

RIFT VALLEY UNIVERSITY

Department of Business Management

ASSESMENT OF LIQUIDITY RISK MANAGEMENT PRACTICE IN ETHIOPIAN COMMERCIAL BANKS:

(THE CASE OF COMMERCIAL BANK OF ETHIOPIA)

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1. **Statement of the problem**

Liquidity risk management is a major activity of every financial institution therefore every financial institution strives to provide and maintain a certain level of liquidity on a daily basis. This liquidity hazard itself is incomprehensible but it is possible through a dynamic liquidity chance administration arrangement, to moderate its negative impacts (Milos 2014, 14-16).

Liquidity risk management should be linked to the organizations business strategy KPMG, (2001). Risk strategy, which provides guidelines for the risk activities within an organization, is built around and supports the business strategy. Risk management structures should be established that clearly identify ownership, responsibilities and accountabilities for risk management.

Adolphus (2008), studied liquidity management practices of selected Nigerian banks by evaluating, the relevance of treasury objectives in bank portfolio management, causes of asset-liability mismatch in banks, causes of liquidity crisis, incidence of treasury risk, adequacy or appropriateness of liquidity risk management techniques, liquidity planning practices of Nigerian banks, and extent of liquidity exposure in banks. The rampant reported cases of liquidity crisis and financial distress in the Nigerian banking industry have necessitated a study on how to manage the bank's liquidity exposure.

Thomas and Wang believed that when banks were in the face of a liquidity shock or credit shock, it was feasible to dissolve the risk through adding reserve and capital or by means of asset securitization. Elena Carletti made an analytic research into the influence of bank amalgamation on loan race, reserve holdings and total liquidity, which pointed out that mergers of commercial banks could improve the accuracy of liquidity demand estimation and modify the impact of liquidity shock on banks.

However, despite the progressive development of the Ethiopian commercial banks banking industry, the potential problem of liquidity risk must not be ignored: the recent economic/business conditions require the banking industry (including Ethiopian commercial banking industry) to have a robust liquidity risk management program. The global financial crisis (2008-2009) has hampered some well-established financial institutions and, indeed, the global banking industry in general. Ethiopia experienced periods of economic crisis and turbulence in 1997-2003 and 2016-2017 caused by external shock and unsound liquidity management by some of its well-established banks.

Furthermore, the current development of the Ethiopian commercial banking industry is facing the following issues:

1. As the industry is undergoing a period of rapid growth, it has to be accompanied by a robust liquidity risk management program; such a program is currently not being prepared effectively by banking regulators.
2. The practices of the Ethiopian banking industry reveal a less-than-ideal liquidity management. The banks have an orientation towards short-term financing and only a minimum contribution to long-term financing.
3. Depositors show a sensitive liquidity behavior and may withdraw their funds if the economy is in downturn or deposit interest offers a better return and;
4. Ethiopia has a less developed money market with limited liquid instruments to provide commercial banks a short-term liquidity.
5. The future development of the Ethiopian banking industry demands a proper liquidity management, given the complexities of banking activities and economic conditions.

These facts have highlighted the importance of having a robust liquidity management program to anticipate future liquidity risk problems.

Ethiopian commercial banks are accordingly in urgent need of improving risk management technique so as to prepare themselves against all sorts of risks, especially liquidity risk. Risk Management plays a decisive role in the development of commercial banks, and is deemed the emphasis and difficulty of asset-liability management and financial risk management by commercial banks around the world.

Liquidity risk management of global banking industry has experienced a development process in which causes for risks tend to be much more complex and banks’ management turns systematically and steadily with increasingly strict supervision. Early liquidity risk management largely focused on the liquidity management of assets. As the financial market moves forward, liquidity management gradually transfers into liquidity management of liabilities, balanced liquidity management and some other stages.

In pursuit of high profits as well as strong competitiveness, commercial banks of our country strengthen the bond with international financial market, which makes the domestic financial system more susceptible to international events imperceptibly. There are several long-standing issues concerning Ethiopia’s commercial banks, such as low profitability, high rate of non-performing assets, low capital adequacy ratio, maturity mismatching of assets and liabilities, low degree of marketization and backward liquidity risk management techniques. With poor capability of dealing with and resisting risks, commercial banks of our country are confronted with serious systematic risk under the market economy environment which is always filled with international financial crisis proneness.

To the best knowledge of the researcher, the previous studies dwelled on the liquidity risk management practices by Ethiopian commercial banks are at primary stage.It is on this basis that a survey of the liquidity risk management practices commercial bank of Ethiopia is important. This study has been propelled at surveying the Liquidity risk management practices in Ethiopian commercial banks andfocused on commercial bank of Ethiopia. In addition, the output of the research will fill a gap in knowledge and understanding with regard to managing liquidity risk through balancing asset and liability sides.

1. **Objectives of the study**

The study has general and specific objectives. The specific objectives are within the framework of the general objectives in a sense that they are set up in as such a way to achieve the general objective.

**General Objective of the study**

The main objectives of this research are to investigate liquidity risk management practices in commercial bank of Ethiopia.

**Specific Objective of the study**

1. To establish the level of liquidity risk exposure of commercial bank of Ethiopia.
2. To investigate the practices adopted by commercial bank of Ethiopia to managing the liquidity risk.
3. To examine the benefits of proper liquidity risk management practices to the growth of these institutions.
4. To analyze the management of liquidity risk in the CBE by balancing the asset and liability sides.
5. To identify strategies that are instituted to monitor and control liquidity risk in these institutions.
6. To examines the challenges faced by these institutions in managing their liquidity risk.
7. What is a proposed program to solve the problem of liquidity risk?
8. Draw policy implications from the result of the study.

**Research questions**

This research has specific research questions to be answered, which are:

1. What are the current practices of liquidity risk management in commercial bank of Ethiopia?
2. What is the level of liquidity risk exposure of commercial bank of Ethiopia?
3. What are the strategies that are instituted to monitor and control liquidity risk in these institutions?
4. What have been the benefits of proper liquidity risk management practices to the growth of these institutions?
5. What are the challenges faced by these institutions in managing their liquidity risk?
6. What are the current practices of liquidity risk management and the organizational structure in relation to managing liquidity?
7. What factors influence commercial banks of Ethiopia to balance liquidity on the assets and liabilities side and their liquidity management strategies?

**Research Hypothesis**

A hypothesis is a preliminary or tentative explanation or postulate by the researcher of what the researcher considers the outcome of an investigation will be. It is an informed / educated guess. It indicates the expectation of the researcher regarding certain variables. It is the most specific way in which an answer to a problem can be stated. Hypothesis of the study is developed as follows which will be either proved or disproved in this study i.e.,

**H0:** Liquidity risk management practices in commercial bank of Ethiopia negatively affect the institutions.

**H1:** Liquidity risk management practices in commercial bank of Ethiopia positively affect the institutions.

1. **Limitations and Delimitations of the Study**

The research sought to address issues of liquidity risk management in financial institutions, and to ascertain how effective practices are put in place to mitigate the occurrence of such risks. The focus was primarily on commercial bank of Ethiopia. The scope of the research was limited to the liquidity risk management practices and challenges of these financial institutions as they appear to be vital variables in considering their health, in the short term and long term.

1. **Review of the Literature**

This section presents theoretical aspects related to banking. The review included previous research, surveys and studies. Different books and other written materials on related concepts also reviewed to broaden information regarding the concern.

Liquidity is the ability of the bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks inherently vulnerable to liquidity risk. Both of an institution-specific nature and that which affects market as awhile. (BIS2008).

Liquidity is the lifeblood of any institution, but it is particularly crucial to highly leveraged entities such as banks. Banking organizations are by nature employ a significant amount of leverage in their business activities-and need to meet contractual obligations in order to maintain the confidence of customers and fund providers-adequate liquidity is critical to an institution ongoing operation, profitability, and safety and soundness.

A bank liquidity exist in its assets readily convertible to cash net operating cash flow ,and its ability to acquire funding through deposit borrowing, and capital injections.(comptroller2012)an institution’s obligations, and the funding sources used to meet them, depend significantly on its business mix, its balance sheet structure, and the cash flow profiles of its on-and-off balance sheet obligation.(comptroller2012) A key building block in managing liquidity risk is the estimation of cash inflows and outflows for each significant balance sheet account, given a specific time period ,specific period aggregate funding mismatches can result in the institution lacking sufficient capacity to fund obligations in the normal course of business. Effective management and control of the liquidity risk stemming from funding gaps depends heavily on the use of operational cash flow projections and reasonableness and accuracy of the assumptions that are applied.

According to the theories of financial intermediation, the two most crucial reasons for the existence of financial institutions, especially banks, are their provision of liquidity and financial services. Regarding the provision of liquidity, banks accept funds from depositors and extend such funds to the real sector while providing liquidity for any withdrawal of deposits. However, the banks’ role in transforming short-term deposits into long-term loans makes them inherently vulnerable to liquidity risk (Bank for International Settlements (BIS), 2008b:1).

The concept of liquidity in finance principally lies in two areas: (a) the liquidity of financial instruments in the financial market, and (b) the liquidity related to solvency. The former relates to liquid financial markets and financial instruments. Examples of these include: marketable financial instruments, smooth transactions, and no financial barriers. The latter discusses the obligation of banks to make payments to third parties (Fiedler, 2000:442). Some examples of this include: setting up liquidity management policies, reserving liquidity, balancing assets and liabilities and, preparing liquid financial instruments. This PhD thesis focuses on the second area above.

The important discussion in liquidity risk management is to balance the demand for liquidity on the liability side with the supply of liquidity on the asset side. Liquidity risk problems occur if banks fail to balance those two sides, do not have sufficient internal liquidity reserves, and fail to obtain funds from external sources.

**Liquidity risk in banking institutions**

**Risks in Banking Institutions**

Risk in financial terms is usually defined as the probability that the actual return may differ from the expected return (Howells and Bain, 1999:30). In the financial system, there are at least three broad categories of risks: (1) financial risk, (2) business risk, and (3) operational risk. Financial risk concerns risks arising from the business activities of banks, while business risk and operational risk relate to the bank’s internal affairs. In this respect, liquidity risk is classified under the financial risk category along with credit risk and market risk.

Managing liquidity risk, however, is more challenging in the current financial market because significant financial innovations and global market developments have transformed the nature of liquidity risk (BIS, 2008a:2). There is currently less reliance on bank deposits, and more reliance on capital and global financial markets.

These conditions have made banks more susceptible to financial market issues such as excessive loans leading to a deep depreciation in currency (Asian economic crisis 1997-1998) as well as the issues associated with sub-prime mortgage (global financial crisis 2008-2009). Moreover, banks should not see the problem of liquidity risk in isolation because liquidity problems in one bank could impact the entire banking industry and the financial system, and could even unravel the overall economy.

**Process of liquidity risk management**

Concerning the current economic conditions, BIS recommends banks to organize the process of liquidity management through identifying, measuring, monitoring, and controlling liquidity risk (BIS, 2008b:3). Such a process entails at least four elements: (i) the liquidity management policies of the Board of Directors (BOD), (ii) the roles of the Asset Liability Committee (ALCO), (iii) the effective information system for monitoring and reporting liquidity risk, and (iv) the roles of internal control systems for liquidity management.

**Asset –liability imbalance and maturity mismatch risks**

The two main causes of liquidity risk are asset-liability imbalance and maturity mismatch which can happen because of two conditions (Helmen et al., 1994:164-165): (a) liquid assets are available in larger portions than volatile liabilities, a scenario known as liquidity gap, or (b) the predicted amount of funds needed on the asset side is higher than the predicted amount of funds available on the liability side, a condition known as liquidity need (see figure 2.5). Identifying and mitigating these two causes of liquidity risk may eliminate: (i) the funding liquidity risk when the depositors withdraw their short-term deposits and (ii) the market liquidity risk when there is a disruption in the financial markets which makes normally-liquid assets illiquid (Sharma, 2004:1).

**Factors Triggering Asset-Liability Imbalance and Maturity Mismatch Risks**

The first factor is when depositors prefer placing their funds in the short-term tenor of deposits. The banks then use some of the funds to finance long-term investment projects (Sharma, 2004:2). The asset-liability imbalance potentially occurs because the short-term tenors of deposits are liquid, while the long-term investments are illiquid. When the depositors execute their short-term tenors of deposits, the banks may have to terminate their long-term investments in order to free up liquidity to meet the immediate demand. Indeed, the excessive reliance on short-term debts leaves the banks vulnerable to the occurrence of financial distress (Beakley and Cowan, 2004:2).

The second factor is the combination of a high deposit rate to attract more funds from depositors and the high credit rate imposed on entrepreneurs. However, when a business faces a downturn, the high credit rate reduces the entrepreneurs’ ability to repay the interest and principal of the debts and leaves banks in a difficult position to repay the depositors’ deposits. If banks continue not to have access to funds from the money market, this asset-liability imbalance problem could trigger a liquidity run.

The third factor occurs if big companies become the dominant depositors and locate funds in the short-term tenor of deposits. Banks would need immediate liquidity if the liquidity behavior of big companies is uncertain and unpredictable and these companies redeem their deposits without prior notice or immediately at the same time.

The fourth factor is an asymmetric or unequal distribution of information among depositors, banks, borrowers, and regulators (Greenbaum and Thakor, 1995:173). For example, where there is hidden information among parties involved in the bank’s financing activities, or unorganized liquidity behaviors between depositors and banks, it is difficult to match the assets and liabilities.

The final factor is the business cycle which plays an important role in causing asset-liability imbalance (Allen and Gallen, as quoted by Zhu, 2001:2). For example, the unfavorable business/economic conditions may disrupt the performance of the asset side which may eventually impact the balance between assets and liabilities.

**Related Risks Following Asset-Liability Imbalance and Maturity Mismatch Risks**

When the asset-liability imbalance and maturity mismatch risks take place, there may be related risks following these two risks. This might happen if the banks fail to handle asset-liability imbalance and maturity mismatch risks. Such risks, amongst others, are insolvency risk, government takeover (bailout) risk and reputation risk.

**A. Insolvency Risk**

Insolvency risk, which is the inability of banks to fulfill their obligations to depositors, occurs if banks fail to manage liquidity risk by not having enough liquidity reserves, selling liquid assets, or borrowing from the money market. In particular, insolvency risk is the condition where the bank’s liabilities exceed the bank’s assets, causing a negative net worth in the bank’s balance sheet (Greenbaum and Thakor, 1995:172).

**B. Government Takeover (Bailout) Risk**

As evident from the global financial crisis of 2008-2009 and other similar largescale economic conditions such as the Asian economic crisis of 1997, governments commonly act as the lender of last resort for banks. They provide emergency liquidity for banks which face liquidity distress or even take over defaulting banks to save the entire economy from the adverse impact of the banks’ failures.

**C. Reputation Risk**

The banks’ failures to balance the asset and liability sides, manage the demand for liquidity, and mitigate the unexpected liquidity pressures can drop their reputation in the eyes of depositors and stakeholders. In severe cases and especially where the bank is a key driving force behind the economy, a low banking reputation may not only downgrade the function of banks as financial intermediaries but also impact the performance of the economy.

**Techniques to mitigate liquidity risk**

One of the common techniques used in banking theory to analyze the performance of asset and liability is called the Gap Analysis. This technique assists the output of the assets side (particularly from the interest rate return of bank credits) and the liability side over a certain period of time (Heffernan, 2001:189). It suggests that banks maintain a higher return on the asset side than the liability side. In particular, the ratio of total return from bank credits to total payments of interest on deposits should always be positive. If it is found negative, the banks should:

* Increase total equity or;
* Increase interest on bank credit to prevent asset-liability imbalance and maturity mismatch risk.

Nonetheless, increasing interest on bank credit might potentially increase NPL and interrupt performance of the asset side. As such, banks are suggested to diversify their funding sources or increase the contingent liquidity sources (BIS, 2008a:6).

Further, in their daily operations, banks need to provide and maintain liquidity to resolve the regular and irregular demand for liquidity from depositors. The regular demand comes from daily business activities of depositors (BIS, 2008a:5). Meanwhile, the irregular demand can be further broken down into (a) the predictable irregular demand for liquidity, and (b) the unpredictable irregular demand for liquidity.

The former arises from non-routine business activities of depositors such as government withdrawals for fiscal operations, termination of automatic rolled over time deposits, and execution of non-mature time deposits. The latter arises from the sudden and massive demand for liquidity such as the contagious banking crisis, the economic or global financial crisis, the oil price shock (economic issues), social and political unrest, and natural disasters (non-economic issues).

To manage the regular demand for liquidity, banks ought to maintain a standby account on the asset side. It is a pool of funds that can be withdrawn to provide liquidity, if needed, on a daily basis. Obviously, larger banks are required to maintain a larger pool of liquid assets than smaller banks (BIS, 2008a:6). According to Helmen et al. (1994: 151), such an account should consist of:

* Currencies (cash in vault).

These are the liquidity that banks hold to meet daily transaction needs and that will be placed in the central bank if there is a surplus;

* Central bank certificates.

These are the safe and liquid deposits in the central bank;

* Other commercial bank deposits. These are the bank’s short-term deposits in the other commercial banks. Although these are less liquid than the central bank certificates, these deposits can also be redeemed on short notice;
* Cash items in the process of collection. These include the checks deposited in the central bank or the other commercial bank deposits for which credits have not yet been received.

Greenbaum and Thakor (1995:176) further propose three techniques to mitigate the regular demand for liquidity. The first one is to invest more funds in liquid loans and/or keep more cash in hand. The second one is to diversify sources of funding from various depositors. The final one is to use the central bank as the last resort to provide emergency liquidity to fulfill the regular demand for liquidity from depositors.

To manage the predictable irregular demand for liquidity, banks should have an estimate of the short-term demand for liquidity based on their past experiences (patterns of liquidity needs). Specifically, in estimating, assumptions are made that the predictable irregular demand for liquidity has seasonal, cyclical, and trend factors (Helmen et al., 1994:162-165). Therefore, unless there is an error condition, it should be possible to identify the predictable irregular demand for liquidity. In order to increase the accuracy of their estimation, the banks should find out from their clients details on the schedule of their intended deposit withdrawals.

1. **Research methodology**

**Introduction**

The chapter outlines the research design and methodology which was followed in conducting this study. It describes the research design,sources of data, population of the study, data collection methods,sampling technique and sample size,validity and reliability, method of data analysis used in the study and research ethics are discussed.

**Research Design**

The study is to assess liquidity risk management practices in CBE. Descriptive research is also called statistical research. The main goal of this type of research is to describe the data and characteristics about what is being studied. The idea behind this type of research is to study frequencies, averages and other statistical calculations. Although this research is highly accurate, it does not gather the causes behind situation. Descriptive research is mainly done when a research is mainly done when a research wants to gain a better understanding of a topic. Descriptive research answer the questions who, what, where, when and how

**Populations and Sample**

**Target population**

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study (Kothari, 2004). The target population of this study was the employees of CBE, and customers of CBE with the total number of more than 32000 employees and above 13 million customers according to 2017 report. CBE has totally fifteen districts in Ethiopia. Due to resource constraint, it is difficult to cover all these districts, and to keep the study manageable, however, the study was focused on the four Districts located in Addis Ababa which are, North, South, East and West district and Head office organs. The researcher carried out the research in different branches which is located in Addis Ababa the total population was 96.

**Sample size**

A stratified random sampling allows us to take into account the different subgroups of people in the population and helps guarantee that the sample accurately represents the population on specific characteristics. It enables the survey to include all hierarchy of the Bank and to allot the total sample for each stratum proportionally.

To obtain the minimum population sample for this study, the researcher adopted stratified sampling as a technique using Yamane’s formula (cited in Israel, 1992) as follows:

n=N/ (1+N^X (e)2)

Where

n =is the sample size,

N= is the population size and

e =the acceptable sampling error

Therefore, the sample size of this study will be 49 employees out of 96 total populations.

**Sampling techniques**

The study used non-probability sampling techniques. Purposive sampling techniques were used by the researcher to select branches in each district and sample of employees. Based on the purposive sampling techniques the researcher selected two key branches in each four districts including head office based on their numbers of employees, and the degree of their contribution. The researcher select samples of employees by asking the persons who are interested in participating in the survey were included into the survey and subsequent analysis. Therefore, the researcher requested all the persons eligible for the study to participate.

**Data types and sources**

Both quantitative and qualitative paradigms in research methods were applied. The amalgamation of both qualitative and quantitative methods provided a real picture of the organization and also increased the overall accuracy of data obtained; the sources were complementary.

**Data collection instruments**

They are methodologies used to identify information sources and collect information during an evaluation.

**Primary data:**

Primary data is known as data collected for the first time through field survey. Such data are collected with specific set objectives. Primary data always reveals the cross section picture of anything studied. This is needed in research to study the effect or impact any policy. Primary data were gathered from questionnaires and informal interviews. These were carried out in tandem. Questionnaires were administered to junior staff, senior staff and senior members in administration to ascertain their knowledge of liquidity risk management. Interviews were conducted informally to ascertain the authenticity of responses in the questionnaire.

**Interviews**

The interview is a main part of qualitative research method in which the researcher would put forward questions for various individuals to express themselves on their preferences and viewpoint on the subject understudy. The major advantage attributed to interviews is that further detailed information could be sought and a more congenial feeling could be created such that better information is elicited. Informally, the researcher engaged some staff in conversations that would solicit their views on liquidity risk management practices and how it benefits the organization. Interviews help in getting the information that cannot be gathered through the questionnaires, therefore some of the top executives from the bank are interviewed as well, to have a two-way communication and to resolve some untapped areas.

**Questionnaire**

Questionnaires were the primary data collection instrument; it is appropriate to discuss here that other quantitative technique have also been used. In addition to questionnaires, the banks provided various written information, such as corporate annual statements, co-worker magazines, and brochures and leaflets describing corporate policies and philosophies. Most of the data that was received about liquidity risk management practices in banks were through the questionnaires. It was helpful in getting large amount of information in a more quantitative manner. On the average a sample size of 10 to 15employees and depositors were questioned in the bank to have a reliable database about the issues related to the motivation of employees.

**Secondary data:**

Secondary data refers to the information or facts already collected. Such data are collected with the objectives of understanding the past status of any variable data collected and reported by some source is accessed and used for the objectives of the study. Secondary data were gathered from sampled personnel files and documents from the human resource department on efforts to introduce the concept of liquidity risk management practice in the commercial bank of Ethiopia

The secondary data were collected from:

* Books
* Records maintained by HR department
* Company websites

**Data analysis techniques**

This study focuses liquidity risk management and our study has covered the Employees of Commercial bank of Ethiopia and banks depositors. The researcher used separate analysis, and a collection of qualitative and quantitative data were incorporated which were further combined for use in a more prudent way for the research. This was because of the different paradigms of data collection methods (qualitative and quantitative) that were used. The data was analyzed using statistical methods and graphs and charts to depict the results from questionnaires and interviews. Reliability analysis was used to check the reliability of the data**.**

1. **Work plan and budgeting**

**Appendix I –Financial proposal Budget specification**

Items Unit Unit Price Total price

Birr Cents Birr Cents

1 Purchasing paper 1 145 00 145 00

2 Pen 4 5 00 20 00

3 Witting pad 1 25 00 25 00

4 Ruler 1 12 00 12 00

5 Prints (proposal &drafts 60 5 00 300 00

6 Photo copy 60 1 00 60 00

7 Transport 10 20 00 200 00

8 Binding 4 12 00 200 000

9 Questionnaire distribution and collection 33 20 00 660 000

Total 1468 00

**Appendix** **II time Frame**

**Main Activities** **Time Duration**

2 Identification of essay title----------------------------------------May 15-20/2018

3 Submitting first proposal ------------------------------------------May 20-25/2018

4 Submitting 2nd time proposal and finally Defense-------------- May25-31/2018

5 Review related literature submission-------------------------------June 1-9/2018

6 Distributing questionnaire & collection of data------------------- June 10-13 /2018

7 Organizing the analyzing collected data---------------------------- June 14-20 /2018

8 Summarizing the findings---------------------------------------------- June 20-25/2018

9 Preparing &submitting draft--------------------------------------------June 26-28/2018

10 presentation /Reelection--------------------------------------------------June 28-30/2018

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**Appendices**

**Appendix 1**

**Questionnaire**

Dear Sir/Madame, we are a student of Rift Valley University of social sciences and out on research on the topic “The liquidity risk management in banks”. I kindly plead on you to provide appropriates answers to the questions below that will enable the researcher get correct data to come out with information. This will be treated with confidentiality as it is for academic purpose. Please mark X in the box next to the answer of your choice or write in the space provided as the case may be. Thanks for corporation.

**Survey of Liquidity Risk Management for bankers**

**Part A- Background**

1. Name of Ethiopian commercial banks \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. Where registered/incorporated

- Local (Ethiopian) ( ) – Foreign (Outside Ethiopia) - Other\_\_\_\_\_\_\_\_\_\_\_

3. Nature of Operation

a). Regional ( )

b). Local ( )

c). Multinational ( )

d). Other ( )

4. How long has the commercial banks been in operation in Ethiopia?

a). Less than 1 year ( )

b). Between 1 and 5 years ()

c). Between 6 and 10 years ()

d). Over 10 years ( )

5. What is the Model of your CBE?

a) Deposit taking & Credit ( )

b). Credit only ( )

c). Other ( )

6. What services does your commercial bank offer?

a) Savings ( )

b). Insurance ( )

c). Loans ( )

d). Other ( )

**Part B-Classification of Liquidity Risk;**

1. At what level does your CBE (your banks) identify/classify Liquidity Risk?

Branch Level ( )

Departmental Level ( )

Risk Committee ( )

Board Level ( )

2. What is your current deposit?

Below 10 billion ( )

11 billion to 50billion ( )

Above 100 billion ( )

4 What is your current Advances?

Below 10 billion ( )

11 billion to 50 billion ( )

Above 100 billion ( )

**Part C -Liquidity Risk Management Practices**

**1.** Who in your bank is responsible for formulating the Liquidity Risk management Policies?

- Board of Directors ( )

- The Head Office ( )

- The Risk Committee ( )

- Branch Level ( )

2. Does your bank have a formally approved liquidity risk management policy?

- No ( )

- Don’t know ( )

- Yes ( )

3. Who approves the overall Liquidity risk management policy in your bank?

- Non Executive directors ( )

- Independent Directors ( )

- Chair of the Board ( )

- Chief Executive Officer ( )

4. How often do they meet?

- Monthly ( )

- Quarterly ()

- Bi-annually ( )

- Annually ( )

5. Indicate the level of your bank reliance on each of the applicable validation processes

**Validation Method High Medium Low**

External audit

Risk management reviews

Management certification

Internal audit

Regulatory compliance certification

Control risk self-assessment

Consultant reviews

Independent Agency Rating

Other (please specify)

6. What Guidelines do they (refer to above) follow in formulating the practice?

National Bank of Ethiopia ( )

Parliamentary Guidelines ( )

7. With regard to the organizational structure of your commercial bank, does your bank (Please answer with yes or no)

Have a special Division/Team dealing with risk management?

Have a particular Director/Manager responsible for liquidity management?

Coordinate liquidity management decision with the parent company?

Depend on parent company’s decision (direction) to manage liquidity risk problem?

1. Regarding time deposits (depositor), your commercial bank (Please answer with agree or disagree)

* Charge a penalty to depositors for withdrawal where no notice is given.
* Apply profit and loss sharing instead of revenue-sharing scheme.
* Consider (look at) other bank’s revenue-sharing ratio to determine your own revenue-sharing ratio with depositors.
* Consider the level of interest rate (for example deposit rate) to determine your revenue sharing ratio with depositors.

1. To manage demand for liquidity from depositors, your Islamic bank (Please answer with 1st choice, 2nd choice, 3rd choice, 4th choice, 5th choice, 6th choice)
2. Relies on cash reserve to fulfill daily liquidity withdrawal.
3. Puts extra liquidity above your reserverequirement in Bank Ethiopia.
4. Communicates with depositors who have big amount of deposits regarding their withdrawal time/schedule.
5. Regularly calculates and analyzes pattern of liquidity withdrawal for anticipation.
6. Knows how many rational and religious depositors in your bank.
7. Convinces depositors to lengthen tenor of time deposits from short-term into long-term.
8. The potential liquidity problem that your commercial banks predicts (Please answer with the most possible, possible, impossible)

* Rational depositors who are very sensitive with interest rate return.
* Non-performing financing which can lower your profit and revenue-sharing to depositors.
* Increasing trend of interest rate because of tight monetary policy.
* Big portion of short-term time deposits (1 month).
* Difficulty or limited access to moneymarket.
* Difficult to find prospective and profitable projects (financing proposal).
* Do not do anything.

**Survey of Liquidity Risk Management for Depositors**

1. Your email address:

2. Latest degree of education (Please choose only one answer). ( ) Senior high school ( ) Undergraduate ( ) degree ( ) Postgraduate ( ) above ( )

3. As depositor of CBE, do you (Please answer with yes or no)

Also have an account in conventional bank?

Frequently monitor the performance of your bank (through media, TV, etc)?

Understand what is a time deposits and a saving deposits?

Fully understand the CBE banking operation and principles?

4. If you have saving deposits, your purposes are: (Please answer with 1st priority; 2nd priority; 3rd priority; 4th priority; 5th priority)

1. I can take my money in a daily basis to fulfill my daily transaction needs.
2. I can take my money whenever I want (anytime not always daily).
3. Saving deposits pays a routine revenue-sharing return.
4. I want to enjoy my bank’s facilities (debit/credit card, gift, etc).
5. I deposit my money to support the development of banking and business sector.

5. If you have time deposits in CBE (depositor), your purposes are: (Please answer with 1st priority; 2nd priority)

1. I want to earn a bigger revenue-sharing return than saving deposits (profit motive).
2. It will make me easy to get bank’s financing facilities (free loan, house financing, etc) (commercial motive).

6. What is your preferred withdrawal period of time deposits (depositor)? (Please answer with 1st priority; 2nd priority; 3rd priority)

1. I want to take my money in its 1 month maturity date (routine transaction motive).
2. I want to take my money in between 3 – 6 months in its maturity date.
3. I want to take my money after 1 year (12 month tenor) in its maturity date.

8. If you liquidate (take money from) your bank time deposits (depositor), your reasons are (Please answer with the most preferable; preferable; less preferable; not preferable)

 I need it to fulfill my regular transaction.

 I want to switch tenor of my deposit from short-term into long-term one or vice versa.

 I want to relocate my money into conventional bank.

 I am offered a better revenue-sharing by other banks.

9. You will surely take all of your money and close your account in CBE bank if (Please answer with agree, neutral or disagree)

 My bank does not pay competitive return as I expected.

 My bank pays lower return sharing than other banks.

 My bank pays lower return sharing than interest rate in conventional banks.

 Mybank faces business loss or needs Bank Ethiopia’s emergency liquidity.

 Economic condition requires me to hold cash on hand.

10. If you want to terminate your time deposits (depositor), do you give prior notice to your CBE bank? (Please choose only one answer)

 Yes, if it is not in its maturity date.

 No, if I end it in its maturity date (bank should know it).

 No, even though it is not in its maturity date.

11. If conventional banks’ interest rate deposit is going up, you will (Please answer with agree, neutral or disagree)

 not do anything (unaffected as it is deposit interest rate).

 Switch my deposits from commercial bank into my account in conventional bank.

 Ask my bank to give higher revenue-sharing ratio for my account.

 Take my money to hold cash on hand.