

Role of commercial bank of Ethiopia in financial inclusion

¹ K Sambasiva Rao, ² Andualem Ufo Baza

¹ Professor of Finance & Accounting, Dept. of Commerce & Mgt. Studies, Andhra University, Visakhapatnam, Andhra Pradesh, India

² Research Scholar, Dept. of Commerce & Mgt. Studies, Andhra University, Visakhapatnam, Andhra Pradesh, India

Abstract

We study the role of Commercial Bank of Ethiopia in financial inclusion between 2010 and 2015. Using the primary and secondary data, we analyzed the CBE role in financial inclusion. We find that Commercial Bank of Ethiopia plays significant role in providing no-frill account, ATM cards, mobile banking, interest free banking and internet banking services. We also found that the bank plays role in expanding access to financial services through expansion of bank branches from 220 in the year 2010 to 965 in the year 2015. It plays role in providing deposit inclusion through prize based deposits. We proved that CBE reaching out financial services for sub-urban areas through bank branches.

Keywords: Role of Commercial Bank in financial inclusion, Informal finance, Banking Services, Ethiopia

1. Introduction

This study examines the role of Commercial Bank of Ethiopia in financial inclusion in Ethiopia. Financial inclusion is defined the process of ensuring access to suitable financial products and services needed by low income groups in particular and all the members of the society in general at an affordable cost in a fair and transparent manner by mainstream institutional players (Chakrabarty, 2012) [3]. Ethiopia lags behind other developing countries. For instance, her neighbor Kenya in all measures of financial inclusion. An indicator for this is there is a huge gap in provision of wide range financial services to customers. The mobile money account and financial account penetration in Kenya was 55 and 58Percent respectively (World Bank, 2014b) [10]. While in Ethiopia it was 0 and 21.8percent respectively, in 2014 (World Bank, 2014a) [8]. In this aspect the commercial Banks in Ethiopia lags behind there correspondents in neighbor Kenya, for instance in mobile account, financial account, micro insurance [(World Bank 2014a; World Bank 2014b) [8, 10]. In years between 2010 and 2015, the commercial bank of Ethiopia showed a rapid expansion of bank branches from 220 branches in 2010 to 965 branches in 2015. Despite the recent developments in role of Commercial Bank of Ethiopia in the financial inclusion, the majority of rural residents still excluded from the use of financial services. This problem is partly allocable to weak infrastructural as well as barriers such as poverty, illiteracy and distance. The above mentioned problem may be reduced through strengthening the infrastructure and well designed intervention of problem areas. The study aims at examining the role of commercial bank of Ethiopia in financial inclusion. This study seeks to answer research question regarding the role of commercial bank of Ethiopia in financial inclusion in Ethiopia. These are: (1) what are the role of Commercial Bank of Ethiopia in physical access to services? (2) What are the innovative delivery channels the Commercial Bank of Ethiopia use to financial services provision? (3) What role does the Commercial Bank of Ethiopia play in financial awareness? The main objective of this study is threefold. The first goal is

to examine role of commercial Bank of Ethiopia in financial inclusion (physical access). The Second goal is to assess the innovative delivery channels of Commercial Bank of Ethiopia use to financial inclusion. The final goal is to examine the role of commercial bank of Ethiopia in financial awareness creation. Section 2 reviews the literature. Section 3 explains our research methodology. Section 4 presents the results of our analysis. Section 5 concludes and recommends.

2. Literature Review

The empirical literature on role of Commercial Bank in financial inclusion has emerged in recent years. Some of list of previous researches include (see, eg., Tara and Tankha 2014; and Bruhn and love 2010; Aportela 1999) [6, 2, 1] provides a useful review of this literature. The literature on role of Commercial bank in financial inclusion is scant. Tara and Tankha (2014) [6] study role of Commercial Banks in financial inclusion. Examining the Indian inclusive finance, they mentioned there are diversified role of commercial Banks in financial inclusion such as opening account; providing credit; micro insurance and micro pension; opening new bank branches and outlets; mobile banking, agent banking, interest free banking; secured and hassle-free banking; forming rural business hubs; biometric ATMs; financial literacy and credit counseling; remittance through tie-ups with BC and telecom providers; opening special financial inclusion branches, setting up urban kiosks at various location with common service centers; opening small account; linking villages to branches through CSPs in a hub-and-spoke-model; and facility of loan repayment at BC outlets.

The empirical evidences show that commercial Bank plays an important role in financial inclusion. For instance, expansion of bank branches in Mexico increased to informal business in places the branch opened, but reduced unemployment in labour market (Bruhn and love 2010) [2]. In such cases the low income individuals appears to be benefited from inclusion. Aportela (1999) [1] conducted his study in Mexican Saving institute. He found that financial institutions play an

important role in access to financial services through expansion of branches that leads for saving inclusion.

3. Research Methodology

We used the supply side data on financial inclusion. We have collected the data from Commercial bank of Ethiopia head office. Financial inclusion is a measured interms of Bank branch penetration, ATM penetration, Credit penetration and deposit penetration. We interviewed five couples of a mix of customer service managers on provider’s side to verify some aspects of the role of commercial bank of Ethiopia in financial inclusion of commercial Bank of Ethiopia.

Table 1: Commercial bank of Ethiopia branch penetration (2010-2015)

Year	No. of Branches	Demographic penetration	Geographic penetration
2010	220	0.44857	0.199
2011	380	0.7575	0.380
2012	547	1.0656	0.558
2013	695	1.3231	0.696
2014	832	1.5425	0.848
2015	965	1.7483	0.978

Source: Author’s analysis of Commercial Bank of Ethiopia Report (2010-2015)

The analysis of the CBE geographic penetration of bank branches from the fiscal year 2010-2015 shows that there is a slowly increasing trend. In the year 2010, it was only 0.199branches per 1000 sq.km. In 2015, 0.978 branches of CBE were available per 1000sq.km. This indicates nearly one branch per 1000sq.km. This shows that in jurisdiction, CBE plays essential role in financial inclusion. In the year 2010 the demographic penetration shows only 0.448branches per 100,000adults of age greater than 15 year. In general, CBE plays important role in financial inclusion, especially access to financial services through expansion of bank branches.

ii. Commercial Bank of Ethiopia plays role in financial inclusion through ATMs, POS terminals and Debit Card provision

The commercial bank of Ethiopia plays role in financial inclusion through providing the access to financial services such as ATMs, POS terminals and debit cards. The CBE ATMs expansion in the year 2010, only 0.0072 ATMs per 1000sq.km in Ethiopia.

Table 2: No. of ATMs penetration, demographic and geographic penetration (2010-2015)

Year	ATMs penetration(per 100,000 adults)	ATMs penetration per 1,000sq.km
2010	0.01631	0.0072
2011	0.04784	0.024
2012	0.11299	0.0592
2013	0.4911	0.2584
2014	0.8027	0.4418
2015	1.1667	0.6506

Source: Author’s analysis of Commercial Bank of Ethiopia Report (2010-2015)

In 2015, this trend had changes and the number of CBE ATMs available per 1000sq.km was 0.6505 (as of June 2015). Similarly, in the year 2010 the demographic penetration of ATMs shows only 0.0163 per 100,000adults. This is very insignificant. But currently its trend clearly shows changes over time. In the year 2015, CBE ATMs per100, 000 adults

4. Results

i. Commercial Bank of Ethiopia plays role in financial inclusion through branch expansion.

The Commercial Bank of Ethiopia bank branches are increasing from period to period. The bank plays role in financial inclusion due to rapid increase in branches. For instance, by the year 2010, the number of CBE bank branches was only 220. While in the year 2015, it was 965branches (see table 1).

were 1.16. This indicates that there was growing trend in CBE ATMs penetration. When we see the Pos penetration in jurisdiction, by the year 2013 the demographic penetration of CBE POS penetration was 0.392POSs per 100,000adults. But currently, in 2015, 3.41POSs were available per 100,000 adults in Ethiopia. This shows there was rapid growth in CBE POSs terminal overtime in jurisdiction. Similarly, in 2010 the CBE debit card per capita was only 30.58. In general these show that in jurisdiction, CBE plays vital role in financial inclusion through retail payment penetration.

iii. Commercial Bank of Ethiopia plays role in financial inclusion through Mobile Banking and Internet Banking service provision

The Commercial bank of Ethiopia plays role in mobile banking and internet banking that was introduced recently. The finding shows the number of mobile banking and internet banking users in 2015 were 456,909 and 7,838 respectively. But in the year 2013 these numbers were 9,236 and 215 respectively. This shows the number of mobile and internet banking users were increasing overtime. The CBE’s mobile banking per capita was only 17.58 of adults in 2010. In the year 2015, it was 827.79 adults. This indicates there is increasing trend in mobile banking in jurisdiction. In general, the commercial bank of Ethiopia plays vital role in mobile banking. The CBE internet banking per capita in the year 2013 was only 0.4093 adults. While in the year 2015, it was 14.20. This shows that there was expansion in internet banking services. As CBE is the pioneer of internet banking service in Ethiopia.

iv. Commercial Bank of Ethiopia plays role in financial inclusion through deposit inclusion and credit inclusion

The CBE plays important role in deposit and credit services in jurisdiction. The deposit of the CBE was increasing from time to time. For instance in the year 2010, the deposit with CBE was 56bn. Whereas, in the year 2015, it was 241bn. The CBE loan during the two extreme periods under study was 50bn and 265bn in 2010 and 2015 respectively.

v. Commercial Bank of Ethiopia plays role in financial inclusion through remittance and financial literacy campaign

The CBE plays important role in transferring remittances in collaboration with more than eighteen companies worldwide. The lower cost and faster remittance can benefit the jurisdiction in financial inclusion. The CBE plays important role in media through advertising and indirectly training and creating awareness in savings, and saving mobilization by preparing lottery complain.

4.1. Interview Results

The result of interview shows that CBE play the role in financial inclusion through rapidly expanding the bank branches, opening no-frill accounts, mobile banking, agent banking, internet banking, and interest free banking. The survey evidence of 2015 shows that commercial bank of Ethiopia is the leading state owned bank in the jurisdiction and primarily focused on reaching out public in financial services.

The CBE plays important role in facilitating account opening for the poor and low income individuals free of cost. Those who have accounts at commercial bank of Ethiopia can transfer cash free of transfer cost. The cost of operating account at commercial bank of Ethiopia is relatively small as compared to the other private commercial banks. The Commercial Bank of Ethiopia engaged in continuous mobilization of savings. The bank engaged in lottery Campaign to promote saving and women financial inclusion through opening female saving account to empower women. Despite all these, the bank has limited infrastructural and financial capacity to reach out all society in general and individuals at the lower end of pyramid in particular.

5. Conclusion and Recommendations

The main objective of this study is threefold. The first goal is to examine role of commercial Bank of Ethiopia in physical access. The Second goal is to assess the innovative delivery channels of Commercial Bank of Ethiopia Uses in financial inclusion. The final goal is to examine the role of commercial bank of Ethiopia in financial awareness creation. We analyzed both the primary and secondary data. We find that Commercial Bank of Ethiopia plays significant role in providing no-frill account, ATM cards, mobile banking, interest free banking and internet banking services. The bank plays role in expanding access to financial services through expansion of bank branches from 220 in the year 2010 to 965 in the year 2015. The CBE ATMs expansion shows an increasing trend between 2010 and 2015, it was only 0.0072per 1000sq.km in 2010, while it increased to 0.6505(as of June 2015). The finding shows the number of mobile banking as well as internet banking users were 456,909 and 7,838 respectively (as of 2015). We find that CBE plays pivotal role in deposit inclusion through prize based deposit. We proved that CBE reaching out financial services to sub-urban areas through bank branches.

Even though there is some evidence that CBE plays a role in financial inclusion. There are also many alternative means to expand financial services such as micro insurance and micro pension; secured and hassle-free banking; forming rural business hubs; biometric ATMs; financial literacy and credit counseling; remittance through tie-ups with Bank correspondents and telecom providers; opening special financial inclusion branches, setting up urban kiosks at various location with common service centers; opening small

account; linking villages to branches through CSPs in a hub-and-spoke-model; and facility of loan repayment at BC outlets. These opportunities wide the range of financial services provided to the low income groups in particular and society in general.

6. References

1. Aportela F. Effects of Financial Access on Savings by Low-Income People. Banco de Mexico. 1999. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.194.5270&rep=rep1&type=pdf>
2. Bruhn M, Love I. The Real Impact of Improved Access to Finance: Evidence from Mexico Article forthcoming in *The Journal of Finance*. 2010. Retrieved from http://siteresources.worldbank.org/EXTGLOBALFINRE/PORT/Resources/8816096-1361888425203/90620801361888442321/Improved_Access_to_Finance_Bruhn_Love_Paper.pdf
3. Chakrabarty KC. Financial inclusion: issues in measurement and analysis, Keynote address by Dr K C Chakrabarty, Deputy Governor of the RBI, at the Bank for International Settlements-Central Bank of Malaysia Workshop on Financial inclusion indicators, Kuala Lumpur. 2012.
4. Retrieved from <http://www.bis.org/review/r121112a.pdf>
5. CBE (Commercial bank of Ethiopia). Commercial Bank of Ethiopia Annual Report, Commercial Bank of Ethiopia, Addis Ababa, Ethiopia. 2010-2015.
6. Tara SN, Tankha A. Inclusive Finance India Report. 2014. Oxford University Press. An Access Publication. Retrieved from http://www.accessdev.org/downloads/SOS_Report_2014.pdf
7. World Bank. Global Financial inclusion Database (Global Findex Database). 2014a.
8. Retrieved from <http://datatopics.worldbank.org/financialinclusion/country/Ethiopia>
9. World Bank. Global Financial inclusion Database (Global Findex Database). 2014b.
10. Retrieved from <http://datatopics.worldbank.org/financialinclusion/country/kenya>