity of the micro finance institution is made possible by\mobilizing enough funds from their customers. The target population for the study include branch managers, operation supervisors and saving& credit officers those having two years and above experience & potential saving clients involved in deposit mobilization. Data collected through primary data such as questionnaire and secondary data from the annual reports of SFPI. The sampling method in the branches staff for the study used census method & the sampling size was 125 from all operational staffs while a multi staged stratified random sampling technique used to select a total of 160 active saving clients. Descriptive method was adopted for the study to analyze the data. The researcher used structured questionnaire for employees and customers of SFPI and reviewed five year annual report. The findings have shown that, SFPI has not conducted regular promotion, poor branch expansion trend, poor incentive system to staff and customers, provided of poor training to staff. Challenges that face microfinance institutions are Poor saving habits or cultures in the society, inflation & political instability & unstable economic conditions, unavailability of appropriate organizational structure, competition, Lack of management information system and loan default. The study, therefore, the researcher recommend that the management of the SFPI has to consider expanding of branches, conducting of regular promotion, to apply management information system, capacity building for frontline staff, and develop incentive system to staff & potential client to make more saving mobilization.

Keywords: MFI, saving mobilization, challenges of saving mobilization, Ethiopia

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1. INTRODUCTION

Mobilization of saving to meet the demands, the formal sector like banks, MFIs, cooperatives and postal savings has a limited capacity. Thus absence of formal savings services results largely dominated by widely accepted and practiced semi-formal and informal mechanisms such as *Iqub*, *Iddir*, buying livestock and jewelry and hiding cash at home practiced in Ethiopia in that regard, informal savings prove the savings potential of the low-income people who use them and the unbalance demand for savings services (Moulick *et al.*, 2008). Savings mobilization can help MFIs to expand and deepen their outreach. A larger number of poor households may use savings services than credit services. In particular, poorest households may rely on savings before they have an effective demand for credit. Moreover, deposits from the public area less volatile source of funds than alternative sources, such as rediscount lines from the Central Bank or funds from donor agencies. This stable funding source can expand lending operations and, hence, also benefit poor borrowers.

Mobilizing small and micro-savings can contribute to self-sustainability by providing the MFI with cheaper funds than those from the interbank market. However, there may be a trade-off between the lower financial costs and relatively high costs of mobilizing and administering small deposits. Attracting depositors may in still a stronger demand orientation and economy to MFIs' operations and increase public confidence. As savers become important stakeholders in deposit-taking institutions, the latter are forced to improve their product variety and efficiency of services. Moreover, effective prudential regulation and supervision can increase the public's confidence in an MFI's financial operations. Local saving mobilization in MFIs industry has not supported by systems applying of different strategies, staff capacity, management information system, etc. In many cases, there are some strategy or policy documents, and list of products and services, perhaps copied or adopted from other country or MFI experience, which are never supported by serious market research to reflect local reality. It is not as good as, such strategies, policies, products and services are poorly communicated to staff, particularly those at branches, who are supposed to market them to real client.

Staff training on MFI is rare in general, too less on saving mobilization. Often, the staff incentive scheme, if there is one at all, is based toward credit, or at least do not fully reflect the challenges on saving mobilization from the poor. As a result, most microfinance programs fail to establish trust among the public as a trustworthy custodian of financial resources, and this challenge continue to be felt even in countries like Ethiopia where the regulation (relatively unique in the industry) allows MFIs to mobilize 'public saving' from day one of securing the license.

The proclamation, which offers for the establishment of MFIs, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000). In particular, the Licensing and Supervision of MFI Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005). The current government development strategy, GTP II (2015/16–2019/20) emphasize local saving mobilization to finance development. During GDP I, the share of gross domestic saving in GDP increased from 9.5 percent in 2009/10 to 21.8 percent in 2014/15 due to measures including:-awareness creation and community mobilization activities, expanding financial institutions and services, raising the minimum deposit rate, strengthening existing and introducing new saving mobilization instruments such as saving for housing program, Renaissance Dam Bond, introducing private social security schemes, strengthening government employees social security scheme, which were accompanied by rapid economic growth and structural economic transformation (FDRE, 2016).

1.2. Research Problem

Due to poor financial system practiced in the MFI to attract potential customers and providing quality services there is a gap has been seen in the Ethiopian MFI, even if the local population has substantial demand for saving products. According to CGAP (1998), Savings plays, not only crucial role in financing productive activities but also promotes microenterprises. Furthermore, evidence shows that the accumulation of savings help to create a domestic capital base that makes economies less dependent on foreign capital and more resistant to capital market fluctuations (CGAP, 2006). Micro Finance Institutions loan services have been financing from Bank loan, grants, etc., when in the absence of that fund, they cannot expand the loan operations. Thus, deposit mobilization from the communities give less attention as a potential source of fund to finance their loan portfolio. Most micro credit service delivered through NGOs affiliated and government initiated projects in Ethiopia did not consider savings as one of most important product both to the client and institution. Therefore deposit mobilization from the public, the industry still offers a narrow saving product range, its performance is unsatisfactory and it is far behind in mobilizing deposit as a tool in deepening its client base. However, the MFI provide voluntary saving on a commercially sustainable basis there are clear remaining gaps in terms, institutional culture, product design, marketing segment & strategy, and delivery system, outreach as well as capacity building in savings promotion. MFIs must address these gaps in order to increase saving mobilization and generate the liquidity need to satisfy demand for credit with minimum cost.

Few studies have been done on assessment of the practices & challenges of saving mobilization in Micro financial institutions and the few which are accessible have been conducted in other countries. Some of the studies used descriptive statistics to analyze the decision to save in the financial institutions (Wolday, 2000; Wolday & Teklay, 2014; Woldemichael, 2010; Amimo *et al.*, 2003; Chandararot & Dannet, 2007; Noula, 2002). Those researches had been under taken in this area, while those researchers have been unable to consider the deposit mobilization practice together with its challenges in the MFIs in Ethiopia. Saving mobilization practice and challenges has a great influence on outreach & performance of loan operation of the micro finance industry. Therefore, the motives of researcher is to conduct the study focused on the saving mobilization practice and challenges that hinder the performance of saving mobilization in specialized financial and promotional institution .Hence this study attempts to identify key variables of savings mobilization practice &challenges amongst the un-bankable customers. More specifically, the study

- ✓ Assess saving mobilization practices of Specialized Financial & promotional institution(SFPI)
- ✓ Evaluate the current deposit mobilization performance of SFPI
- ✓ Identify the major challenges of mobilizing of voluntary saving in SFPI.

2. LITERATURE REVIEW

2.1. Concepts of Saving Mobilization

Saving mobilization is defined by Elser *et al.* (1999) as the process of encouraging customers to save cash with the Bank or attracting new clients to financial institutions to open accounts. Savings fundamentally, is about choosing between current and future consumption (Ashraf *et al.* 2003). Savings theories traditionally predict that current consumption is related not to current income, but to a longer - term estimates of income. From an institutional perception, primary motive for saving mobilization lies in lower cost of capital compared to other sources of fund. Savings are fundamental to sustainable economic development. It is the most frequent sources of funding for microenterprise start up and expansion. Despite the importance of savings, the majority of micro-saver continues to lack access to safe and sound institutions where they can deposit their savings.

According to Adams (1978) the main column favored by the supporters of the opposing view on local saving mobilization and the low income people as savers is poor capacity to save, low interest rate on small deposits, charge of mobilizing small deposits, and lack of attractive saving product for the poor. According to CGAP (1998) institutional governance, ownership and good will of the MFIs are major causes for victorious saving mobilization. MFIs must make sure that they have the organizational structures that agree to them to mobilize deposit legally. Institutional capacity requires that adequate governance, management, staff and operational structures are in place to provide savings services (Ledgerwood, 1999). Deposit is a source of relatively low-priced funds for the cause that it normally attracts low interest rates compare to commercial loans. Deposit affects outreach as a financial operation as MFI not offering savings services may achieve lower outreach than MFIs offering savings operation.

2.2. What are the Attributes Poor Savers Value Most?

Understanding common attributes of deposit services valued by poor clients help MFI in designing an appropriate product. Scholars have identified basic saving attributes poor savers value most; these are access, security, liquidity and return. In some cases, minimum balance is preferred among poor clients. Adams (1978) argued the reward paid on savings as the key element of saving mobilization program. In addition, he noted that convenience, liquidity, and security of the savings as a strong complement for the return on savings. Also he suggested that wherever it is legal a lottery scheme should be attached to a saving scheme to boost the interest of pro poor savers. Access comprises of physical proximity of the service point, prompt service at sight and the time taken to complete the transaction. On the other hand, the security of poor people deposit is relative. Deposits are secured in formal financial institutions than in informal ones. "Savers most deposits are secured in formal financial institutions than in informal ones. "Savers most frequently report that the key feature they seek is safety for their savings. They want to feel confident that their deposits will be available when they need them" (CGAP, 2002) confidence in security of the savings and customer care of institution staffs are of crucial importance.

1. **Saving products**

Generally, an institution providing deposit services does not need a large number of products. "A savings account permitting unlimited transactions, a time deposit account (which includes options for relatively short maturities), potentially a contractual savings account to support education, retirement, housing, or upcoming ceremonies, and, if necessary, one or two other deposit products are sufficient (Ledgerwood *et al.,* 2013). They must be carefully designed through a balance of product features, security, convenience, and price to allow them to be used in different combinations for different purposes by all types of savers-poor and non-poor, individuals and institutions.

2. Compulsory Savings

Compulsory saving is among the requirement or preconditions for receiving credit in financial institutions. MFI clients are supposed to deposit certain amount of weekly or biweekly or monthly in order to attain certain Percent before being disbursed a loan. Clients are not allowed to withdrawal partial or full amount of their savings until are loaning free or decide to leave the organization (Robinson, 2001; CGAP, 2005). On the other hand compulsory saving is used as loan insurance or cash collateral for loans and a part of the loan is secured by the savings. This restriction has forced the MFI clients to save some amount of money that would not have been possible to save by them. There are critics about compulsory saving since clients have no easy access to their savings. Others argue that compulsory savings should not be called a 'service' because it is a down payment on loan and it does not respond to accumulation and precautionary savings motives, these two factors affect the decision to save (Zeller and Sharma, 2000).

3. Voluntary Savings

Otero and Rhyne, (1994) pointed out that "there is considerable evidence that the poor people greatly value voluntary savings services, where they can save unrestricted and often very small amounts at convenient interval, and which they can access rapidly". More over a study validates that voluntary savings services attract a large number of depositors and a higher savings amount than compulsory savings since the voluntary savings facilities is not limited to those who save only as a prerequisite for access a loan.

2.3 Challenges of Saving Mobilization for MFI

2.3.1 External Environment for Successful Saving Mobilization

There are certain external factors that are beyond the control of the MFIs. For example, unstable macroeconomic and financial sector surroundings can shift pro poor savers away from formal financial institutions. According to Adams (1978) it is necessary to institute appropriate legal changes so that the pro poor institution can mobilize local deposit from the public. According to CGAP (1998) study, the performance of saving mobilization among MFIs affected by existence of political turmoil, high inflation rate, extensive government interventions through interest rate controls and subsidized credit .“To mobilize deposit effectively, an MFI needs to be operating in a country in which the financial sector has been liberalized”. CGAP (1998) emphasis to accessibility of tailored prudential regulatory and supervisory framework for MFI avoids complexity related to minimum capital, liquidity, loan collateral, and other risk exposure requirements of the conventional banking regulations.

Lidgerwood (1998) categorize a set of external environmental precondition that should be me before operating in deposit mobilization. Some of them are licensing, reserve requirements, and availability of deposit insurance. To accept deposits mobilization license, microfinance institution must have the financial strength and institutional capacity. However, determining the capacity of MFIs is the responsibility of the licensing body. However, it is not a surefire against MFIs failure. Setting aside a certain percentage of deposit either in liquid form or at the central bank is also recommended to boost the public confidence as well as last resort in case of bankruptcy. On the other hand, deposit insurance scheme is an after the incident benefit to the depositors in case of default of the institutions. Such schemes do not guarantee the full safety of the depositors. Usually deposit insurance is backed up by government with a nominal value for depositors in case of failure of the deposit taking institution.

2.3.2 Internal Environment for Successful Saving Mobilization

According to CGAP (1998) institutional governance, ownership and reputation of the microfinance institutions is key factors for successful deposit mobilization. Prior to offering voluntary deposit services, MFIs must ensure that they have the institutional structures that allow them to mobilize savings legally. Organizational structure of the deposit taking microfinance institution is also critical. That means the closer the MFI gets to its clients, the larger the number of depositors with access to the facilities. Proximity to pro poor clients and depositors drastically reduces the transaction cost of the institution. It also ensures building the trust and confidence. “Institutional capacity requires that adequate governance, management, staff and operational structures are in place to provide savings services” (CGAP, 1998).

2.3.3. Challenges of Saving Mobilization from the Client Side

Security of savings, confidence and trust in the repository of the savings, liquidity of the savings option, transaction costs and interest rate are the challenges that influence the household's decision to hold a savings. Quick access to deposits is especially crucial for poor households for emergencies and investment opportunities that emerge suddenly. The transaction costs, the cost of making a deposit and of liquidating it. Time spent traveling to the financial institution, waiting in line, and on paperwork can represent such high costs that a seemingly positive real rate of return becomes negative and small savers have rather turn to informal means of savings. The physical proximity of the savings institution facility determines the cost and time required for the saver to go to the deposit facility. For many vendors, time away from their business has a high opportunity cost. In Kenya, Kibet *et al.* (2009) found that higher transport cost to saving institution had a negative impact on the saving habits of teachers in rural areas.

The real interest rate, Although there is evidence that rural savings takes place even under negative real returns offered by the informal sector, evidence from different countries has shown that the demand for savings products by all savers, including the poor, increases as interest rates increase. Information obtaining, particularly general information about financial institutions and their products and services, was found to be associated with owning a bank account among household in Sub Saharan Africa .Some individuals, those who are more educated and more comfortable with financial matters might seek out this type of information, but many have not obtain information unless it is delivered to them in an accessible format. In Uganda, researcher found that the likelihood of owning a saving account increased by roughly thirty three times when a household becomes well informed about a particular Bank andits services (Kiiza and Pederson, 2001)

2.5 Empirical Literature

Saving is the cheapest funding source and one that is easier to obtain than other forms of funds. Deposit services are important for clients, financial institutions, and local economies. For clients, it provides relatively secure deposit services that meet the demand of large numbers of poor people on an ongoing basis. For financial institutions, deposit-taking can be the key to financial sustainability. This can be possible through providing a stable means to finance a growing loan portfolio to release MFIs from external dependence and subsequently improve the sustainability of the institution. Deposits may also fuel local development by increasing the resources available for productive investment. Rural Savings and Credit Cooperatives are basically savings-led MFIs. Savings mobilization can help MFIs expand and deepen their outreach. It is a stable source of fund. This stable funding source can expand lending operations and therefore benefit borrowers. It can contribute to self-sustainability by providing the MFI with cheaper funds than those from the interbank market. Deposit collection allows MFIs to provide much needed service to more poor clients and lowers the costs of capital.

2.4. Arguments for Voluntary Savings Mobilization

The most important arguments forwarded by development economists like Fernando (1991), Meyer (1989), and Vogel (1984) for emphasizing savings mobilization include:-. Saving mobilization can lead to a more equitable distribution of income by giving the poor access to financial assets with higher returns than those from tangible assets. For these purpose positive real rates of interest and low transaction costs are needed. This will also improve resource allocation, since, a considerable amount of money saved under informal arrangements are either kept idle or spent on low return investments. Savings mobilization enables financial institutions to improve their financial viability and overall performance. Repayment performance may be superior on loans made through mobilized funds for borrowers are more likely to repay promptly when they know that resources come from neighbors rather than from some distant governmental agency or international donor. It also creates customer loyalty and resources for loans. Deposit mobilization therefore contributes to the stabilization of rural financial markets' liquidity and solvency, and reduces their dependency on governments and donors fund

(Schrieder & Heidhues, l991). According to Kazi (2012), in banking sector, deposit mobilization is a scheme intended to encourage customers to deposit more cash with the bank and this money in turn will be used by the bank to disburse more loans and generate additional revenue for them. The main business for banks is accepting deposits and granting loans. The more the loans the banks disburse the more profit they make. Also, banks do not have a lot of their own money to give as loans. They depend on customer deposits to generate funds for granting loans to other customers. Woldemichael (2010) study shed a light on the main challenges and opportunities of the Ethiopian Savings and Credit Cooperative Societies industry with respect to deposit mobilization performance. The study analyzed the effect of ownership structure, source of fund structure and regulatory environment on deposit mobilization performance of the industry. The study findings revealed that due to lack of saving mobilization the industry is highly dependent on cheap and subsidized source of funds from both international NGOs and national Government; which put the long term sustainability of the institutions in question. Moreover, lack of strong management information system and liquidity management opportunities worsens the situation.

3. RESEARCH METHODOLOGY

3.1. Research Approach and Design

To generate necessary information and come up with more progressive and comprehensive data, the researcher used both qualitative and quantitative approaches. The researcher adopted descriptive method to obtain data useful in evaluating present practices and providing a basis for decision making. The theoretical population of the study consists of all the operational employees of specialized financial & promotional institution and all the active saving clients registered in 18 branches of SFPI. The researcher drew proportionate samples for savers and performed census for staff to collect the required data from staff & saving clients. Thus for effective coverage, time management and lower cost, only selected samples among active saving clients were covered. The total number of active saving clients recorded in 18 branches of the institution was 15,152 as of June 2018. By considering factors like, cost, time, accuracy of data and its management, out of those branches the researcher selected six representative branches based on convenience in which a total of 4032 active saving clients registered. Those branches are Akaki, Holeta, Kirkos, Merkato, sendafa and Shola that registered 1317,507,789,377,460 and 582 active saving clients respectively. Those branches selected based on their performance, seniority, trends on saving mobilization & area allocation from rural & urban. Each of the selected branches can represent the remaining branches, since all branches perform similar activities regarding of saving operations.

3.2. Sample Size and Sampling Procedure

The sampling size of the branches staff is 125, by census method the sample size consists of all saving & credit officers, branch managers, operation supervisors working in the SFPI. There are in total of 102 saving & credit officers, 18 Branch managers & 5 Operation supervisors in the described branches of SFPI. The reason of selection of those staff is they had directly participated in the saving operations and they had matured experience in the management of credit & saving operations in the MFI. While a multi staged stratified random sampling technique used to select a total of 160 active saving clients. Therefore, from the selected branches, 160 sample saving clients selected by using stratified random sampling strategy. For this study in clients side the researcher used Cochran sample size determination, the sample size determination formula was specified in the equation below:

$$no = \frac{Z^2 \mathrm{pq}}{e^2}$$

Where no= sample size, Z^2 is the abscissa of the normal curve that cuts off an area α at the tails (1 - α equals the desired confidence level, e.g., 93%), e= level of precision, P is the estimated proportion of an attribute that is present in the population, and q is 1-p.Thus

$$no = \frac{1.81^2 * 0.5 * 0.5}{0.07^2}$$

=167

$$n = \mathrm{no}/(1 + (\mathrm{n0} - 1)/\mathrm{N})$$

Where n is the sample size and N is the population size

$$n = 167/(1 + (166)/4032)$$

= 160

As seen above, by using Cochran's formula of calculating sample size with an error 7% and with a confidence coefficient of 93%, the calculation from a population of 4032 resulted into 160 persons from all savers. A total of 160 saving clients were required to constitute the sample size. The branches were further stratified in to six based on the number of branches in the institution. The described sample size, 160, was proportionately distributed into these six strata's to guarantee appropriate and equal representation. Within those branches the questionnaires were distributed at the researcher's convenience to all available and willingness saving clients.

3.3 Data Sources and Data Collection Method

The data for this study was collected from primary and secondary data sources. Here the primary data collected from the respondents using structured questionnaire gathered using questionnaire. Questionnaires are designed to collect information from the operation staff & savers of the institution by taking sample savers of the branches offices .The data was analyzed and interpreted using different techniques. And also a detailed description of the analysis and interpretation of data was outlined. All statistics were calculated using the Statistical Package for Social Sciences (SPSS).While the secondary source of data was collected from annual operational reports of the institution from June 2014 to June 2018 which is unpublished and published sources like journals, articles & proceedings.

4. RESULTS AND DISCUSSION

4.1. Characteristics of Respondents

Results presented that the majority of the respondents have experience of between 2 to18 years. According to the finding, the least work experience is two years while employees less than two years experience have not included in the study. 81.6% of the respondent's service year is four years and above, which shown that the majority of the respondents were well experienced. The composition of work experience of the representative samples may have a positive effect on the quality of the finding of the study as it incorporates the views of each group. This gave the researcher confidence that the respondents were experienced enough such that their views and opinions based on the questionnaire will not be out of experience.

The study findings revealed that out of the total respondents of staff, 18(14.4%) are currently holding the position of branch manager, while the remaining 102(81.6%) and 5(4%) are saving & credit officers and operation supervisors respectively. All participants have direct experience on deposit mobilization; the researcher enabled to get all required data from the participant. Concerning the question of educational level, respondents provided with options to choose from Diploma, First Degree & Second Degree and above. As presented in the findings, all of the respondents have diploma and first degree. The results shown that the total number of respondents, 30(24%) are currently holding diploma, while the remaining 95(76%) are 1st degree holders. However, the first degree holder's respondents have a big share compared to diploma holders. Faith (2014) noted that academic qualification has a positive relationship with employee performance. This gave the researcher confidence that the respondents were qualified enough to offered constructive opinions based on the questionnaire.

4.2 Trends of Voluntary Saving in SFPI

As indicated table 1 below, the trends of growth of voluntary saving of Specialized Financial & Promotional Institution from 2014 to 2018 that increased at increasing rate. The growth of voluntary saving balance of SFPI reflected the effect of concerted efforts of saving mobilization that shown on the five years analysis. As of end of June 2018, the ratio of voluntary saving to loan outstanding ratio of SFPI was 22% which is too small and thus the loan was covered by very small voluntary savings balance (the institution financial report from June 2014- 2018).

Table 1: Voluntary Saving Performance of SFPI

Year	Growth of Voluntary saving (mill.)	Percentage Change	Saving to loan ratio
2014	10.84	-	8.6%
2015	17.11	58%	8.81%
2016	.48	96%	19.61%
2017	44.33	32.4%	21.2%
2018	56.11	27%	22%

Source: Author's analysis based on SFPI Financial Report (2014-2018)

The percentage share of voluntary savers of SFPI on the products of ordinary, box& child saving types covered 80%, 13% & 5.7% respectively while fixed time deposit saver are insignificant in numbers. Whereas, the largest portion of voluntary saving balance is ordinary saving that covered 77% , box saving 16%, time deposit 6% and child saving 1% mobilized (the institution financial report, June 2018).

4.3 Practice of SFPI in Saving Mobilization

1) Saving Mobilization based on Staff Perspective

As shown in the table 3, the study sought to determine whether the saving policy of SFPI is favoring or not to customers to increase deposits. The findings shown that, 80.8% agreed & 6.4% strongly agree that the saving policy of the SFPI is favoring to savers to increase deposits with institution while 10.4% disagree & 2.4% neutral. From the results, majority of the respondents agreed that the saving policy of SFPI is favoring customers to make deposits. According to the finding shown that, 69 (55.2%) disagreed, 4 (3.2%) strongly disagreed while 45 (36%) agreed & 7(5.6%) respondent were neutral on the regular promotion to mobilizing deposits. This indicates that the majority of the respondents disagreed on the regular promotion to mobilize saving.

The study sought to determine the attractiveness of the current SFPI's interest rate applied to mobilize more deposits. Asked to judge how attractive the current interest rate to the MFI deposits, 80% believed that this attraction is Agreed & 6.4% & strongly agreed while 11.2% did not recognize this attraction & 2.4% respondents are neutral. This argued that the current interest rate on saving mobilization is competitive and impact on the MFI deposits. The findings shown that, from all respondents majority of the respondents which are 74 (59.2%) agreed that SFPI offered different saving products to its customers. 36 (28.8%) of the respondents disagreed that the MFI offers different saving products to its customers, the remaining 15 (12%) remained neutral about the availability of different product. The survey result indicates that saving products that meet customers ‘choice approached to neutral.

Regarding of branch expansion, the findings shown that 87 (69.6%), 37 (29.6%) and 1(0.8%) of the respondents disagree, strongly disagree & neutral respectively, that the MFI is not aggressively increasing its branches. During the period ended June 30, 2018, SFPI opened one new branch in that budget year and the total number of branches & sub branches are 18 & 10 respectively. Of these branches, four are found in Addis Ababa while the remaining 14 branches & all sub branches are outlying ones. This indicates that SFPI wasn’t increased its branches aggressively to attract new savers and to satisfy the existing customer compared to its establishment year (SFPI, 2018).

Respondents were asked to determine the usage of minimum saving amount to open an account. The findings that shown in the table 3, 77(61.6%) and 47(37.6%) of the respondents agreed & strongly agreed respectively in that of minimum saving amount to open an account is one of the saving mobilization strategy used in the SFPI. According to the item of borrower clients are more targeted to mobilize voluntary savings than non-borrower clients, the findings shown that 65(52%) of Agree, 26(20.8%) strongly Agree while 32(25.6%) disagree & 2(1.6%) neutral that of borrower clients are more targeted to mobilize voluntary savings than Non-borrower clients. The survey result indicates that most of the MFI focused on borrower clients than non-borrower clients to mobilize voluntary savings. In other way, the involvement of Non-borrower clients in voluntary saving mobilization is less. Most staff at operation has, for long, been dealing only with micro-credit clients, who normally face shortage of liquidity to run their business and actually most of the promotion for 'voluntary' saving have been conducted to these same people who, fortunately to the staff, regularly weekly or monthly come to MFI office to do transactions on loan (Zegeye *et al.*, 2012).

Concerning of saving mobilization is a cheap source of fund for micro finance institutions, the respondents replied that 64(51.2%) strongly Agree and 61(48.8%) Agree about saving mobilization is a cheap source of fund for micro finance institutions. From the data result the significant number of respondents from the total population strongly agreed that saving mobilization is a cheap source of fund for microfinance institutions. Concerning of marketing materials used to promotion of saving, the findings indicates, 70(56%) disagree, 54(43.2) agree while 1(0.8%) neutral from the total population of the respondents. The result indicates that marketing materials had not used by SFPI to promotion of saving.

According to the item of incentive to staff for saving mobilization, the respondents presented in table 3 shown that, 92 (73.6%) & 32 (25.6%) strongly disagree &disagree respectively, this implies that SFPI had not offered incentive to staff for saving mobilization purpose. Staff incentives need to give adequate wait to saving. Indeed, saving products are harder to "sell" given the local context. It is not an easy task, it takes effort and commitment, and results are only achieved in the medium to long term. In the providing of training on saving mobilization to employees, from the result presented, only 4(3.2%) of the respondents agreed on that of SFPI provide training on saving mobilization to its employees; 7 (5.6%) of the respondents were neutral while 92(73.6%) of the respondents disagreed and 22 (17.6%) of the respondents strongly disagreed.

Table 2: Staff Perspective on the Practices of SFPI's Saving Mobilization

Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
The saving policy of SFPI is favoring customers to increase more deposit	0 0	13 10.4%	3 2.4%	101 80.3%	8 6.4%
Saving promotion has conducted regularly by the SFPI to attract potential clients	4 3.2%	69 55.2%	7 5.6%	45 36%	0 0
SFPI used different interest rate to attract depositors	0 0	33 55%	2 3.3%	25 41.7%	0 0
Saving products delivered by the SFPI meet the choice of clients	0 0	36 28.8%	15 12%	74 59.2%	0 0
SFPI is aggressively expanding its branch to increasing saving mobilization	37 29.6 %	87 69.6%	1 0.8%	0 0	0 0
Minimum saving amount to open an account is one of the saving mobilization strategy used in the SFPI.	0 0	0 0	1 0.8%	77 61.6%	47 37.6%
There is an incentive system to staff for saving mobilization strategies that applied by the MFI	32 25.6%	92 73.6%	1 0.8	0 0	0 0
There is an incentive system to high savers to attract potential clients applied by SFPI.	78 62.4%	45 36%	2 1.6%	0 0	0 0
Regular training is conducted by SFPI to increase awareness of saving mobilization to staff	22 17.6%	92 73.6%	7 5.6%	4 3.2%	0 0
Targets of MFIs to mobilize voluntary savings on borrowers than non-Borrower clients	0 0	32 25.6%	2 1.6%	65 52%	26 20.8%
Saving mobilization is a cheap source of loan able fund to MFI rather than other sources	0 0	0 0	0 0	61 48.8%	64 51.2%
Complete marketing materials with clear, simple and forceful message, is used by SFPI to increase to saving mobilization strategies	0 0	70 56%	1 0.8%	54 43.2%	0 0

Source: Author's survey result

According to the result, SFPI has not provided saving mobilization training regularly to its employees. Training increases the knowledge and confidence of employees about the MFI service, marketing, and customer service management. Building staff capacity on public saving mobilization strategy, policy, product development, especially front-line staff capacity is crucial. According to the item of incentive for depositors to attract potential savers, the findings shown that, from all respondents majority of the respondents which are 45 (36%) and 78 (62.4%) disagree and strongly disagree respectively, that SFPI has not provided incentive for depositors. The remaining 2 (1.6%) remained neutral about the availability of incentive for depositor. According to the respondents the MFI has not offered incentive to savers.

2) Client's Perspective on the Practices of SFPI's Saving Mobilization

The study sought to determine the different saving products mostly offered by SFPI favoring customers in mobilizing more deposits. The findings shown that, 128(80%) and 12(7.5%) of the respondents agreed & strongly agreed respectively whereas 20(12.5%) respondents disagree in that of SFPI offered different saving products which satisfy customers. According to the described information almost more than 87% of respondents agreed in the term of providing of different saving products to satisfy its customers. Respondents were asked concerning of service quality, branch convenient to deposit and saving collected from saver by saving & credit officers in working place of customers, the findings shown that 124(77.5%), 73(45.6%) &131(81.9%) agreed while 28(17.5%), 77(48.1) & 8(5%) of respondents in those described items were disagreed respectively. In addition to this 21 (13.1%) respondents replied strongly agreed that of SFPI staff collected saving from depositors on working place of customers. Regarding of saving interest rate on the customers perspective, the findings as shown in table 4, 84(52.5%) of the respondents Disagree, 70(43.8%) Agree and 6(3.8%) neutral.

Table 3: Client's Perspective on the Practices of SFPI's Saving Mobilization

Items	Scale	Freq.	Percentage
Different saving products offered by SFPI satisfy its customers	Disagree	20	12.5
	Agree	128	80
	Strongly agree	12	12.5
Customer service offered by SFPI is fast & qualified that satisfy its clients	Disagree	28	17.5
	Neutral	8	5
	Agree	124	77.5
The SFPI branch is convenient to customer to make deposit	Disagree	77	48.1
	Neutral	10	6.3
	Agree	73	45.6
SFPI staff collected saving from depositors working place	Disagree	8	5.0
	Agree	131	81.9
	Strongly agree	21	13.1
SFPI paid better interest to savers that satisfy its customer	Disagree	84	52.5
	Neutral	6	3.8
	Agree	70	43.8
SFPI has offered incentive for high depositors	Strongly Disagree	62	38.8
	Disagree	98	61.3
Choice of SFPI to depose	Proximity	114	45.6
	Good trust	21	8.4
	better interest rate	10	4.0
	to get loan access	9	3.6
	quality service	96	30.4
Types of saving products familiar to customer	Box	118	34.2
	Ordinary	156	40.2
	Child	96	24.7
	Fixed Time deposit	18	6.8
Preferred saving products	Box	62	38.8
	Ordinary	87	54.4
	Child saving	11	6.9

Source: Author's survey result

The majority of the respondents disagree on the current interest rate to attract customers to make deposits as means of gaining competitive rates.

Respondents were asked to determine the incentive offered to depositors by SFPI. According to the findings, 62(38.8%) strongly Disagree and 98(61.3%) disagree that of incentive offered to high depositors from SFPI. According to the result, saving products offered by SFPI adapted by customers and they encouraged door to door saving collection service type while, branch office convenient, better interest rate & incentive to attract potential savers respondents not much comforted.

Concerning of clients choice to save in SFPI, 45.6% on proximity, 38.4% on good service especially door to door saving collection service, 8.4% on good trust, better interest rate 4% & accessibility of loan to savers less attractive by respondents that is 3.6% .This implies that based on service nearer to customer, they prefer to save in MFI. According to saving products familiar to customer that shown in the result, 30.4% (118) box saving, 40.2%(156) ordinary saving, 24.7% (96) child saving product and 4.6%(18) fixed time deposit saving products familiar to customers that confirmed by respondents. The results shown that ordinary saving& box saving products are well known by clients while child & fixed time saving products need more promotion to familiar those products. According to preference of saving products by savers, the results shown that, 54.4% ordinary saving and 38.8% respondents confirmed box savings product preferred, while 6.9% of selected child saving. Asked the reasons why concerning in the preference of those saving products by customers, what are the reasons that attributed to preference of saving products to increase deposits in SFPI, the findings shown that,54.4% of respondents stated ordinary saving product which is easy to deposit& withdrawal ,38.8 % of the respondents stated the reasons of the saving box placed on their business area, 6.9 % stated that child saving preferred, to develop the saving trend to their children& they liked this product. The study sought to determine the types of saving service mostly offered by SFPI for saving mobilizing. The findings shown that, there is any saving service type offered by SFPI except deposit & withdrawal that all respondents confirmed.

4.4 Challenges of Saving Mobilization

Respondents were asked to determine poor saving habits, culture and poor awareness of the society are challenges for MFI to mobilize saving. According to the findings as shown in the table 5, 77(61.6%) of the respondents agree & 48(38.4%) strongly agree. The results shown that, the total population argued that poor saving habits&/cultures in the society are one of the challenges for saving mobilization. Respondents were asked concerning Inflation& political instability, the findings shown that 55.2% Agree and 44% strongly agree and the remaining (0.8%) neutral. As shown in the result, almost all of the total population agreed that Inflation, political instability& unstable economic conditions are challenges to mobilization of saving.

Regarding of competition the findings shown that, 78(62.4%) of the respondents Agree, 36(28.8%) strongly-Agree, while the remaining 6(4.8%) of the respondents replied neutral & 5(4%) respondents disagree about Competition among financial institutions are challenges of saving mobilization. The result shown, total population argued that competition is one of the challenges for savings mobilization. Concerning about poor infrastructure that challenges to saving mobilization, respondents were also asked and 85(68%) Agree and 28(22.4%) strongly agree, while 5(4%) neutral and 7(5.6%) disagree. The survey result in this item that the majority of respondents were replied unavailability of appropriate organizational structure for saving mobilization is one of the challenges for saving mobilization.

According to Seasonality of cash flow, the findings shown that, 88 (70.4%) agree & 32(25.6%) strongly agreed while 3(2.4%) neutral and 2(1.6%) disagree in the item of Seasonality of cash flow affect saving mobilization. The survey result shown that the total population agreed byseasonality of cash flow is one of the challenges of saving mobilization.The liquidity patterns of income and expenditure of clients and potential clients should be known at each mobilization area so that product designing or redesigning as well as marketing plans can be more appropriately set up as a major solutions. The study sought to determine the internal challenges faced by MFI in mobilizing of saving .The findings as shown regarding of branch office distances that far from customer, 67.2% of the respondents agree & 20% strongly agree. The survey result shown that of total population argued that branch office distances is one of the challenges for MFIs to saving mobilization. The physical distance between service provider and potential clients have less interest to get MFI saving services because they have incurred more cost to save small amounts of money at regular basis. Therefore proximity is one of the determinant factors that affect saving mobilization.

About 74% of the respondents agreed & 18% strongly agreed that lack of appropriate saving products that meet customer needs affected saving mobilization. While 3.2% respondent neutral and 4.8% respondents were disagreed. Product differentiation is one of saving mobilization methods by attracting new and retaining existing customers (Ariful, 2014). Product Development need to be supported by active market research, given the fact that branch staff, particularly frontline staff have the opportunity for frequently contacting clients and potential clients, they often have a rich information about potential feasible products in their operational areas.

Table 4: Challenges of Saving Mobilization in MFI

Items	Scale				
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Poor saving habits, and lack of awareness	0 0	0 0	0 0	77 61.6%	48 38.4%
Inflation, political instability& unstable economic conditions	0 0	0 0	1 0.8%	69 55.2%	55 44%
Competition among financial institutions	0 0	5 4%	6 4.8%	78 62.4%	36 28.8%
Poor infrastructure	0 0	7 5.6%	5 4%	85 68%	28 22.4%
Seasonality of cash flow	0 0	2 1.6%	3 2.4%	88 70.4	32 25.6%
Distance of SFPI branch office	0 0	13 10.4%	3 2.4%	84 67.2%	25 20%
Lack of appropriate saving products that meet customer needs	0 0	6 4.8%	4 3.2%	93 74.4%	22 17.6%
Lack of management information system (MIS)	0 0	0 0	0 0	61 48.8%	64 51.2%
Poor commitment & weak attention of front line staff& management of the MFI for saving mobilization	40 32%	70 56%	5 4%	10 8%	0 0
Internal fraud or Internal corruption and weak saving management practice	51 40.8%	59 47.2%	10 8%	5 4%	0 0
Loan defaults or non performing loan	0 0	0 0	1 0.8%	73 58.4%	51 40.8%

Source: Author’s survey result

Respondents were asked to determine lack of management information system (MIS) or technology that affect saving mobilization, the findings shown that 48.8% agree and 51.2% strongly agree. Then the total population argued that lack of management information system challenges for MFI to savings mobilization. Respondents were asked concerning of poor commitment & weak attention of front line staff & management of the MFI, the findingsshown that 56% disagree & 32 % strongly disagree, while the remaining 4% neutral & 8% agreed .As shown in the survey result, almost 88% of the total respondents disagreed, this implies that there is a good attention by front line staff& management of SFPI for saving mobilization.As shown in the result, concerning of internal fraud or corruption and weak saving management practice, 59(47.2%) of the respondents disagree, 51(40.8%) strongly disagree, whereas 10(8%) of the respondents replied neutral and 5(4%) agree about this issue. Internal corruption is, of course, a potential problem for the MFI and a risk for savers.

Effective management, a clear policy of delegating responsibility and holding managers and staff accountable for their decisions and actions, appropriate MIS, careful internal supervision and controls, and a promotion and incentive system designed to encourage employee loyalty to the MFI can all help to prevent internal fraud. In the last item, which is Loan defaults hinder saving mobilization, the findings shown that 58.4% of participants were replied agree and 40.8% of the respondents strongly agree. Then the survey result had shown that total population argued that loan defaults or non performing loan is one of the challenges of saving mobilization in MFI. Because most time defaulter clients leave the MFI & they took their whole saving balance. As noted, it is crucial for an MFI introducing voluntary savings products and services to maintain high loan portfolio quality. Before introducing public savings, transformed MFI must have effective procedures in place for loan collection; accurate, transparent accounting and reporting systems; and qualified, well-managed internal supervision and audit. The study sought to determine the challenges faced to customers to save more deposits in SFPI ,based on customer perspective ,the finding shown that the most challenge are Market fluctuation, Office distance, Withdrawal not allowed by other branches & low income ,this represents 41.9%, 15%, 21.3% & 21.9% respectively as the analyses of the respondents. Table 5 summarized the challenges of saving mobilization in MFI.

5. CONCLUSION AND RECOMMENDATION

This study sought to assess the practice & challenges of savings mobilization in the case of SFPI. Specifically, the study sought to find out the mobilization practices put in place in mobilizing savings, identifying challenges facing on the saving mobilization .Descriptive research method employed for the study and the sampling size of the branches staff is 125, by census method of all operational staffs while a multi staged stratified random sampling technique used to select a total of 160 active saving clients as sample size. The findings reflect the practical successes and challenges faced by the MFI.

From the findings of this study regarding of practice of saving mobilization, it can be concluded that SFPI has saving policy which is favoring customers to make deposits and the current interest rate is competitive. From this study, the minimum saving balance to open an account is one of the saving mobilization strategy used in the SFPI. To mobilize voluntary savings in sustainable basis, there are clear remaining gaps has been seen in this study in terms of governance, institutional culture, product design, incentives to potential savers & staff, outreach as well as poor training to frontline staff to build their capacity and confidence in voluntary savings promotion. In addition to this, branch location, distance from homestead to MFI, Lack of management information system, and loan defaults that faces microfinance institutions when mobilizing savings. Based on the findings depicted in the previous chapter, this study reserves that the MFI has offered different savings products mainly as ordinary savings, box saving accounts, child saving & time deposits and those products have different features.

In connection with the findings, the following recommendations are provided:

- To conduct regular promotion; The Institution has to design comprehensive promotion materials with clear, simple and compelling message, so front line staff can confidently adapt their marketing message to saving mobilization.
- To develop saving products; SFPI has meet its customers demand by evaluating the existing product and determine in which stage of its life cycle each product falls. It can use various sources of information to evaluate products, including client complaints, staff observations, market research, and competitive activities.
- To apply centralized management information system and online to be competitive including likes agent banking and mobile banking to address more potential clients.
- To provide training and capacity building for front line officer on marketing ability. This can also help to examine field officers over-all approach, attitudes and behaviour to the society. This raises the confidence and effectiveness of front-line staff.
- Incentivize staff: Indeed, saving products are harder to “sell” given the local context. It is not an easy task, it takes effort and commitment, and results are only achieved in the medium to long term and also

arrange & apply incentive program to potential savers need to give adequate wait to saving.

- The MFI has to maintain the healthiness of loan portfolio by strong follow up method. Voluntary saving is effectively promoted mostly to borrower clients, while loan defaults or non performing loan is one of the challenges of saving mobilization in MFI .Because most time defaulter clients leave the MFI & they took their total savings balance or offset to their unpaid loans.
- SFPI has to expand its branches in order to increase saving mobilization and it has give priority for branch opening .The study, therefore, stated that the management of SFPI should consider increasing the number of branches especially in rural area to address the un-bankable societies & to make more opportunity available to potential savers and also break distance barrier which tends to discourage savings.

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