ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

ASSESSMENT OF EXPORT TRADE FINANCING PRACTICES OF COMMERCIAL BANKS IN ETHIOPIA

BY

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TABLE OF CONTENTS

TABLE OF CONTENTS i

ACKNOWLEDGEMENTS iv

LIST OF ABREVIATIONS/ACRONYMES v

LIST OF TABLES.. vi

LIST OF FIGURES... vii

ABSTRACTS viii

CHAPTER ONE: INTRODUCTION…………………………………………………………………………………………… 1

1.1. Background of the Study…………………………………………………………………………………………… 1

1.2. Statement of the problem………………………………………………………………………………………… 4

1.3. Research Question………………………………………………………………………………………………… 7

1.4. Objectives of the study……………………………………………………………………………………………… 7

1.5. Significance of the study…………………………………………………………………………………………… 8

1.6. Scope of the Study…………………………………………………………………………………………………… 8

1.6.1 Area delimitation………………………………………………………………………………………………… 8

1.6.2 Subject delimitation……………………………………………………………………………………………… 8

1.7. Limitation of the study……………………………………………………………………………………………… 9

1.8. Organization of the Research Report…………………………………………………………………………… 9

1.9. Definition of Terms………………………………………………………………………………………………… 10

CHAPTER TWO: RELATED LITERATURE REVIEW……………………………………….. 11

2.1. Foreign trade/ International trade…………………………………………………………………………… 11

2.2. International trade (export) in Ethiopia……………………………………………………………………… 11

2.3. Concept of Finance…………………………………………………………………………………………………… 14

2.4. Export finance…… 14

2.4.1. Definition of Export Finance……………………………………………………………………………… 14

2.4.2. Types of Export financing………………………………………………………………………………… 15

2.4.3. Export Finance Instruments……………………………………………………………………………… 19

2.5. Export Credit Guarantee schemes………………………………………………………………………………. 23

2.5.1. Principles of export credit guarantee scheme……………………………………………………… 24

2.5.2. Export credit guarantee Scheme in Ethiopia…………………………………………………………… 26

2.5.3. Process and eligibility requirements by DBE (NBE directive No. SBB/41/2007)……… 27

2.5.4. Comparison of Export Credit Guarantee program of the Ethiopian Government with other seclected Countries…………………………………………………………………………….... 27

CHAPTER THREE: RESEARCH DESIGN AND METHODS……………………………… 29

3.1. Introduction………. 29

3.2. Research Design……… 29

3.3. Sources of Data…….. 29

3.4. Study Population……… 30

3.5. Sampling Technique & Sample Size……………………………………………………………………………… 30

3.6. Instruments of Data Collection……………………………………………………………………………………. 31

3.7. Methods of Data presentation and Analysis…………………………………………………………………… 31

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION 32

4.1. Introduction……….. 32

4.2. Data presentation in Exporters perspective………………………………………………………………… 32

4.2.1. Respondent exporters background………………………………………………………………………… 32

4.2.1.1. Ownership forms of participant exporters…………………………………………………………… 32

4.2.1.2. Age of participant exporters in Export business. ……………………………………………………. 33

4.2.1.3. Export category of participant exporters………………………………………………………… 34

4.2.2. Research related questions……………………………………………………………………………………… 34

4.2.2.1. Method & Source of Obtaining Export Finance…………………………………………… 34

4.2.2.2. Shortage of finance as a problem & its Impact……………………………………………………. 36

4.2.2.3. Access to Export finance from financial institutions……………………………………………. 37

4.2.2.4. Uses of Export Finance……………………………………………………………………………………………. 39

4.2.2.5. Application and reasons for loan rejection……………………………………………………………. 40

4.2.2.6. Delay of Loan approval by Financial institutions………………………………………………… 41

4.2.2.7. Inadequate support of financial institutions as a major problems of respondent exporters………………………………………………………………………….. 42

4.2.2.8. Summary of evaluation given by exporters on quality of service on Export Loan processing……………………………………………………………………………………………… 43

4.2.2.9. Support of Government in terms of credit Guarantee schemes........................... 46

4.2.2.10. View of the exporters in overall practice of export financing……………………………. 48

4.3. Data presentation on Banks perspective…………………………………………………………………… 48

4.3.1. Commercial banks and export related loans in Ethiopia…………………………………………… 48

4.3.2. Bank covered under the study and related background information……………………….. 49

4.3.3. Growth Trend comparison between total loan and advances & export loan…………… 50

4.3.4. Importance of Export finance in Banker's view……………………………………………………….. 51

4.3.5. Current practice of Export lending by commercial banks…………………………………………. 52

4.3.6. Bank facilities available to Exporters and their Duration…………………………………………… 53

4.3.7. Problems identified in the process of export financing……………………………………………. 54

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS…………… 56

5.1. Summary of findings……………………………………………………………………………………………………… 56

5.1. Conclusion…… 58

5.2. Recommendation…… 61

Reference………. 64

APPENDIX………………………………………………………………………………………….. 70

Appendix A: Questionnaire to Be Filled Up By Exporters………………………………….. 71

Appendix B ---Interview guide for bank professionals……………………………………….. 74

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LIST OF ABREVIATIONS/ACRONYMES

AEO	African Economic Outlook
AFDB	African Development Bank
AIB	Awash International Bank
BOA	Bank of Abysinia
DBE	Development Bank Of Ethiopia
ECGS	Export Credit Guarantee scheme
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross domestic product
LCs	Letters of Credit
LDCs	Least Developed Countries
NBE	National Bank Of Ethiopia
NIB	Nib International Bank
OD	Overdraft
OECD	Organization for Economic Cooperation and Development
UNCTAD	United nations Conference on Trade and Development
UNDP	United Nations Development Programme
WB	Wegagen Bank
WTO	World Trade Organization

LIST OF TABLES

Table 1: The most problematic factors for External trade, 2013…………………… 5

Table 2: Total Export made, Loans and Advances to private& Export sector by the Commercial Banking Sector in Ethiopia (2009-2013)………………... 6

Table 3: Export performances during the three regimes…………………………… 11

Table 4: Government export guarantee program…………………………………… 26

Table 5: Frequency Distribution of Ownership Forms of Participant Exporters…… 32

Table 6: Frequency distribution on Rate of Impact of shortage of finance………… 36

Table 7: Frequency distribution on obtaining of Export finance from financial institutions………………………………………………………………. 37

Table 8: Frequency distribution on Application and Rejection…………………….. 39

Table 9: Frequency distribution on Reasons for loan rejection……………………. 40

Table 10: Frequency distribution on Evaluation of quality of service………………. 44

Table 11: Frequency distribution on Awareness and use of the Export Credit Guarantee Scheme………………………………………………………… 46

Table 12: Background information about sample banks…………………………….. 49

Table 13: Type of facility granted by Commercial banks…………………………… 54

LIST OF FIGURES

Figure 1: The functioning of letters of credit……………………………………… 19

Figure 2: Response on Years in Export Business of Participant Exporters (%)…... 33

Figure 3 : Respondents export category (%)……………………………………..…. 34

Figure 4: Response on Source of Raising finance (%)……………………………..…. 35

Figure 5: Response on Shortage of funds to run business operation (%)………….. 36

Figure 6: Response on Reasons for not obtaining export finance (%)…………….. 38

Figure 7: Response on uses of export finance (%)………………………………… 39

Figure 8 : Time Delays (%)……………………………………………………… 41

Figure 9: Major Problem of Respondent Exporters (%)………………...………… 42

Figure 10 Trend comparison between Total loans and advances,
Export loan & Share of export loans over total loan……………………. 51

ABSTRACT

Foreign trade has increasingly become a keystone of economic prosperity in many countries. Export trade is one of the foreign trades which have vital importance for developing countries like Ethiopia to fill the foreign exchange gap of a country and to rise in accumulation of reserves allowing a country to balance their finances (Fakhri and Ilaha, 2010). One of the ways of boosting exports is making finance available to the export sector. This can be done through provision of enough and cheap credits to the sector (Phillips, 1991). The research was therefore initiated to assess the various aspects of export trade financing practice in Ethiopia by commercial banks. The study is non experimental research & the basic methods of data collection used were: interviews with bank professionals & survey questionnaires to exporters. The questionnaire was collected from 71 exporters out of a total sample of 96 exporters' selected using Slovins's formula from a population of 2,525 exporters. Their responses were compiled & analyzed using techniques such as percentages, tabulation and appropriate statistical graphs. The findings obtained showed that lack of finance has been a major problem to the growth of their business. The basic factors aggravated the problems are loan covenants needed by financial institution, lack of collateral, inability of bank staff to inform and assist exporters & poor support of government in terms of export credit guarantee scheme. The paper finally recommended the change in the attitudes of banks conservative lending practice so that getting ride of impediment of exporters to access export credit. The paper also suggested that the Ethiopian government has to strengthen its support and greatly enhance the export promotion in terms of easily availability of export credit guarantee.

Key Words: Export, export finance, commercial banks

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Foreign trade has increasingly become a keystone of economic prosperity in many countries of the world. In principle, both export and import trades are equally important. A country must import the required inputs, capital items and appropriate technologies to broaden its production base and foster export growth. Imports of consumer goods are also essential to meet the demand at home that cannot be met from local production. Export trade, on the other hand, has vital importance not only for developing countries like Ethiopia, but also for developed countries. According to export-led growth hypothesis postulated by the neoclassical school of economists, increased export can perform the role of "engine of economic growth" because it can increase employment, trigger greater productivity, fill the foreign exchange gap of a country and hence to increase import capacity and reduce dependence on foreign aid and lead to rise in accumulation of reserves allowing a country to balance their finances (Gibson and Michael, 1992; McCombie and Thirlwall, 1994; Emilio, 2001; Goldstein and Pevehouse, 2008 and Fakhri and Ilaha, 2010). Besides this, at the corporate level, exports can help firms to improve their prosperity and to expand into new markets (Leonidou, Katsikeas and Samiee, 2002). For their international expansion, firms use exports as the most simple, attractive and generalized approach to foreign markets (Lages and Montgomery, 2004). Therefore, increased participation in world trade is considered as the single most important tool of rapid economic growth and development (Rahman, 2009).

In 2014, over 225 nations are active in trade resulting in over $18.8 Trillion dollars in global business. This will continue to grow every year as nations expand their global sales and new nations join in (UNCTAD, 2014). Ethiopia is one of those nations that incessantly try to increase their contribution in this global business though its share in world trade is extremely low and looks unimpressive as compared to even other African countries. In 2013, the Ethiopia's share in world trade was merely 0.04 % (The Global Enabling Trade Report, 2014). From the same source, these figures were 0.06% for Kenya, 0.06% for Cote d'Ivoire, 0.08% for Ghana, 0.45% for Nigeria and 0.57% for South Africa (The Global Enabling Trade Report, 2014).

Even though the world trade position of the country is unimpressive, the economy continues to register high growth rates for more than half a decade and that real GDP has grown significantly on annual average of 11% (NBE annual report, 2014). In 2012/13, Ethiopia's economy grew by 9.7%, which made Ethiopia one of Africa's top performing economies & the twelfth fastest growing economy in the world (AfDB, 2014). In this regard, the contribution of trade was considerable registering about 34.8% of GDP in the year 2013 (The Global Enabling Trade Report, 2014). The value of trade has grown from USD 1.6 billion (1985) to USD 14.2 billion (2013). Particularly the Export proceeds reached USD 3.1 billion (2013) indicating 57.39 percent annual growth, due to higher earnings from all major export items and hence, the ratio of exports to GDP increased to about 10 percent (OECD, 2014).

Export trade is an integral part of international trade; it has to do with selling of goods to other countries. Export trade depends on some factors which Beck (2008) referred to as endowment factors which determine the flows of trade among countries. Becks (2008) included a financial sector in to the Hecsher Ohlin (1999) trade model. The Heckscher–Ohlin model (H–O model) is a general equilibrium mathematical model of international trade, developed by Eli Heckscher (1999) and Bertil Ohlin (1933) at the Stockholm School of Economics. It builds on David Ricardo's theory of comparative advantage by predicting patterns of commerce and production based on the factor endowments of a trading region. The model essentially says that countries will export products that use their abundant and cheap factor(s) of production and import products that use the countries' scarce factor(s). It also shows that financial sector development in general and banking sector in particular gives countries a comparative advantage in industries that rely on external financing. Countries with better developed financial institutions such as banks and markets should therefore have a comparative advantage in industries that rely relatively more on external finance (Mark, 1992).

One of the ways of boosting exports is making finance available to the export sector. This can be done through provision of enough and cheap credits to the sector (Phillips, 1991). For this, Banks are important institutions that can provide finance to all sectors. Phillips (1991) sees bank credit as money lent out by banks as loans and advances with a future

date of repayment. He also sees bank credit to exports to include bank overdraft, unsecured line and financing foreign receivables.

Export finance plays a crucial role in enabling exporters in accepting and efficiently executing their export orders. Export credit is required for short periods of time both before and after the dispatch /shipment of an order. While the pre-shipment export finance is required as working capital for accomplishing timely production, packing and shipment of the orders, the post-shipment finance facilitates in sustaining exporters' business operations while still waiting to receive payments due from foreign buyers.

The provision of export finance differs from the provision of finance to production & domestic markets due to risks associated with export credit. The standard credit risks include situations in which the buyer does not pay, buyer's financial insolvency where the buyer cannot pay, refusal of receipt of exported goods, and/or unfair termination of the contract. Export related risks include foreign exchange risk, and country risks including the potential threat of losses due to political and economic events beyond the control of the exporter. These risks have to be considered by both the exporters as well as the banks.

According to World Bank report Doing Business (2014), banking institutions have been important sources of credit in Ethiopia. However, Ethiopia ranks 109th in getting credit (access to bank credit) out of 189 countries (World Bank 2014). It is also reported that by June 2013 the private credit to GDP ratio was around 15.9% compared to the average of 30% for sub-Saharan Africa (African Economic Outlook, 2014).

According to Global Enabling Trade Report (2014), the overall Ethiopian economy is reported to be significantly credit constrained, with credit supply roughly USD 3 billion short of credit demand. Export trade is one of the sectors which are affected by this credit crunch compared with other sectors of the economy.

One of the common complaints, from Ethiopian Exporters, is that they receive minimal support from their banks for export trade transactions (Mekibib, 2008: Kiros, 2010: UNCATD, 2010). According to the Global Enabling Trade Report 2014, ease of access to loans and availability of trade finance are the most problematic factors for international trade in Ethiopia. After spending significant time and resources to develop export contracts or orders with the overseas buyers, they often cannot secure the funds they need to

complete the orders due to various internal and external factors. For instance, the rigid requirement of the commercial banks for serving the loans (e.g. collateral) or the loan processing period impedes access to export finance (World Bank report Doing Business 2014).

According to Buatsi (2002), insufficient export finance was identified as a major barrier to the success of growth strategy and is leveled as the major one barrier to exporting in developing countries.

In the above backdrop, the present study therefore has assessed & looked into the various aspects of export trade financing practice in Ethiopia with particular reference to the credit by commercial banks.

1.2 Statement of the problem

International trade is an important contributor to Ethiopia's economy. Its contribution was considerable with about 34.8% of GDP in the year 2013(The Global Enabling Trade Report, 2014). Export trade is an integral part of international trade. The sector contributes to the national objective of creating employment opportunities, fill the foreign exchange gap of a country and hence to increase import capacity and reduce dependence on foreign aid and lead to rise in accumulation of foreign currency reserves allowing a country to balance the finances (Kiros, 2010).

The expansion of trade depends on reliable, adequate, and cost-effective sources of financing, both long-term (for capital investment needed to produce tradable) and short-term, in particular export finances (Phillips, 1991). Export finance is the basis on which the large majority of world trade operates, as there is generally a time-lag between when goods are produced, then shipped and finally when payment is received (Mark, 1992). Exporters should be aware of the many financing options open to them so that they may create favorable operational relationship between the buyer and the seller (Beck, 2008).

Various financing sources are available to exporters, depending on the specifics of the transaction and the exporter's overall financing needs. Exporters can earn their funds from various sources like personal savings, family and friends, loans from commercial banks,

retained earnings & other trade creditors. Despite all the above mentioned sources of finance, financial constraint is still put as the major problem of Exporters (Mekibib, 2008: Kiros, 2010: UNCATD, 2010).

The Global Enabling Trade Report (2014) has identified the most problematic factors of export sector in Ethiopia. Among which access to trade finance is the most 3rd problematic factor with 12.4% score compared to other factors (see Table 1 below).

Table 1: The most problematic factors for External trade, 2013

Most problematic factors for exporting	%
Difficulties in meeting quality/quantity requirements of buyers	18
Inappropriate production technology and skills	14.4
Access to trade finance	12.4
Identifying potential markets and buyers	11.6
Access to imported inputs at competitive prices	10
Technical requirements and standards abroad	7.8
High cost or delays caused by domestic transportation	6.6
Tariff barriers abroad	6.1
Corruption at foreign borders	3.9
High cost or delays caused by international transportation	3.6
Burdensome procedures at foreign borders	3.5
Rules of origin requirements abroad	2.3
	100

Source: The Global Enabling Trade Report (2014)

World Bank report Doing Business (2014) has also identified that banking institutions have been important sources of credit in Ethiopia. However, Ethiopia ranks 109th in getting credit out of 189 countries (World Bank, 2014). It is also reported that by June 2013 the private credit to GDP ratio was around 15.9% compared to the average of 30 % for sub-Saharan Africa (AEO, 2014). World Bank (2010) also identified that the overall Ethiopian economy is reported to be significantly credit constrained, with credit supply roughly USD 3 billion short of credit demand & export trade is one of the sectors which is

greatly affected by this credit crunch compared with other sectors of the economy. The table below (table 2) shows the commercial banks' credit to domestic & export sectors between the periods of 2009-2013. From the computed records it is observed that though commercial banks have been experiencing aggregate growth credit to the domestic economy, commercial Bank Export loans and advances as percentage of total loans and advance has continued to decrease over the years. It kept declining from 8.54 % in 2009 to 7.01% in 2013. Besides, the export credit by the banks is not substantial out of deployment of gross banks credit though the export sectors the major contributor in the economic growth.

Table 2: Total Export made, Loans and Advances to private& Export sector by the Commercial Banking Sector in Ethiopia (2009-2013)

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Year	Total export		Commercial Bank aggregate loans and advances to the private Sector (In Birr)	Commercial Bank aggregate loans and advances to the Export sector (In Birr)	Commercial Bank Export loans and advances as percentage of total credit (%)	Commercial Bank Export loans and advances as percentage of total export (%)
	In USD	In Birr				
2009	1,447.40	13,976.38	51,633.50	4,409.20	8.54	31.55
2010	2,003.10	27,241.66	62,292.20	4,472.50	7.18	16.42
2011	2,747.10	46,680.65	77,690.50	7,222.80	9.30	15.47
2012	3,152.70	56,178.59	116,346.10	10,720.60	9.21	19.08
2013	3,075.20	55,952.34	151,344.30	10,616.10	7.01	18.97

Source: Computed from NBE Annual report (2009-2013)

In addition to the above scenario, the amount of exports can be considered as the single most important factor determining export credit. The relationship between the exports and export credit by commercial banks during the last five years is also given in Table 2. The export credit by commercial banks, on an average, comprises 31.55 percent of the total exports of the country in 2009 and gradually decreased to 18.97 percent in 2013. It can, therefore, safely be concluded that only less than 1/4th of the total exports of the country have been financed by the banking system.

1.3 Research Question

The above trend & discussion is of concern to the researcher who aimed to find answers to the following research questions:

i. To what extent has commercial banks contributed to the financing of the Export sector?
ii. What are the problems that exporters are facing in sourcing funds from commercial banks?
iii. Is (Are) there measures that the commercial banks are taking to minimize these problems and are these measures alleviating the problems?
iv. What are the areas to be improved in the export financing practices?

It is therefore necessary to identify & assess what issues hinder to get & provide export finance from the perceptual view of the exporter and the lending institution.

1.4 Objectives of the study

The research was seeking to access and investigate the export trade financing practice of commercial banks in Ethiopia. It identified the possible problems faced by Ethiopian exporters in accessing export finance and the various challenges inhibiting banks from extending export loan facilities to these businesses.

Specifically, the study sought to:

i. Review & compare the trends of export credit & export trade financing in Ethiopia with particular reference to credit by commercial banks,
ii. Identify the various problem areas relating to the present state of export financing
iii. Assess the quality of banks' export loan service practice,
iv. Assess the government export credit guarantee Scheme
v. Discuss the different types of credit facilities provided to exporters by banks

1.5 Significance of the study

The export sector has been identified as the catalyst for the economic growth of the country. It is a major source of country's foreign currency income and employment. This study on assessment of export financing basically will review the performance and

development of the export trade and the trend & practice of the export loan granted by commercial banks in Ethiopia. The study will also contribute towards improving the credit financing activity of banks in Ethiopia. Once finance is easily accessible, the success rate of Ethiopian exporters will increase and contribute to socio-economic development.

Furthermore, the study will also be used as input for policy makers who are involved in designing and implementing policies with regard to promoting the export business.

Above and beyond, the study will be taken as a foundation for further studies to be carried out in the area.

1.6 Scope of the Study

1.6.1 Area delimitation

This study was limited to commercial banks & exporters in the country. Private Banks & exporters who are clients of the banks and professionals of those banks who are mostly working on credit operations are target respondents. The study was limited to professional personal perceptions and officially disclosed financial data of banks due to the confidential policy of the Banks to access information.

1.6.2 Subject delimitation

This study is restricted to discuss, assess & investigate issues about export loan financing by commercial banks in Ethiopia. There has not been much research into the issues of export finance in Ethiopia. The researcher will therefore be forced to use other countries' studies to review most of the literature.

1.7 Limitation of the study

The researcher tries to accomplish the objective of the study successfully. But time concern and source of fund will be the main limitation that may hinder the successful accomplishment of the paper. In addition to the above two factors data limitation and sample limitation are the other sides to the limitation part of the study.

1.8 Organization of the Research Report

The study comprises of five chapters. These are:

Chapter 1: Introduction

This chapter includes: background of the study, statement of the problem, basic research questions, objectives of the study, definition of terms, significance of the study, and delimitation/scope of the study. In this chapter relevant concepts related to the topics are discussed and defined.

Chapter 2: Review of Related Literature

This chapter reviewed relevant literatures related to the research. Concepts such as foreign or international trade, international trade (export) in Ethiopia, concept of finance, export finance, types of export financing, export finance instruments, concepts of Export guarantee schemes are discussed in this chapter.

Chapter 3: Methods of the Study

This chapter contains the research methodology applied for gathering data in order to answer the research question for this study. And includes: the type and design of the research; the subjects/participant of the study; the sources of data; the data collection tools/ instruments; the procedures of data collection; and the methods of data analysis used.

Chapter 4: Data presentation and analysis

This chapter includes presentation of data and findings. And an analysis is made upon the findings in collaboration with the literature reviewed. The data collected are presented based on the participant exporters & bank professionals (credit analysts) response on questionnaire and interview respectively.

Chapter 5: Summary, Conclusion and Recommendations

It is the final chapter which is composed of summary of findings, conclusions and recommendations. A summary of findings are outlined and thereby provides answers to the research questions.

1.9 Definition of Terms

Collateral: Asset pledged as security for a credit, lease or other commitment or liability and forfeited to the lender if the borrower fails to honor its obligation (Buatsi, 2002).

Exports: Refers to all goods leaving a country that are properly cleared by Customs (Ahmed, 2008).

Export credit guarantee: An assurance usually provided by a government agency that safeguards banks against losses that could arise from financing export transactions (OECD, 2009).

Post-shipment finance: Credit covering the company's financial needs for the period following the shipment, to ensure sufficient liquidity until the shipped products have reached the purchaser and payment has been received (Asiedu-Appiah , 2005).

Pre-shipment finance: Financing advanced to the exporter to support the costs of activities undertaken prior to shipment of the goods (i.e., purchase of inputs and components, payment of salaries, wages and overhead, etc.) (Asiedu-Appiah, 2005).

Service Quality: is the extent to which customers" perceptions of service meet and/or exceeds their expectations (Zethaml et al., 1990).

Working capital: It is the capital needed to finance the operating cycle of a business (e.g., pay employees, suppliers, tax authorities, etc) (Ahmed, 2005).

CHAPTER TWO: RELATED LITERATURE REVIEW

2.1 Foreign trade/ International trade

The term foreign trade indicates the exchange of goods between nations. Goods can be defined as finished products, as intermediate goods used in producing other goods, or as agricultural products and foodstuffs.

International trade enables a nation to specialize in those goods it can produce most cheaply and efficiently. Trade also enables a country to consume more than it would be able to produce if it depended only on its own resources. Besides, trade enlarges the potential market for the goods of a particular economy. Hence, trade has always been the major force behind the economic relations among nations (Rodrik, 1995).

2.2 International trade (export) in Ethiopia

Recently, the issue of accelerated economic growth is gaining much attention by many development economic researchers. These economists created theories and methods that aid in the determination of policies and practices and can be implemented at either the domestic or international level to foster the economy. The market-friendly approach is one of the recent developments and is often associated with the World Bank. This approach advocates free markets but recognizes that there are many imperfections in the markets of many developing nations and thus argues that some government intervention is an effective means of fixing such imperfections (Todaro, 2006).

The researchers have also given much attention to discuss the contribution of international trade to economic growth. Maizels (1963) discussed the positive relationship between international trade and economic development by a rank correlation analysis among 7 developed countries. Kavoussi (1984), after studying 73 middle and low-income developing countries, found out that higher rate of economic growth was strongly correlated with higher rates of export growth. He showed that the positive correlation between exports and economic growth holds for both middle- and low-income countries, but the effects tend to diminish according to the level of development. Balassa (1986) and Dollar (1992) argued that outward-oriented developing economies achieve indeed much more rapid growth than inward-oriented developing ones. The view that exports foster economic growth is central to any discussion of development strategies. Hence, the export led growth strategy is part of a larger body of literature relating to "openness" to economic growth. For example, Rodrik, (1999) suggests that an export strategy's beneficial impact on growth is multiplied if it is complimented with trade liberalization. Extensive researches provide the rationale for pursuing an Export-Led Growth (ELG) theory. In this regard

Wangwe (1995) and Feder (1982) indicated that exports can be a deriving engine for an economy.

The decline in economic growth of most of the Sub-Saharan African countries and other the least developed countries (LDCs) coupled with the alarming population growth resulted in stagnation and even a continual decline in the per capita income of these countries. This led to closer scrutiny into their economic structure to determine factors determining their growth and hence help these countries achieve a sustained economic growth. One area that has been given much focus in order to promote the economic performance of these countries is external trade. The researchers viewed external trade as an "engine" if not as a “handmaiden" of growth playing a supportive role in the economic growth of LDCs (Wangwe, 1995: Feder, 1982).

The Ethiopian economy is currently among the top performing economies in Africa indeed. The economy continues to register high growth rates. For more than half a decade, real GDP has grown significantly on annual average of over 11 percent (NBE annual report, 2012). In this regard, the contribution of trade was considerable. Although the role of foreign trade to Ethiopia's economic growth was considerable, exports of the country are not diversified but dominated by few products including coffee, hides and skins, oilseeds, chat and gold. Therefore its share however seems unstable and fluctuating overtime. In a broader sense, this fluctuation might be due to the smallness (price taking nature) of the country at the international market emanating from supply rigidity, less variety and vulnerability (to external shocks) of export products (Gebreyesus, 2011).

Different trade policies have been implemented by the different governments that have ruled the country for the last four decades. The policy adopted in the pre-1991/92 period (both in the imperial and military government of Ethiopia) was characterized by strongly inward-oriented development strategy that had a negative impact on export by influencing directly or indirectly the profitability and competitiveness of export. Owing to structural problems and policies that were pursued by both governments, the performance of the export sector has been less satisfactory as evidenced by the lower export/GDP ratio and less volume of average export value (Kiros, 2010)(See table 3)

Table 3: Export performances during the three regimes

Period	Average Share of Exports in GDP (%)	Average export value (In '000 USD)	Average export growth (%)
1960/61-1973/74 (Imperial Regime)	7.1	201.4	22.5
1974/75-1990/91 (Derge Regime)	6.8	364.55	1.3
1991/92-2011/2013 (EPRDF)	10.4	3,100.40	13.4

Source: Kiros (2010) & NBE Annual report (2011, 2012 & 2013)

The current government that came to power in 1991/92 has undertaken a series of Structural and Enhanced Structural Adjustment Programs under the guidance and support of international financial institutions, the IMF and the World Bank. It has undertaken trade policy reforms, which aimed at promoting exports through diversifying the country's commodity exports, monetary and exchange rate policies, financial sector reform, investment policy, and public enterprise reform & simplification of the import and export licensing system. In general following these trade policy reforms, a remarkable decrease in the anti-export-bias incentive structure and an increase in export volume and earning was realized (Debela, 2007; Kiros, 2010)

2.3 Concept of Finance

Every individual as well as institution has a definite source of income and a particular way of expenditure, all of which come under the domain of finance. Finance is the process of channeling funds in the form of credit, loans or investible capital to those economic entities that need them most or can put them in the most productive use (Van Horne, 2005). Generally, the concept of finance theory involves studying the various ways by which businesses and individuals raise money, as well as how money is allocated to projects while considering the risk factors associated with them. In simple terms, financing also means provision and allocation of funds for a particular business module or project.

2.4 Export finance

2.4.1 Definition of Export Finance

The expansion of trade depends on reliable, adequate, and cost-effective sources of financing, both long-term (for capital investment needed to produce tradable goods) and short-term, in particular trade finance. The latter is the basis on which the large majority of world trade operates, as there is generally a time-lag between when goods are produced, then shipped and finally when payment is received. Export-finance can provide such facilities to enterprises to fill this gap.

Export finance is defined as "the totality of funds available to an exporter including the net worth (paid-up and internally generated funds), debts, subsides and grants as well as other miscellaneous funds" (Ahmed, 2008). NEXIM (1997) referred to export finance as the availability of funds to the exporter at favorable terms in all stages of investment, production and export. Ebong (2008) opined that export financing is the provision of credit facilities for promoting exports and export related transactions.

Export financing is the provision of any form of financing that enables an export activity to take place and which may be made directly to the supplier, to facilitate procurement of items for immediate sale and/or for storage for future activities, or it could be provided to the buyer, to enable him meet contract obligations (Asiedu-Appiah, 2005).

Export Financing is ranges of financing products (loans, guarantees, letters of credit & insurance) in support of a variety of activities which help firms expand into new export markets. Export in simple words means selling goods abroad. Shipping goods internationally is risky and takes time. To allocate risk and to finance the time gap between production and sale, a range of payment contracts is utilized. These can be broadly classified into Open Account, Importer finance (Cash in Advance) and bank finance (Letter of Credit). All three payment contracts are popular among Ethiopian exporters and banks. Large importers normally arranged Letters of Credit for exporters. Payment in Advance is popular with first time and unknown importers. Open Account payment contracts are risky for exporters because they may not receive payment for goods shipped. This is becoming very popular as exporters are beginning to trade in larger quantities and

importers are only willing to make payment upon onward sale of the goods. This has led to an increase in demand for export credit facilities to fund working capital.

2.4.2 Types of Export financing

Export finance may be classified from two viewpoints, namely, the stage at which the financing is provided and its duration. Classification from the stage viewpoint is broken down into Pre-shipment Finance and Post-shipment Finance. Pre-shipment Finance may be defined as any loan or advance granted, or any other credit provided by a financial institution to an exporter for financing the purchase, processing or packing of goods, on the basis of a confirmed export order received in the exporter's favour from an overseas importer (Asiedu-Appiah, 2005). Pre shipment Finance is issued by a financial institution when the exporter wants the payment of the goods before shipment. The main objectives behind pre-shipment finance or pre export finance are to enable the exporter to (Ahmed, 2008):

- Procure raw materials.
- Carry out manufacturing process.
- Provide a secure warehouse for goods and raw materials.
- Process and pack the goods.
- Ship the goods to the buyers, and
- Meet other financial cost of the business.

Another form of export pre-shipment finance is Development Finance. This refers to finance that is provided towards the development of exportable products and the addition of value to these products. This form of financing is long-term in nature. Commercial banks hardly extend development finance to exporters. (Beck, 2008)

Post-shipment financing refers to the provision of finance for export goods from the stage of shipment to the date of realization of the export proceeds. It is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds (Asiedu-Appiah, 2005).

Exporters who sell goods abroad usually have to wait for some time before payment is received from overseas buyers. The period of waiting will depend upon the terms of payment, and the need for post-shipment finance to strengthen the financial position of the exporter varies accordingly. Post-shipment finance can take different forms but principally involves factoring or discounting of receivables (Ahmed, 2008).

Post shipment finance can be short term or long term, depending on the payment terms offered by the exporter to the overseas importer. In case of cash exports, the maximum period allowed for realization of exports proceeds is six months from the date of shipment. Concessive rate of interest is available for a highest period of 180 days, opening from the date of surrender of documents. Usually, the documents need to be submitted within 21days from the date of shipment. (Beck, 2008)

According to Asiedu-Appiah, (2005), post shipment finance can be provided for three types of export:

- Physical exports: Finance is provided to the actual exporter or to the exporter in whose name the trade documents are transferred.
- Deemed export: Finance is provided to the supplier of the goods which are supplied to the designated agencies.
- Capital goods and project exports: Finance is sometimes extended in the name of overseas buyer. The disbursal of money is directly made to the domestic exporter.

With respect to duration, export financing can be defined in terms of short-term, medium-term and long-term. Short-term facilities are credits that are extended with a maximum duration of up to one- year; usually such credits are given for specific periods of 90 days or 180 days to meet specific export durations. Both pre-shipment and post-shipment finance fall under short-term financing (Asiedu-Appiah, 2005).

Medium-term facilities are given from 13 months to a period of up to three years. While the short-term facilities are usually specific in nature, the medium-term facilities are usually of a general nature and are mostly utilized for working capital purposes (Ahemed, 2008).

Long-term financing has to do with the provision of credit for development purposes. Such facilities are usually given with duration of more than five years. They are given for the setting up of factories/workshops, establishments of farms and such other long-term objectives that go to increase the production and processing of export commodities. In all instances, whether long-term, medium-term or short-term, such facilities are given on very advantageous terms at the various stages of the export cycle (Ahemed, 2008).

The other forms of trade finance are extensions of credit facilities that operate in domestic economies. Companies may use domestic bank lending to finance both capital investment and working capital. Such lending can be used to facilitate trade. Similarly, inter-firm (trade) credit is widely used (Beck, 2008). According Beck (2008), when contracts specify, for example, that buyers have a period in which to pay invoices for goods received, typically, 30, 60 or 90 days, the supplier is, in effect, extending credit for that period. Firms that have well-developed trading relationships may adopt the same practice. To the extent that sophisticated global value chains linking together firms in different countries often involve repeated transactions and long-term relationships, it is not uncommon for trade to be conducted on these terms (Butasi, 2002).

Export trade finance provides alternative solutions that balance risk and payment. However, the following factors are important to consider in making decisions about financing (Ahemed, 2008):

- The need for financing to make the sale.
- The length of time the product is being financed. This determines how long the exporter will have to wait before payment is received and influences the choice of how the transaction is financed.
- The cost of different methods of financing. Interest rates and fees vary. Where an exporter can expect to assume some or all of the financing costs, their effect on price and profit should be well understood before a pro forma invoice is submitted to the buyer.
- The risks associated with financing the transaction. The riskier the transaction, the harder and more costly it will be to finance. The political and economic stability of

the buyer's country can also be an issue. To provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment, a letter of credit (possibly confirmed), or export credit insurance or guarantee.

- The need for pre-shipment finance and for post-shipment working capital.

Production for an unusually large order, or for a surge of orders, may present unexpected and severe strains on the exporter's working capital. Even during normal periods, inadequate working capital may curb an exporter's growth. However, assistance is available through public and private sector resources (Debela, 2002).

Surveys show that Exporters to a very large extent are dependent on bank loans for their external financing and that they practically have very few alternatives. The European Commission survey reveals that 80% of world export companies are using bank loans (ECB and European Commission, 2011).

Conclusively, export finance consists of the various options and facilities available to an exporter in securing needed funding for his export business activities. That is, ways and means by which the exporters financial needs or financing requirements can be met. Hence poor practice to finance has been identified as an important negative factor affecting exports (Gumede and Rasmussen 2002). The rigid requirements of commercial banks for serving the loan (e.g. Collaterals & documentation) impede access to export finance as well as the high cost of trade.

This study therefore focuses on the barriers to obtain trade finance in the export business sector. According to Gumede and Rasmussen (2002), insufficient export finance was identified as one of a major barrier to the success of export trade growth strategy.

2.4.3 Export Finance Instruments

Banks play a central role in facilitating export trade, both through the provision of finance and bonding facilities and through the establishment and management of payment mechanisms. The use of efficient settlement instruments which reduce payment and commercial risk for both parties is deemed indispensable. Using the same payment

techniques in the case of domestic transactions for an overseas transaction is not feasible or at least not practical. The most popular instruments are: telegraphic transfers, SWIFT and documentary letters of credit (LCs) (Beck, 2008).

The type of financial instrument chosen to deal with them depends on three factors: the perception of the type and size of the risk involved in the transaction; the distribution of risk and risk reduction efforts between exporters, importers and their banks; and the costs of risk reduction (Fingerand and Schuknecht, 1999).

Additionally, certain instruments are preferred in some geographical zones, which stems from many reasons, such as tradition, need to minimize risk or transfer time, legal regulations, or foreign exchange restrictions.

Bank transfers are one of the oldest and most commonly employed methods of payment in international trade. Certain types of bank transfers were used already in the ancient times. The bank transfers we know today, i.e. instantly executed "wiring" of funds from one account to another by means of telecommunication, has been used at the wholesale level since the mid-1900s following the introduction of the electric telegraph. This type of bank transfers is called telegraphic transfer or wire transfer. Alternatively it may be also called a cable transfer. It is an arrangement whereby one bank, on request of payer having his/her account in this bank, transfers funds instantaneously from the payer account to another account in the same or different bank. The actual transfer is done by the bank, and neither the sender nor the recipient of the money sees or touches the actual funds. In the case of international bank transfer, the payer is usually the importer and the payee is the exporter (www. eHow.org)

In order to realize a bank transfer, a common system of clearing and settlement of funds must be established between banks worldwide. The most wide-spread international system for inter-bank communication is S.W.I.F.T. (SWIFT). It is a cooperative society established in 1977 by common agreement of major international banks. According to its Articles of Association, "The object of the Company is for the collective benefit of the Members of the Company, the study, creation, utilization and operation of the means necessary for the telecommunication, transmission and routing of private, confidential and proprietary financial messages." The headquarters of SWIFT is located in Brussels. For

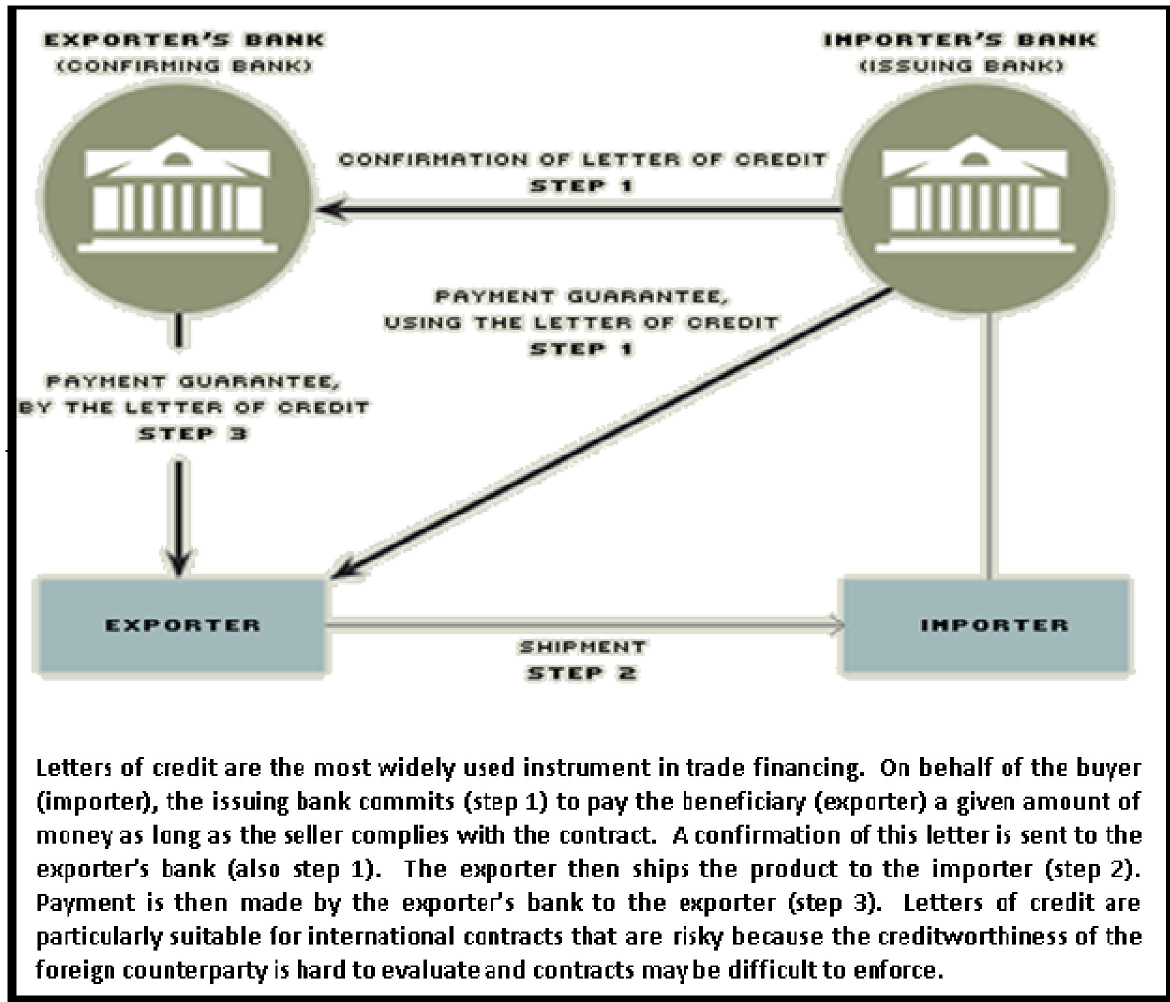
almost 30 years of its functioning SWIFT has developed dynamically both in terms of new messaging services rendered and number of its members. The organization is currently used by over 7,970 institutions (banks, brokers, investment managers, exchanges, trading institutions and others) (UNCITRAL, 1992; Swift, 2003)

In order to make a SWIFT based international bank transfer, a payer needs to approach his/her bank and fill-in relevant application (paper based or electronic). The following information must be included in such the application: payer name and his account number, beneficiary name and his account number, beneficiary's bank name and its SWIFT address, amount of money to be transferred, and the currency. On the basis of the application, an electronic message is sent to the beneficiary's bank (directly or through a network of correspondent banks) (SWIFT, 2003).

Among the export finance instruments, the other & most commonly used for financing transactions is LCs, whereby the exporter and importer essentially entrust the exchange process (that is, payment against agreed delivery) to their respective banks in order to mitigate counterparty risk (Butassi, 2002).

Letters of credit are documents issued by the importer's bank — the issuing bank — and act as a means of assuring their commitment to pay the exporters. Once a letter of credit has been issued, the exporter can redeem payment by providing the required documentation to the confirming bank. However, for the funding mechanism to function properly, it is necessary that liquidity and confidence are maintained along the chain of payment from the importer to the exporter (Humphrey, 2009).

Figure 1: The functioning of letters of credit



Source: Adapted from Asmondson et al

There are two major types of letters of credit used to finance foreign transactions: the commercial documentary letter of credit and the standby letter of credit. The commercial documentary letter of credit is most commonly used to finance a commercial contract for the shipment of goods from seller to buyer. This versatile instrument may be applied to nearly every type of foreign transaction and provides for the prompt payment of money to the seller when shipment is made as specified under its terms. (Comptroller's Handbook, 1998)

There are three parties to any type of letter of credit: the account party (or customer), the beneficiary, and the bank. Generally, a letter of credit also identifies a paying bank. The commercial letter of credit is addressed by a bank to a seller (beneficiary) on behalf of the bank's customer, a buyer of merchandise (account party). The letter authorizes the seller to draw drafts up to a stipulated amount under specified terms and undertakes to provide

eventual payment for drafts drawn. The beneficiary will be paid when the terms of the letter of credit are met and the required documents are submitted to the paying bank. (Buatsi, 2002)

Commercial documentary letters of credit are issued in either irrevocable or revocable form. An irrevocable letter of credit is a definite commitment by the issuing bank to pay, provided the beneficiary complies with the letter's terms and conditions. An irrevocable letter of credit cannot be changed unless all parties agree. Conversely, the issuing bank can cancel or amend a revocable letter of credit without notice & the beneficiary should rely not on the credit but on the willingness and ability of the buyer to meet the terms of the underlying contract (Comptroller's Handbook, 1998).

Standby letters of credit are also a common instrument in trade finance. Like other letters of credit, standby letters of credit involve a customer, a beneficiary, and a bank. A standby letter of credit guarantees payment to the beneficiary by the issuing bank in the event of default or nonperformance by the account party (the bank's customer). Although a standby letter of credit may arise from a commercial transaction, it is not linked directly to the shipment of goods from seller to buyer. For example, it may cover performance of a construction contract, serve as an assurance to a buyer that the seller will honor its obligations under warranties, or relate to the performance of a purely monetary obligation, e.g., when the credit is used to guarantee payment of commercial paper at maturity.

Increasing globalization has created intense competition for export markets. Importers and exporters are looking for any competitive advantage that would help them to increase their sales. Flexible payment terms have become a fundamental part of any sales package.

All sellers also want to get paid as quickly as possible, while buyers usually prefer to delay payment, at least until they have received and resold the goods. This is true in domestic as well as international markets. Selling on open account, which may be best from a marketing and sales standpoint, for example places all of the risk with the seller. In essence, the seller ships and turns over title of the product on a promise to pay from the buyer. On the other hand, Cash-in advance terms place all of the risk with the buyer as they send payment on a promise that the product will be shipped on time and it will work as advertised. Cash-in-advance often places the seller at a competitive disadvantage.

Therefore each of the payment instruments has their advantage and disadvantage and parties should balance the risks involved to the benefits using the instruments (Butassi, 2002).

2.5 Export Credit Guarantee schemes

2.5.1 History of Export Credit guarantee schemes (OECD, 2009)

Export credit guarantee is a scheme provided to safeguard export financing banks against losses resulting from the export transaction they finance. The scheme is a vehicle to facilitate exporters' access to bank credit and enables local exporters not to lose an export market due to inability to get bank credit. It enables national exporters to compete on equal footing with other exporters in increasingly competitive foreign markets.

The first export credit guarantee programs in the world were offered by Federal of Switzerland starting in 1906. Federal is a privately owned company still operating in the Switzerland. And the first government export credit guarantee programs were established in the United Kingdom thirteen years later in 1919. The rationale for the British programs then, which were copied by other countries, was "to aid unemployment and to re-establish export trade disrupted by the conditions of war". The British government established a trade finance program, offering up to six-year financing of exports. The British programs were administered by the Board of Trade with the consent of the treasury with the provision that income should be sufficient to meet possible losses.

As the Swiss and British programs proved themselves of their worthiness, other nations realized the efficacy and need for this type of government stimulation of trade. Accordingly, several other European countries established guarantee and insurance schemes, including Belgium (1921), Denmark (1922), the Netherlands (1923), Finland (1925), Germany (1926), Austria and Italy (1927), France and Spain (1928), and Norway (1929). The major rationale for establishing these programs was to re-establish export trade and revitalize industries devastated by World War I and to facilitate exports to the then existing Soviet Union, a country that posed special risk factors to Western European business and that needed credit.

In the latter half of the 1950s, significant further developments were realized. These actions were followed by the establishment of a number of developing country export credit guarantee, and insurance programs during the 1960s. In 1956, South Africa established the first African export credit guarantee program.

2.5.2 Principles of export credit guarantee scheme

The export credit guarantee schemes agencies share many features with regard to the mechanics of their operations. They have similar eligibility criteria, term differentiation, risk classification, degree of coverage, underwriting techniques, premium and interest rate systems, policy administration, risk-sharing methods, and reinsurance. This is not by chance. The techniques, terms, and conditions of export credit guarantees have been largely "internationalized" by regular exchanges of information and agreements reached through the International Union of Credit and Investment Insurers (Berne Union) and the Organization for Economic Cooperation and Development (OECD). Due to this, there is a growing level of comparability among individual national schemes. The export credit guarantee and insurance schemes principles, terms and conditions which are governed by agreements are delineate by the auspices of the Organization for Economic Cooperation and Development (OECD) and guided by conventions established by the Berne Union (http://www.OECD.org/tad/ecred).

The government export credit guarantee program can be evaluated according to the seven basic principles of export credit guarantee programs.

1. Assuring simplicity. ECGS designs must be simple so that participation by banks does not increase exporters' transaction costs or create too large a burden on exporters through the guarantee fee charged. The information required from exporters interested in ECGS should be focused on the export transaction rather than on the detailed asset, liability, and net worth information of the firm.

2. Maximizing social benefits. ECGS should not be thought of as profit-making instruments. Instead, social benefits of ECGS operation must be higher than its social costs. Social benefits are additional export value-added, taxes, and jobs created. Social costs include net defaults (gross defaults minus recoveries), administrative costs, and the opportunity cost of the ECGS fund.

3. Minimizing moral hazard (loan misuse). Exporters must self-finance a part of their pre shipment export finance needs. Similarly, commercial banks must take a part of the export finance default risks.

4. Making ECGS easily accessible. Exporters should be able to benefit from ECGS as long as they possess either of the following:

    a) Confirmed export L/Cs issued in buying countries with little political risk;

    b) Export credit insurance coverage for non L/C-based exports or exports to politically risky countries; or

    c) Back to back domestic L/Cs.

5. Rapidly disbursing banks in case of default. The ECGS should cover both perceived and actual risks of exporters' manufacturing on performance. When there is default based on nonperformance or bad faith, the ECGS would bear that cost rather than the banks.

6. Assessing risk, but on an ex post basis. The ECGS agency would screen out exporters with inadequate production facilities through enterprise visits by guarantee officers and the support of well-developed information networks. It will also screen out on an ex post basis exporters that have loan misuse risks (bad faith). However, the ECGS agency or banks should not attempt to evaluate individual exporters' manufacturing nonperformance risks on an ex ante basis. Accurately evaluating such risks would require significant capabilities and expertise, which are normally too costly to develop in an ECGS agency.

7. Establishing credibility, a good reputation, and trust with exporters and banks. Four conditions must be met to achieve these objectives:

    a. A strong and proactive management team with aggressive guarantee officers;

    b. Availability of sufficient resources to cover claims;

    c. Clear rules for ECGS coverage and payments, and

d. Speedy and transparent processing of guarantee applications and claims based on these rules.

2.5.3 Export credit guarantee Scheme in Ethiopia

In Ethiopia, Export credit Guarantee scheme was introduced by NBE in 2002 under directive no. SBB/33/2002 and latter it was amended and replaced by directive No. SBB/34/2004 and the operation are transferred to DBE in 2007 under NBE directive no. SBB/41/2007. During the start of operation at DBE, the Branch operation and project management department was responsible for handling the operations of the scheme. Later on, as of August 2008, Export Credit Guarantee and Special Fund Administration Bureau (ECGSF) start to undertake the responsibility (www.dbe.org).

2.5.4 Process and eligibility requirements by DBE (NBE directive No. SBB/41/2007)

Local exporters, those engaged in non-coffee export, lodge their pre- or post-shipment loan application to any licensed commercial banks operating in Ethiopia. These commercial banks appraise the export business with their applicable credit policy and procedures. Upon the written request of a financing bank, the guarantor, DBE, issues letter of guarantee to cover 80% of the outstanding loan balance and interest thereof when the project is found within acceptable risk level of DBE.

The guarantee period is up to 365 days to cover pre-shipment export loan extended to exporters and post-shipment guarantee period may extend up to 180 days.

2.5.5 Comparison of Export Credit Guarantee program of the Ethiopian Government with Other Selected Countries

Export credit guarantee facility is designed to protect Banks against the risks of nonpayment for loans or advances granted to exporters to meet short-term export contracts. This enables countries to boost their export volume though encouraging large number of exporters. For this reason countries have to not only maintain a good export credit guarantee program but also should periodically evaluate its performance. With this respect

this part compares the major legal provisions in Ethiopian export credit guarantee directive with that of Nigeria; one among those African countries with strong financial sector operation (The Global Enabling Trade Report, 2014).

Table 4: Government export guarantee program comparison (WBDBR, 2013)

Legal Provisions	**Ethiopia**	**Nigeria**
Eligible Exports	Goods produced in Ethiopia for export and exportable under the laws of Ethiopia except coffee	Goods wholly or partly manufactured in Nigeria for export and exportable under the laws of Nigeria
Eligible Exporters	Any Ethiopian exporter that can fulfill the requirements under the directive	companies duly registered in Nigeria and co-operative societies
Types of Guarantees	• Pre-shipment guarantee • Post-shipment guarantee	• Pre-shipment guarantee • Post-shipment guarantee
Term of guarantee	• not exceeding 180 days for Post shipment guarantee • not exceeding 360 days for Pre shipment guarantee	not exceeding 180 days
Risks covered	default by the buyer	• default by the buyer • default by the exporter • Cancellation of export license • Imposition of restriction on the export of goods

Percentage of cover	Pre-shipment and Post-shipment guarantee: 80% of loans and advances	• Pre-shipment guarantee: 75% of loans and advances • Post-shipment guarantee: 85% of loans and advances.
Guaranteed loan	Pre shipment and post shipment working capital loan	Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods for export
Average no of days to allow guarantee	15 days	7 days

Source: **WBDBR (2013)**

CHAPTER THREE: RESEARCH DESIGN AND METHODS

3.1 Introduction

This chapter presents research design, sources of data, instruments for data collection, sampling techniques, methods of data presentation and analysis. This research used the qualitative and quantitative approach to address the research questions.

3.2 Research Design

This study used the survey methods by employing qualitative and quantitative instruments for data collection and analysis. The survey method is used because the variables involved in the analysis are qualitative in nature. According to Trochin (1999), survey methods are used for non- experimental and descriptive research methods. He further indicated that, survey can be useful when a researcher wants to collect data on phenomena that cannot be directly observed. Kerlinger (1986) also defines non experimental research as a systematic, empirical enquiry in which the scientist does not have direct control of the variables because their manifestation has already occurred or because they inherently cannot be manipulated. The descriptive research aims to present a complete description of a subject within its context. This research approach answers the questions: what, who, where, when and how. Descriptive researches are often used when an amount of knowledge about the subject already exists; this knowledge can then be used to categorize into models and frameworks.

Based on Trochin's assertion, the researcher is adopted the survey method for the study.

3.3 Sources of Data

The study involved analysis of both primary and secondary of information. Primary sources involved collection of data from (i) exporters (clients of the banks) and (ii) bank professionals. Discussions were held with a number of exporters to elicit their views on the service of the banks on export credit and to give suggestions as regards prevalent export credit system. Similarly, a number of credit analyst & loan officers involved in credit banking operations were interviewed to find out their opinion and suggestions to improve the existing export credit provision process.

The main and primary data comprised evidence obtained through structured questionnaires which were being responded by exporters & an additional interview made with bank professional. Both instruments were qualitative in nature so as to gain an insight and understanding into the operations of the exporters and the banks surveyed. The questionnaires were designed based on open and closed ended questions.

Secondary data were collected through previous researches publications & annual reports, to ensure that a comprehensive overview of the issues to be considered. The electronic search site was also being employed extensively for up-to-date materials on the topic.

3.4 Study Population

The populations that were indentified to conduct the research were mainly including exporters which directly or indirectly made use of the services of banks in Ethiopia. According to the data obtained from Ministry of Trade & Ethiopian Revenue and Customs Authority (ERCA), there were 2,525 exporters registered in Ethiopia up to September, 2014 (FDRE MT: ERCA, 2014).

These exporters were scattered across the length and breadth of the country with most of their main offices were located in Addis Ababa. Accordingly, in Ethiopia 20 banks are in operation in which four of them are state owned and the rest are private commercial banks & all their head offices are also residing in the capital city, Addis Ababa.

3.5 Sampling Technique & Sample Size

To determine the sample size from a population of 2,525 exporters, the Slovins's (1960) formula $\boldsymbol{n} = \left[\frac{\mathbf{N}}{\mathbf{1+N(e)^2}}\right]$ was applied. (Where: n is sample size, N is total population and e is 0.1 sample error). The choice of this formula was based on the recommendation of Avwokeni (2005) that if the knowledge of population size is available, the Slovins's formula should be used. Subsequently the appropriated sample size using the above formula were 96 exporters and questionnaires to these exporters were distributed through the five banks namely Awash, Abysinia, Dashen, NiB and Wegagen which were selected based on early establishment & the existing market share in the recent period each with 19 questionnaire except Awash bank with 20 questionnaire. Therefore ten professional from five selected sampled banks each with 2 experts; one credit analyst from credit department and the other loan officer from branches, were interviewed. The selected experts were interviewed through the head offices of the banks by preparing interview guide and scheduled time.

3.6 Instruments of Data Collection

Structured questionnaires & interview were used for the collection of primary data. Besides, review of different documents was done. As indicated earlier these questions were both open and close-ended question. A total of 96 sets of questionnaires were distributed. Respondents were assured of the confidentiality of their responses and their names have never been solicited. Out of the ninety-six questionnaires circulated, seventy-one were returned representing about 74% of response rate, which deemed fair enough considering the short time given to these respondents. The returned questionnaires were carefully checked, and those with excessive missing data have discarded.

3.7 Methods of Data presentation and Analysis

On data analysis, primarily the data were organized categorically and chronologically. The qualitative and quantitative data collected were compiled, evaluated & summarized using techniques such as tabulation, appropriate statistical graphs, charts & percentages. This offered a pictorial presentation to enhance the understanding of the data. Eventually, interpretation of data and discussions of the findings were followed.

Data analysis were made by using excel application. In order to reduce the possibility of getting wrong answers, different actions were taken to ensure the soundness of the study.

a. Data were collected from reliable sources, from respondents, who are familiar with subject study
b. The questionnaire were prepared based on literature review to ensure the soundness of the results,
c. Data editing were made because to make editing in front of respondents was difficult with respect to time consuming work.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The data collection for this study was done basically through the usage of questionnaire & interview. The research was targeted to a sample of ninety six exporters & ten bank professionals from Credit Department. The questionnaire was distributed among the sample exporters through the selected five banks namely Awash, Wegagen, Abyisnia, Dashen and Nib bank. Out of the ninety-six questionnaires circulated, seventy-one were returned representing about 74% of response rate, which deemed fair enough considering the short time given to these respondents. A higher response rate would have been preferred, but there were many reasons for the percentage achieved.

4.2 Data presentation in Exporters perspective

4.2.1 Respondent exporters background

In general, 96 exporters are selected from the five sample banks to assess the export financing process. Background information about the exporters is given in the following sections.

4.2.2 Ownership forms of participant exporters

All the respondents are exporters who are currently working with commercial banks. Out of the 71 respondents, 40 or 56% & 26 or 37% have had their businesses registered as private limited Companies & Sole proprietorships respectively. The rest are registered as Share Company & Partnerships as shown in table 5 below.

Table 5: Frequency Distribution of Ownership Forms of Participant Exporters

Ownership Form	Frequency	Percentages (%)
Private Limited Company	40	56
Share Company	3	4
Partnership	1	3
Sole Proprietor	26	37
Total	**71**	**100**

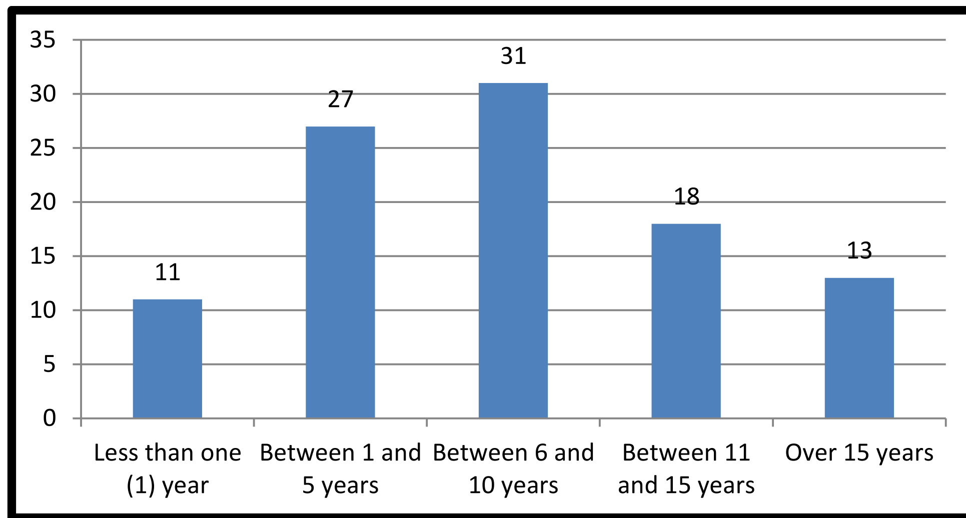
Source: Survey data, 2014

As can be seen from table 5 above, the bulk of the respondents of exporters are registered as Private Limited Companies. They accounted for 40 out of 71 respondents, representing 56%. 26 respondents, representing 37% were Sole Proprietorship, with 3% being Partnership & 4 % of which is Share companies.

4.2.2.1 Age of participant exporters in Export business.

From the informants, it was possible to identify that many exporters have been started since the past 10 years. The following Bar chart indicates the ages of respondent exporters in the business.

Figure 2: Years in Export Business of Participant Exporters in (%)



Source: Survey data, 2014

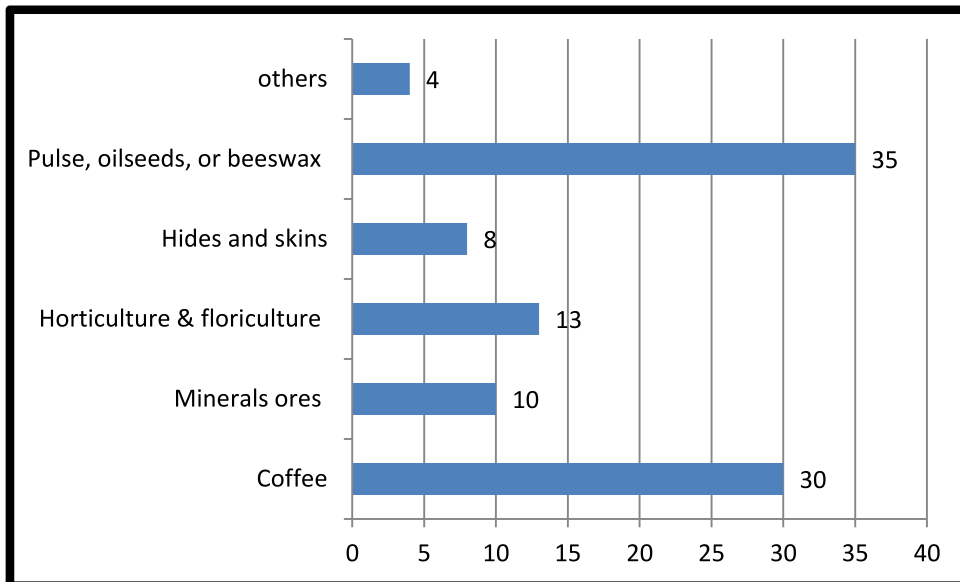
As can be seen from figure 2, 11% of the respondent exporters had spent less than 1 year in the export business, 27% had spent 1-5 years, 31% between 6-10 years, 18% between 11-15 years and 13% had spent more than 15 years.

As can be seen from the exporters background finding, most of the respondents have more than one year experience in the export business which is one of the requirements by banks to maintain good relationship.

4.2.2.2 Export category of participant exporters

As indicated in the below bar chart, most of the respondents 35 % (25) are engaged in exporting of pulses oilseeds or beeswax. 30 %(21) are engaged in coffee exporting. The rest are engaged in hides and skins horticulture and floriculture, minerals ores and others.

Figure 3: Respondents export category in (%)



Source: Survey data, 2014

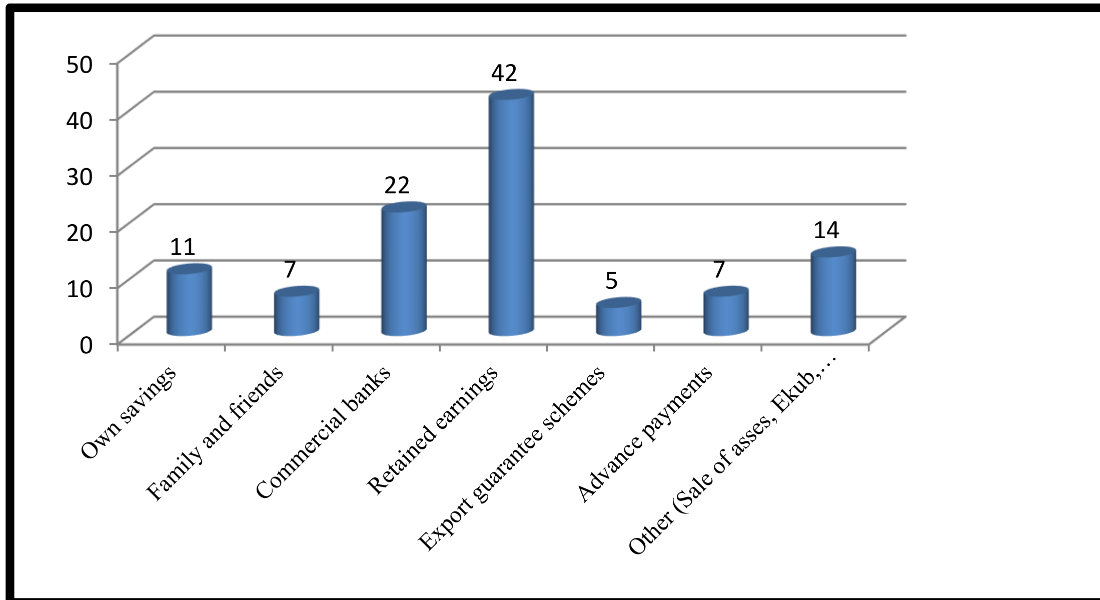
4.2.3 Research related questions

4.2.3.1 Method & Source of Obtaining Export Finance

Finance plays a pivotal role to the growth and operation of Export business. Funds are used to acquire and utilize modern technology, purchase raw materials, cover operational cost etc and it makes the business to be bipedal. The sources of capital can be raised from multiple sources. A business can use internal or external funds to finance their operations and investments. An exporter can use one of the two financing sources or both of them. Similarly, some exporters could generate the sources of finance from their own capital (personal saving, retained profit and sales of assets) or from family and friends, advance payments, commercial banks, guarantee schemes and others like Ikub & Arata.

Accordingly, exporters were asked their source of finance. The result of this analysis and discussion is indicated by the Bar chart as follows:

Figure 4: Frequency Distribution of Source of Raising finance (multiple answers possible)



Source: Survey data, 2014

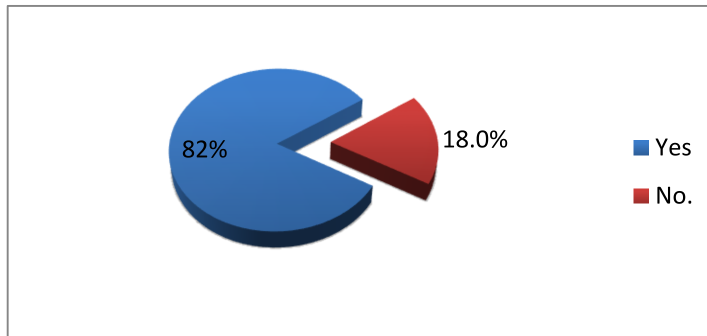
As indicated in the above Bar charts, 42 respondent exporters have raised their finance from retained earnings. While respondents could indicate more than one method, the most overlap among the methods was retained earnings and commercial banks. Source of finance from commercial banks constitute 22 respondents, other(sale of assets, Ekub, Arata) 14 & own savings 11 respondents, 7 respondents got from advance payments, 7 from family and friends & 5 from export guarantee schemes.

In summary of the above figure, the majority of financing for exporters come mainly from retained earning & secondly from Commercial banks. As can be seen from the exporter's background finding, this is due to most of the respondents have good experience in the export business which plough back their profits for expansion of the export business. Having well experience in their business is also one of the requirements by banks to maintain good relationship for financing the business.

4.2.3.2 Shortage of finance as a problem & its Impact

Though the respondents used various method of raising finance to their business operation, questions on problems of shortage of finance were raised and the results indicate regarding availability of sufficient fund to their business.

Figure 5: Response on Shortage of funds to run business operation in (%)



Source: Survey data, 2014

Accordingly, the respondents were asked that how far the problem of shortage of finance influence their export business. In this respect, the above pie chart shows that 82% of the participant exporters responded shortage of finance as a major problem of their business and 18% have not encountered finance problems.

Table 6: Frequency distribution on Rate of Impact of shortage of finance

Rate of Impact of shortage of Working capital	Frequency	Percentages (%)
Very high	31	44
High	11	15
Medium	7	10
Low	9	13
No response	13	18
Total	71	100

Source: Survey data, 2014

Respondent exporters who have expressed shortage of finance as a problem have also claimed on the rate of impact of the shortage. Thus, as indicated in table 6, 44% responded

with very high, 15% with high, 10% at medium and 13% with low impact on their business and 18% with no response.

4.2.3.3 Access to Export finance from financial institutions

Export finance consists of the various options and facilities available to exporters in securing needed funding for their export business activities. That is, ways and means by which the exporters financial needs or financing requirements can be met.

Most exporters receive payment in an export contract typically after delivery. However, few exporters may take payment in advance from importers if they are well established & who are in a good position to request for advance payment from importers with whom they have established long business contacts. But most of the time well established overseas importers are reluctant to make payments in advance. Therefore, the period to getting paid is usually long and leaves a gap in exporters' cash flow which they require substantial funds to pay for production costs in order to fulfill an export contract. In this regard, participant exporters were requested about access to loan from banks. The result is presented under table 7 below as follows.

Table 7: Frequency distribution on obtaining of Export finance from financial institutions

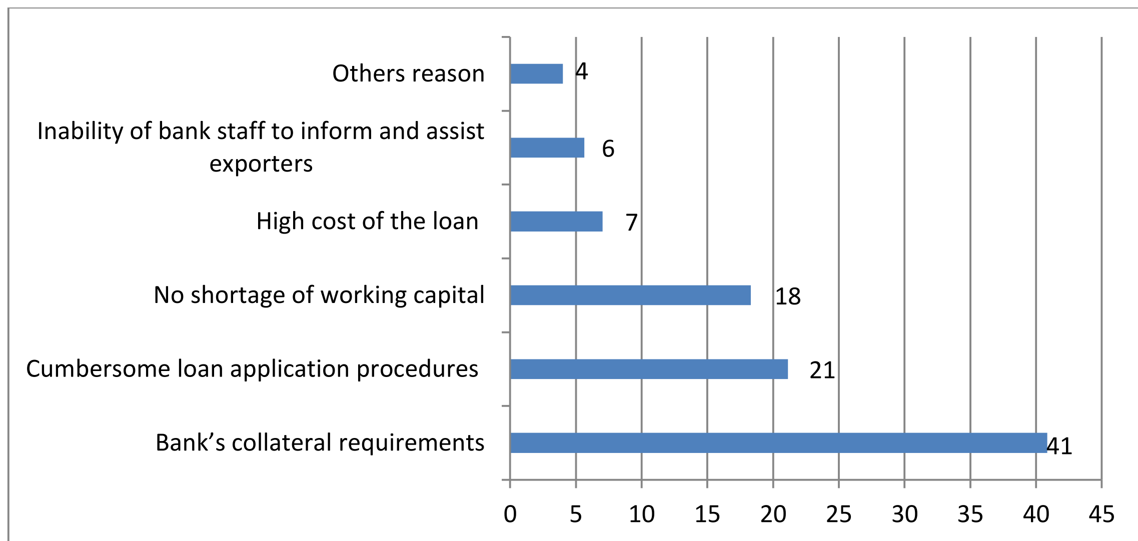
Access for Export finance from financial institutions	Frequency	Percentage
YES	29	41
NO	42	59
Total	71	100

Source: Survey data, 2014

Results from table 7 above indicate that 41% of respondent exporters were obtaining export finance from banks to their export activities. However, 59% did not obtain export loan from financial institutions due to various reasons. Among the reasons, Bank's

collateral requirements, no shortage of working capital, cumbersome loan application procedures, and high cost of the loan & inability of bank staff to inform and assist exporters are listed.

Figure 6: Reasons for not obtaining export finance (in percent)



Source: Survey data, 2014

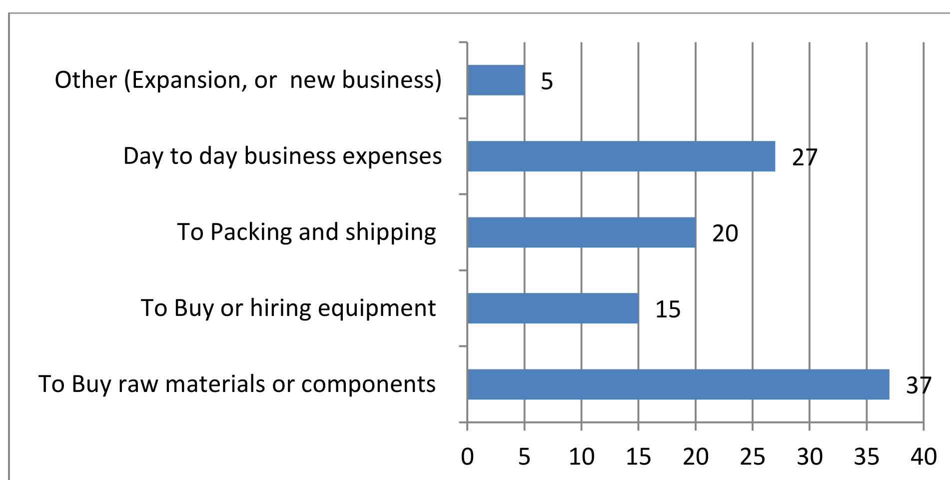
Figure 6 above shows that 41% of exporters rated lack of collateral as the most significant factor limiting their access to export finance. Those who rated cumbersome loan application procedures to be the next most important impediment to access export finance were 21%. No shortage of working capital with 18%, high cost of the loan with 7% , inability of bank staffs to inform and assist exporters with 6% and other reasons like fear of debt, religion, fear of market failure, no knowledge about the process with 4% response rate were responded by the participant exporters.

4.2.3.4 Uses of Export Finance

Export businesses require financing to meet both pre-shipment and post-shipment expenses as seen in figure 7 below. Respondents were allowed multiple answers to this question. About 37 exporters require credit facilities to finance purchase of raw materials & components of export goods. Second most use of the export finance is for day to day expenses with 27 respondents.

Figure 7: Frequency distribution of Uses of export finance (in %)

(Multiple answers possible)



Source: Survey data, 2014

About 15 exporters need finance to buy or hire equipments to aid in production of exportable products, 20 respondents for packing and shipping, 5 respondents for others (expansion or new business). According to the response, most of the exporters are using export finance for pre-shipment facilities.

4.2.3.5 Application and reasons for loan rejection

Table 8: Application and Rejection

Application to financial institutions for export finance in the past	Frequency	Percentage
Yes	49	69
No	19	27
No Response	3	4
Total	**71**	**100**
Successful or rejected applications		
Successful	29	41
Rejected	39	55
No response	3	4
Total	71	100

Source: Survey data, 2014

49 or 69% exporters had applied for bank loan and 39 or 55 % of loan applications were rejected by the banks. 55% rejection rate is high when second majority of the exporters

rely on bank loans to finance their business. These 55% applications were rejected for various reasons among which lack of collateral is the major one. This shows that lack of collateral is a serious impediment to export finance. 27 % of the exporters who had requested for working capital loans did not have financial records to back their applications.

Table 9: Reasons for loan rejection

Reasons for loan rejection	Frequency	Percentage
Lack of collateral	25	35
Lack of adequate financial records	19	27
Lack of credit history	7	10
No export contract	8	11
Other (No response)	12	17
	71	100

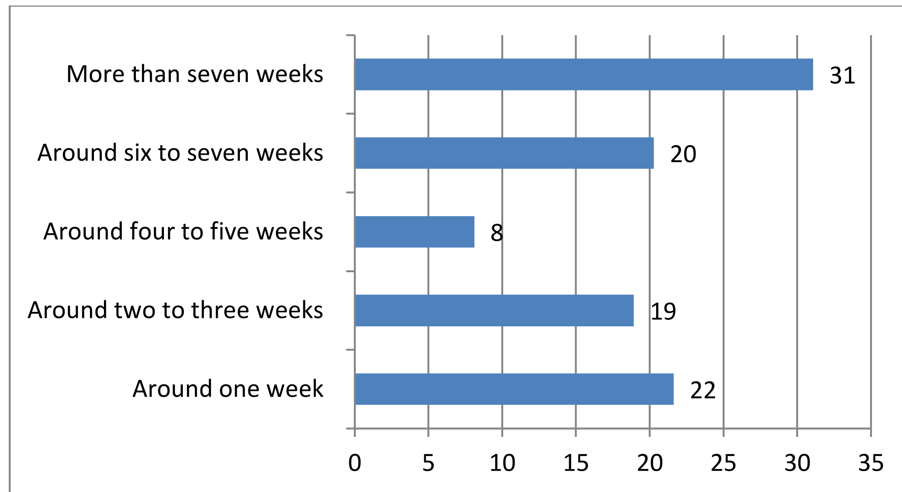
Source: Survey data, 2014

From table 9 above also presents that lack of credit history (10%) and no export contract (11%) by the exporters are other reasons for loan rejection.

4.2.3.6 Delay of Loan approval by Financial institutions

In providing the finance, some lenders are disbursing the money without considerable delays while others are not disbursing the money at the right time. Most of the lenders have set their turnaround time schedule for the loan process with a minimum of three to seven days. Accordingly, to investigate the time delays, respondents have been asked about the time delays and their response was as follows:

Figure 8: Time Delays (in %)



Source: Survey data, 2014

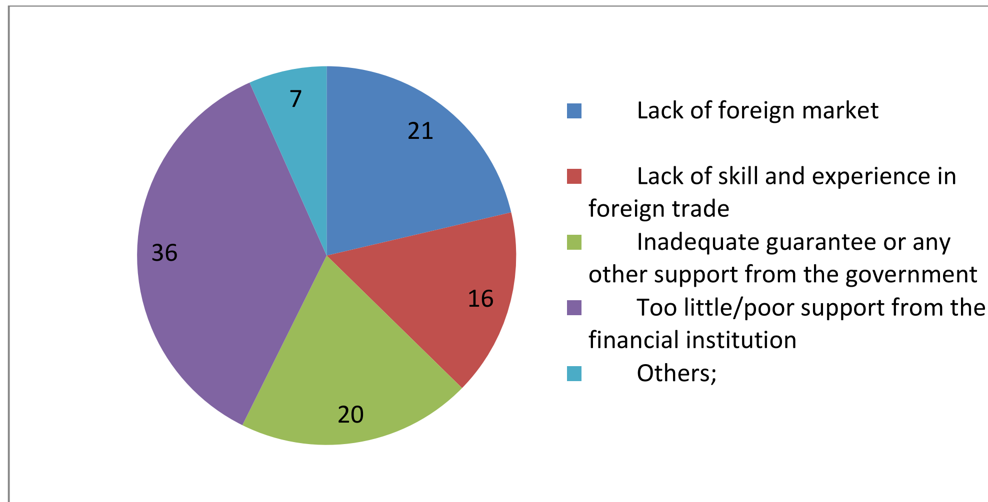
From the above Bar chart, it can be observed that the majority that is about 78% indicated that there is time lag between the date of request and the time funds are released. They responded that the waiting time extends from two weeks to over seven weeks that is (19% from two to three, 8% from four to five, 20% six to seven and 31% above seven weeks). Divergently, 22% of exporter respondents stated that there is no considerable time delay.

Although some respondents tended to indicate the absence of time lag between the request and disbursement of loans, majority of the respondents agreed that there were time delays which adversely affected the growth of their business.

4.2.3.7 Inadequate support of financial institutions as a major problems of respondent exporters

The hindrances of one company may not be similar with the hindrance of other. Some of the hindrances of exporters may be finance, raw material, lack of foreign market, know-how in foreign trade and other related problems. Among these alternatives the researcher asked sample exporters to indicate the major problem of their business and the responses of the respondents were as follows:

Figure 9: Major Problem of Respondent Exporters in %



Source: Survey data, 2014

The 36% of respondents stated that the major hindrance to expand their business was lack of finance while 20% of the respondents indicated inadequate guarantee of any other government support is their problem. It is clearly known that if there is lack of finance & inadequate guarantee, exporters do not perform and promote as expected.

Some (21%) of them replied that marketing was the main problem. Meanwhile, 16 % and 7 % of the respondents revealed that lack of skill and experience in foreign trade & others like inadequacy of raw materials in domestic market, better technology for processing etc were the other problems of respondent exporters respectively.

4.2.3.8 Summary of evaluation given by exporters on quality of service on Export Loan processing

It is well known that the quality, in service industries, is an important strategic factor that strongly affects customers' satisfaction, loyalty, retention, and finally on firms' performance superiority.

Since commercial banks are one among those in the service industry, their overall performance is affected to a great extent by the quality of service they are providing.

Because of the importance of the quality in service industries, the two most important questions are what is quality service? & how it can be measured effectively? These questions are important because what we consider as high quality, in reality may not be so high or even may be low.

What is quality Service? Service quality is the customer’s judgment of overall excellence of the service provided in relation to the quality that was expected.

How can we measure the quality of services, effectively? Several instruments have been developed to facilitate quality measurement in different service industries. These different instruments have identified a variety of dimensions to measure service quality. Since this study focuses on measuring commercial banks’ service excellence in providing loans, the researcher considers only those quality dimensions that are mainly related with commercial banks services. These are: reliability of the system, Complexity of the system, Requirements to get the loan, Cost of service, and Length of time to get the loan.

Reliability of the system refers to the performance service right and accurate, provision of prompt service to customers, and dependability and ability of employees in handling customers’ service.
Complexity of the system on the other hand indicates how much the system is easy to understand and use, how much the system uses modern looking procedures and equipment, and how much it respond to customers need quickly and efficiently.

Whereas, requirements to get the loan, measures strictness of banks' requirements to provide the loan. These requirements include factors like Experience of the customer in the business, Financial Position of the business, Ownership structure of the business, Credit worthiness of the customer, collateral for the loan, product to be exported & others.
The last two factors Cost of service & Length of time to get the loan, however represents all the related cost of using the loan, and the number of days required to get the loan respectively.

Hence under this study service quality assessment of the banks is entirely based on the responses of selected exporters of the commercial banks’ regarding service quality measurement using the five measuring factors.

Table 10: Evaluation of Quality of service

Item Number	Item	Frequency	Percentage	Item number	Item	Frequency	Percentage
A	Complexity of the system			B	Reliability of the system		
	a) Excellent		0		a) Excellent	5	7
	b) Very good	11	15		b) Very good	14	20
	c) Good	19	27		c) Good	8	11
	d) Poor	25	35		d) Poor	27	38
	e) Very poor	16	23		e) Very poor	17	24
	Total	71	100		Total	71	100
C	Length of time to get the loan			D	Cost of service		
	a) Excellent		0		a) Excellent	12	17
	b) Very good	6	8		b) Very good	28	40
	c) Good	15	21		c) Good	28	40
	d) Poor	19	27		d) Poor	0	0

	e) Very poor	31	44		e) Very poor	2	3
	Total	71	100		Total	71	100
E	Requirements To Get The Loan						
	a) Excellent	2	3				
	b) Very good	0	0				
	c) Good	28	40				
	d) Poor	36	50				
	e) Very poor	5	7				
	Total	71	100				

Source: Survey data, 2014

Table 10, shows that respondents answer to wards evaluation of complexity of the system as 11 or 15% very good, 19 or 27% good , 25 or 35% poor and 16 or 23% very poor. This result implies that largest number of respondents (58% poor and very poor) have the same opinion that the lending service system is too complex to understand and use, and the system is not using modern looking procedures and equipment and hence it can not respond to customers need quickly and efficiently.

On the other hand exporters were asked to evaluate reliability of the system. Accordingly, participant exporters responded as 5 or 7% excellent, 14 or 20% as very good, 8 or 11% as good, 27 or 38% as poor and 17 or 24% as very poor. This shows that 55% (poor and very poor) of the respondent exporters are not satisfied with the banks ability to provide accurate, consistent and dependable services.

The other dimension given to the exporter to evaluate were the length of time to get the loan. As per table 10, respondent exporters answer as 6 or 8% very good, 15 or 21% as good, 19 or 27% as poor and 31 or 44% as very poor. Here also the majority of the respondents i.e. 77% evaluated as poor and very poor. This result implies exporters are not getting loans as soon as the need arise. This question was raised in previous analysis to investigate the time delays to get loan. Majority of the respondents have answered that there is too much time delays in loan processing.

As stated on table 10 above, the majority of the respondent exporters can be considered satisfied with the cost of service dimension. 12 or 17% responded as excellent, 28 or 40% as very good, 28 or 40% as good, 0% as poor and 2 or 3% as very poor. This result implies that majority of respondent exporters are not cost sensitive as far as their needs to wards the demand for adequate and timely financial need is met.

In table 10, the results to wards the requirement to get the loan shown identifies that majority of the respondent exporters are not satisfied with this criterion. 2 or 3% responded as excellent, 0% as very good, 28 or 40% as good, 36 or 50% as poor and 5 or 7% as very poor. The requirement for more documents, collaterals, active engagement in the business at lease for one year, financial report etc are the most dissatisfying requirement of banks.

4.2.3.9 Support of Government in terms of credit Guarantee schemes.

One of the major problems of exporters is the non-availability of funds. Banks are usually reluctant to finance export transactions particularly at the pre-shipment stage because of the high risk of default involved due to late or no payment form oversea importers.

Export credit guarantee facility is designed to protect Banks against the risks of nonpayment for loans or advances granted to exporters to meet short-term export contracts. This enables countries to boost their export volume through encouraging large number of exporters.

In Ethiopia, the export credit guarantee program refers to the Export Credit guarantee provided by the National bank of Ethiopia (currently by DBE) up to maximum of 180 days to the exporter to cover pre-shipment or Post-shipment export loan extended by the financing bank starting from the issue date of the guarantee. This Export credit Guarantee scheme provides exporters access to pre-shipment and post-shipment finance equivalent to the total value of the previous year export proceeds without any collateral requirement for existing exporters.

Table 11: Awareness and use of the Export Credit Guarantee Scheme

Export Credit Guarantee Scheme	Awareness		Use	
	Frequency	Percentage	Frequency	Percentage
Yes	52	73	17	24
No	19	27	32	45
No answer	0	0	22	31
Total	71	100	71	100

Source: Survey data, 2014

Table 11 indicates the awareness of the financing scheme among the sampled exporters. The results generally show an appreciable level of awareness with 52 or 73% response rate but the problem is with the use of the financing scheme. It also showed a very low dependence on this source of financing. Only 24% (17) of the respondent exporters will use guaranteed funds from Development Bank of Ethiopia. The other 45 %(32) perceive the delays & minimal support involved in loan processing to be too much of an impediment, they will rather go to the commercial banks to pay higher interest rates.

4.2.3.10 View of the exporters in overall practice of export financing

After various questions related to export financing process were responded, the exporters were also asked to view their opinion on the overall practice of export financing by commercial banks. The following possible solutions are proposed & viewed by the respondents that help Banks to improve the quality of export loan service.

- Banks may be explicitly prohibited from taking collateral security while financing the exporters & Depend on customer cash flow rather than collateral,
- Improving the knowledge of the bankers especially at branch level regarding the systems and procedures
- Periodical training for bank employees & exporters, Arrangement of mutual meetings/discussions about products, policies, procedures and regulations, Arrangement of consultancy and advisory programs.
- Revising the policy and procedure based on timely requirements
- Single or one window concept in respect of all export financing may be introduced

- Norms for appraisal for all exporting units in financial parameters like current ratio, debt equity ratio, debt service coverage ratio, etc may be relaxed.
- Rate of interest for export finance may be reduced substantially.
- Offering prompt decision in respect of export loan requests o. A fixed time frame may be given,
- Opening of special export promotion banks and expanding the number of overseas correspondent banks
- Procedures of ECGS are quite cumbersome and may be made more flexible

4.3 Data presentation on Banks perspective

4.3.1 Commercial banks and export related loans in Ethiopia

In Ethiopia, the commercial bank industry has shown better expansion since the eradication of the centrally planned economic system. Up to the end of year 2013/2014, nineteen commercial banks were actually launched their operations. Out of these banks three of them are public banks and the remaining sixteen are private.

The development of this financial sector, though it needs a significant improvement both in number and quality, has contributed a lot to the expansion of the export business in the country. For instance more than 2.8 billion birr loan is provided by the commercial banks industry to finance the export business in Ethiopia in the year 2012/2013. These banks offer different types of export financing loans including pre shipment export credit, advance on export bills (post shipment credit), bank overdraft, etc

Among all the commercial banks in Ethiopia, Dashen bank, Awash bank, Wegagen Bank, Nib Bank & Abyssinia are selected as a sample for the study. The researcher selected these banks based on the existing market share in export loan & year of early establishment.

4.3.2 Bank covered under the study and related background information

Table 12: Background information about sample banks

Bank name	Year of establishment	years	Market Share in%	Outstanding loans & advances	Outstanding Export loans	Share of Export Loan Over outstanding Loan (%)
Awash	1994	2011	7.2	3,986	840	21

		2012	6.7	5,505	979	18
		2013	6.6	7,710	1,244	16
Wegagen	1997	2011	5.5	2,910	310	11
		2012	4.7	3,566	358	10
		2013	4.6	4,690	423	9
Nib	1999	2011	5.3	2,767	393	14
		2012	4.5	3,708	624	17
		2013	4.2	4,543	714	16
Dashen	1995	2011	6.7	6,142	378	6
		2012	5.8	8,042	522	6
		2013	6.4	8,836	588	7
Abyssinia	1996	2011	5.9	3,316	508	15
		2012	4.7	3,897	606	16
		2013	5	4,702	544	12
All Banks		2011		73,971	7,223	10
		2012		116,346	10,721	9
		2013		151,344	10,616	7

Source: Annual Reports of NBE, AIB, NIB, BOA, WB, DB 2011-2013

From the above table we can first observe that this study on average covers 26% of the commercial banks' industry as to total number of banks; 20% of the commercial banks' industry with regard to total outstanding loan and 32 % of the commercial banks' industry regarding total export loans.

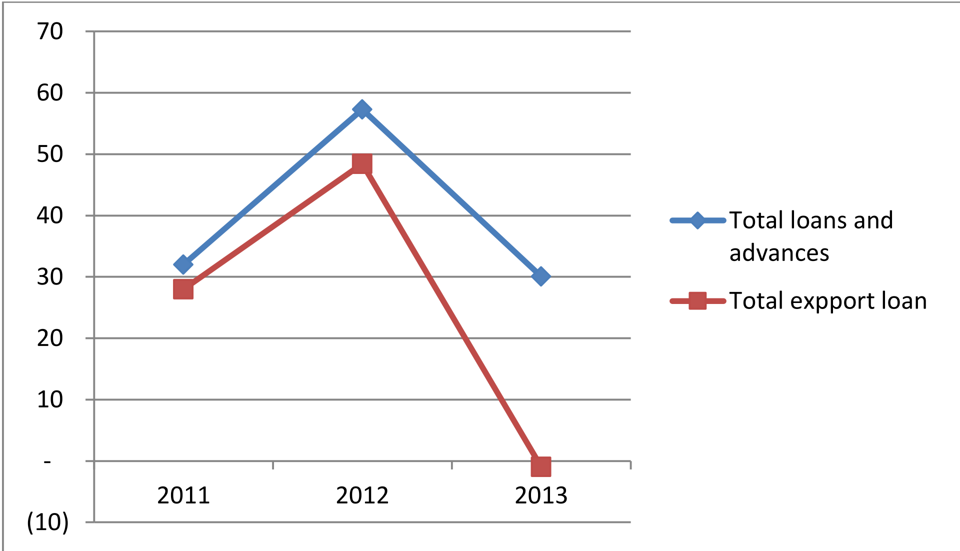
In addition to this, it can be easily identified from the above table that, all the five banks have shown progress in their outstanding export loan except a small decrease of Abyssinia Bank for 2013.

Table 12 indicates that the rate of export loan over the total loans shows a decrease for the selected banks except Dashen Bank with minor increase. However, what we can understand from the above table is that export loan makes up only small proportion of the total loan and the maximum portion i.e. 21% is provided by the Awash bank in year 2011.

4.3.3 Growth Trend comparison between total loan and advances & export loan

From figure 12 below, Total loan and advances figures shows an average increasing trend of 32% and 57% in the year 2011 and 2012 respectively but down to 30% in year 2013. The growth in export loan is few less than the rate of total loan growth in the same period, which is 28% and 48%. In 2013, the growth of export loan was declined to -1%. Besides even though the rate of growth in the export loan was comparable to the rate of growth of total loan, export loan still constitute small percentage (7% in 2013) of the total loan value in Ethiopia. The diagram presented below shows trends in total loan growth & export growth trend.

Figure 10: Growth Trend comparison between Total loans and advances & Export loan



Source: Annual Reports NEB, AIB, NIB, BOA, WB, and DB (2011-2011)

However, what we can understand from the above table is that the rate of growth of export loan is less than the rate of growth of the total loan and advances .

4.3.4 Importance of Export finance in Banker's view

The research was targeted to a sample of ten bank professionals. Most of the respondents were credit analysts, loan officers and Branch Managers. The researcher selected these professionals based on knowledge & experience of the subject matter.

The first question raised to the interviewees was to evaluate the importance of export loan towards improving the export business in Ethiopia. The respondent bankers were unanimous in their opining that with a view to improving the balance of payment position of the country, there is an urgent need for export promotion in terms of financing. They explained that the policy should be outward oriented moving away from the dogmatic perception of import substitution to aggressive export promotion and in this context, there is a need to make a sound system for effective credit privilege by the banking system.

4.3.5 Current practice of Export lending by commercial banks

Because it is unethical to disclose the credit policies of banks and the words of credit experts, the anonymous policy of selected banks and interview with experts is analyzed below.

Credit policy of one private bank shows that for a loan applicant to be successful, he/she should be licensed to a particular business and should be engaged in that business for at least one year regardless of the sector he is engaged: in other words, the license should be one year old. In addition, a loan applicant should bring: at least two periods balance sheet and income statement (provisional or audited based on amount of loan), Sales contract, or similar other documents that show the applicants' past track record, management profile, building collateral and others.

Interview with credit analysts of the selected banks from which the aforementioned requirements are fetched witnessed that these requirements are normal and applied to all sectors and clients have the awareness. However, fulfilling these requirements does not guarantee the eligibility to obtain loan from the bank. Past credit history, profitability and liquidity of the business, location and quality of the collateral offered are other solid

requirements that determine credit eligibility of the applicant. Furthermore, established relationship of the applicant with that particular bank is also a considerable parameter.

Interview with credit analysts from these banks coincided with the above interviewee in that almost all requirements are similar. However, one of them pointed out that a work experience of only six months is enough if all things are in order and in line with the banks priority concerns. All of the interviewees witnessed that, on average, all types of collateral value to be held to secure the credit facility should be at least 110% of the loan to be approved. This gives assurance to World Bank report (2010) which stipulates that the formal banking system in Ethiopia is focused on collateral based.

However, two interviewees witnessed that as the export business is most of the time the lending concern of banks, there are rooms, at policy level, whereby exporters can be eligible for loan even in the absence of record of accomplishment of work experience, collateral, and loan settlement history. This is because the export business generates foreign currency to that particular bank and increases the respective foreign currency reserve. When the foreign currency reserve increases, the bank's capacity to withstand foreign currency request of importers increases; which in turn increases the import commission obtained and the profitability of the bank thereof.

However, it is known that majority of the export items of the country are primary agricultural products upon which no value addition is applied. Hence, loan granted to export of primary agricultural products is mainly in the form of working capital that is used for purchase of raw materials. And other loans in the form of investment finance such as introducing different technology, expansion, processing (value addition) still demands strong collateral which is a problem for most of respondent exporters.

4.3.6 Bank facilities available to Exporters and their Duration

The interviewees explained that working capital is financed through overdraft or term loans in the form of pre or post shipment loan. They noted also that accepting and confirming Letters of Credit (LCs) and discounting Export Documents are other facilities available to exporters.

In principle, there are three types of credit terms, which are short term (one year), medium term (two to five years) and long term credit periods (five to above years). Accordingly, credit analysts have been consulted in order to discuss about the terms of loans and they responded as follows: export financing is mostly short term, for 90 or 180 days, and may extend to at most 12 months after delivery, depending on the types of goods to be exported and the terms of payment offered by overseas buyer. They explained that most of the loans were for terms of one year or less. Therefore, it is accurate to conclude that there is inadequate medium- and long-term financing for the export sector as these types of loans are mostly needed in the form of investment and expansion of a business.

The following table summarizes response on the type of credit facilities provide by the selected banks to exporters.

Table 13: Type of facility granted by Commercial banks

No.	Type of facility granted by Commercial banks	Type of collateral required
1	Cash Advance against L/C/Sales contract	Irrevocable LC or signed sales contract
2	Inventory/Merchandise financing	
	2.1 Against Warehouse	Signed warehouse receipt
	2.1 Against Pledge of Inventory	Various inventories
3	Account Receivable Financing	Promissory notes, signed receipts
4	Export Invoice Discount	Export bills
5	Term Loans	Share certificates, Cash, personal guarantees, Buildings, machineries, vehicles, plants, inventories, merchandise etc
6	Overdraft	Same as above
7	Over-drawals	Most of the time clean as it is temporary and additional to existing facilities

Source: Survey data, 2014 & different policies of banks

4.3.7 Problems identified in the process of export financing

Several problems are identified by commercial banks and exporters regarding export financing process. Out of theses, the main problems are presented below:

Major problems identified by commercial banks

- Lack of consistent monitoring standards by development bank of Ethiopia (current provider of export credit guarantee program) to supervise the activities of commercial banks in order to provide guarantee for the loan provided to exporters.
- Poor document handling practice by exporters which creates difficulty in evaluating their credibility.
- Lack of awareness, skill, knowledge, and capability by exporters to use opportunities in international market that hinders the growth of export of the nation.
- possibility of diversion of funds by exporters
- Practice of poor financial management system by some exporters, which makes them to incur additional costs. For instance some exporters request pre shipment loan having sufficient amounts in their current accounts.

Major problems identified by the exporters

- Strict requirements of both commercial banks and export credit guarantee providing agency (development bank of Ethiopia) to get the loan.
- The export credit guarantee scheme is not coffee export inclusive.
- Limited access or unavailability of other financing mechanisms, which limits exporters not to borrow additional amounts more than a given amount.
- Extensive number of days required to get the loan.
- Limited support from banks professionals & Government in terms of ECG

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents summary of findings, the conclusion finally drawn and recommendations based on the presented data, analysis made and reviewed literatures.

5.1 Summary of findings

From the data collected, analysis made and reviewed literatures in order to meet the objective of the study which was: to review & compare the trends of export trade growth & export trade financing in Ethiopia with particular reference to credit by commercial banks, to identify the various problem areas relating to the present state of export financing and suggest suitable remedial measures, to assess the quality of banks' loan service and government export credit guarantee Scheme, to discuss the different types of credit facilities provided to exporters by banks and other related objectives mentioned earlier, the study put the following as its summary of findings.

- The five year's total export shown on table 2 clarified that the export of the country has shown increment. It has generated a total of 1.5 billion USD in 2009 and this figure was increased double to 3.1 billion USD in 2013.
- The commercial banks' credit to the economy & export sectors in particular has also been presented for the periods 2009-2013 (Table 2). From the computed

records it is observed that though commercial banks have been experiencing aggregate growth credit to the economy, commercial Bank Export loans and advances as percentage of total loans and advance has continued to decrease over the years. It kept declining from 8.54 % in 2009 to 7.01% in 2013.

- The relationship between the total exports made and export credit by commercial banks during the last five years is also presented. The export credit by commercial banks, on an average, comprises 31.55 percent of the total exports of the country in 2009 and gradually decreased to 18.97 percent in 2013.
- The majority of financing for exporters come mainly from retained earning & secondly from Commercial banks. As can be see from the exporter's background finding, this is due to most of the respondents have good experience in the export business which plough back their profits for expansion of the export business. Having well experience in their business is also one of the requirements by banks to maintain good relationship for financing the business.
- Majority of participant exporters responded shortage of finance as a major problem with high impact on their business
- Most participant exporters responded that they do not obtain export loan from financial institutions due to various reasons. Among the reasons, Bank's collateral requirements, cumbersome loan application procedures, high cost of the loan & inability of bank staff to inform and assist exporters are listed.
- Export businesses require financing to meet both pre-shipment and post-shipment expenses. However, most of the respondent exporters are using export finance for pre-shipment facilities such as purchase of raw materials & components of export goods. Second most use of the export finance is for day to day expenses.
- Some of the hindrances of exporters may be finance, raw material, lack of foreign market, know-how in foreign trade and other related problems. Among which the majority of exporters claimed that lack of finance is the major hindrance to expand their business.
- Exporters apply for export loan but some of the applications rejected due to various reasons among which lack of collateral is the major one. This shows that lack of collateral is a serious impediment to export finance.

- Although some respondents tended to indicate the absence of time lag between the request and disbursement of loans, majority of the respondents agreed that there were time delays which adversely affected the growth of their business.
- According to the study, the majority of exporters responded on quality of service in terms of the complexity of the system, Reliability of the system, Length of time to get the loan & Requirements to Get the loan as the least services quality (Poor and very poor above 50% on average) and cost of services is responded as excellent, very good and good by the majority.
- The Export credit financing scheme by DBE among the sampled exporters generally show an appreciable level of awareness. However it showed a very low dependence on this source of financing due to perceptions of delays & minimal support involved in loan processing to be too much of an impediment.
- The exporters viewed their opinion on the overall practice of export financing by commercial banks. Accordingly, there are areas to be improved & which needs possible solutions are that help Banks to improve the quality of export loan service.
- The results obtained from the interviewees concerning the current practice of commercial banks in financing export sector showed similarity of the requirements among the banks. The engagement in the business at lease for one year, established relationship of the applicant with that particular bank, past credit history, profitability and liquidity of the business, location and quality of the collateral offered are solid requirements that determine credit eligibility of the applicant. However, the study showed that the export business is now the lending concern of banks whereby exporters can be eligible for loan even in the absence of the requirements. This is because the export business generates foreign currency to banks and increases the respective foreign currency reserve.
- Several problems were identified by commercial banks and exporters regarding export financing process and can be considered as summary of problems identified in the study.

5.2 Conclusion

Export trade has vital importance not only for developing countries like Ethiopia, but also for developed countries. According to export-led growth hypothesis, increased export can

perform the role of “engine of economic growth” because it can increase employment, trigger greater productivity, fill the foreign exchange gap of a country and hence to increase import capacity and reduce dependence on foreign aid and lead to rise in accumulation of reserves allowing a country to balance their finances. Besides this, at the corporate level, exports can help firms to improve their prosperity and to expand into new markets. One of the ways of boosting exports is making finance available to the export sector. This can be done through provision of well-timed, adequate & cheap credits to the sector.

The result of the study shows that the total export of the country is characterized by a continuous increasing trend while the total export credit is the reverse. The export credit by commercial banks, on an average, comprises 31.55 percent of the total exports of the country in 2009 and gradually decreased to 18.97 percent in 2013. This trend of lending practice in the country shows that the country’s banking system in general and lending trend in particular is yet at a questionable stage. The total loan that all private and public banks inject in to the export sector constituted only 7.1 percent of the gross bank credit during 2013. This deployment of the export finance bears less than 1/4th of the total exports of the country only which is not yet in a position to support the export development significantly.

In identifying the basic problems that affect the business of exporters, it is found that little or poor support of financial institutions (lack of export finance), shortage of raw material, lack of foreign market, know-how in foreign trade and other related problems could affect the business performance of exporters. Nonetheless, access to bank finance was certainly found the primary impediment of exporters to execute their business.

Though it was found that obtaining export finance could solve the threat of many exporters, it is not trouble free. Some of the obstacles are associated with the exporters’ own internal problems, such as social factors including religious dogmas forbidding interest bearing bank loans; information asymmetry, not fulfilling bank’s loan requirements & documentation and other related barriers are some of the factors.

As was mentioned so far, exporters who wanted bank loans in their way to overcome financial pitfalls for their business failed to do so because of lack of collateral,

cumbersome loan application procedures, high cost of the loan & inability of bank staff to inform and assist exporters. On the other hand lack of business and borrowing experience, financial statement, active sales contracts at hand or two or more of these factors can hold back export loan applicant in obtaining export credit.

In summary of exporters' perspective, assessment of service quality of the banks has been made by considering only those quality dimensions that are mainly related with commercial banks services. These are: reliability of the system, Complexity of the system, Requirements to get the loan, Cost of service, and Length of time to get the loan. The response of the participant exporters revealed that commercial banks have to take appropriate measures to improve the quality of their services as majority of exporters responded on a least service quality of all dimensions except cost of service.

Current practice of bank export lending in the country is also inclined towards the usual lending practice of other sectors where collateral, experience in a particular business, borrowing experience, providing financial statement and having a workable contract at hand are mandatory requirements that banks stipulated on their policies to be fulfilled from a loan applicant. However, the study showed that the export business is now becoming the lending concern of some banks whereby exporters can be eligible for loan even in the absence of the requirements. This is because the export business generates foreign currency to banks and increases the respective foreign currency reserve.

In addition the above point, the export credit guarantee scheme provided by the development bank of Ethiopia is also reviewed under this study. The study in this case reveals that export credit guarantee schemes have failed to increase the flow of export financing to the export sector mainly because of delays & minimal support involved in loan processing to be too much of an impediments.

Moreover different problems related with the current practice of export financing are also identified. Poor document handling practice by exporters which creates difficulty in evaluating their credibility, Lack of awareness, skill, knowledge, and capability by exporters to use opportunities in international market that hinders the growth of export of the nation, practice of poor financial management system by some exporters, which makes them to incur additional costs are some of the problems identified by banks. The others

such as strict requirements of both commercial banks and export credit guarantee providing agency (Development bank of Ethiopia) to get the loan, limited access or unavailability of other financing mechanisms, Extensive number of days required to get the loan & limited support from banks professionals & Government in terms of ECG are identified by respondent exporters.

5.3 Recommendation

Exports are instrumental in the development of an economy, particularly developing nations like Ethiopia. The export sector in Ethiopia has major role to play in the country though the economy has been suffering from a persistent balance of payment problem. Therefore, drive towards development of Ethiopian economy has been promotion of exports. In this case, the Ethiopian financial system, through commercial banks offer financial resources for promoting exports by providing direct financial services and facilitating other services. While the financial services include provision of export finance through their credit departments, other services include handling of export documents, counseling and advisory services, facilitating foreign exchange operations of exporters, etc through international banking departments.

Despite the existence of banks are for financial services, the provision of the export finance bears less than 1/4th of the total exports of the country only which is not yet in a position to support the export development significantly. Complaints are also often heard from exporters, regarding rigidity of banks credit mechanism along with delays in decision making process.

For this reason the researcher recommends that, to benefit from the opportunities in the international market by expanding the export business, the flow of export credit should be increased more than what actually exists. In order to increase the flow of bank credit to export sector, Banks should improve their conservative lending practice and take the export business as priority lending sector.

In order to come up with practical suggestion, deliberations were held with a number of exporters as well as bank professionals which the researcher identified credible views to improve the existing system of export finance. Accordingly, the following suggestions are presented taking into consideration the summary & conclusions of findings.

Banks should be relaxed or prohibited from taking collateral security while financing the exporters & rather to depend on business profitability and cash flows as the first conditions since the study revealed that collateral is the most impediment in obtaining banks finance by exporters.

Banks should improve the knowledge of their staffs especially at branch level regarding the systems and procedures of exporting financing by giving periodical training, arrangement of mutual meetings/discussions with exporters about products, policies, procedures and regulations which will facilitate the loan processing procedures which directly improves the limited support of banks due to lack of knowledge & skills of staffs.

Export credit should be brought within the purview of priority sector lending as few banks did and should be given larger quantitative targets so as to increase the amount of export loan which support the total export of the country.

Banks should introduce single or one window concept & should offer prompt decision in respect of loan requests of the exporters. This will avoid a delay that takes extensive number of days required to get the loan.

Like other countries trend, emphasis should be given for the opening of special export promotion banks & Special guarantee schemes should be devised.

As identified by this study export guaranty facility reflects low usage mainly because of lack of support and strictness of requirements. For this reason DBE should revise its scheme to increase the support the export sector and loosen the requirements that make exporters to get the guarantee easily. The revision of the guarantee scheme should also help in increasing credibility, reputation, and trust with exporters and banks.

Exporters should negotiate prepayment from their buyers rather than depending on export credit from banks. They can receive some or the entire payment amount upfront which can be utilized as a working capital.

For the exporter, the decision to get finance for an export contract should come as soon as a firm order is received. Exporters need to consider what their cash flow needs will be throughout the contract, from initial costs to shipping and final delivery. Exporters should

also be aware of the many financing options open to them. By doing so, they choose the most acceptable one which avoid loan default created due to random and undetermined loan application.

Financial institutions should introduce appropriate decision-making and control mechanisms supported by management information systems and information technology to help manage the export finance.

Finally, in order to maintain sustainable development in the export sector and achieve the nation's development goals, the Ethiopian government has to strengthen its support and greatly enhance the export promotion. As it is also recommended by other researchers, Mekibib (2007) & WTO (2014), a separate institutionalization of a financial institution that solely responsible in financing international businesses in the country should be established.

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APPENDIX

Appendix A: Questionnaire to Be Filled Up By Exporters

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACULTY OF BUSINESS

Questionnaire to Be Filled Up By Exporters

Dear Respondents,

I am a master's degree student in Business Administration from St. Mary's University. I am Carrying out a study on ***"Assessment of export trade financing practice of commercial banks in Ethiopia".*** Hence, to gather information, I kindly request your assistance in responding to the questions listed below. Any information you present will be kept absolutely confidential and will only be used for academic purpose. Your cooperation and prompt response will be highly appreciated. Thank you very much in advance!

Meseret T.

Section A: Background of Exporters

1. Nature of Organization. (Please tick as appropriate)

- ☐ Private Limited Company
- ☐ Share Company
- ☐ Partnership
- ☐ Sole Proprietor
- ☐ Family Owned Business
- ☐ Others______________

2. For how long has your company been in operations (please tick as appropriate)

- ☐ Less than one (1) year
- ☐ Between 1 and 5 years
- ☐ Between 6 and 10 years
- ☐ Between 11 and 15 years
- ☐ Over 15 years

3. In which of the following export category (ies) does your company involved?

- ☐ Coffee
- ☐ Minerals ores
- ☐ Horticulture and floriculture products
- ☐ Hides and skins
- ☐ Pulse, oilseeds, or beeswax
- ☐ Others; please specify______

4. Do you have professionals in managerial positions in your company?

- [ ] Yes
- [ ] No

5. What is the qualification of your management team?

- [ ] Senior High School certificates
- [ ] College diploma
- [ ] First Degree
- [ ] MBA & above
- [ ] Other - ___________________________

B. Export finance related questions

6. How do you raise finance for your export business? (multiple answers are possible)

- [ ] Own savings
- [ ] Family and friends
- [ ] Commercial banks
- [ ] Retained earnings
- [ ] Export guarantee schemes
- [ ] Advance payments
- [ ] other

7. Is shortage of working capital your major problem?

- [ ] Yes
- [ ] No

8. If yes how do you rate its impact in your business as compared to other major Problems?

- [ ] Very high
- [ ] High
- [ ] Medium
- [ ] Low

9. Have you applied to financial institutions for export finance in the past?

- [ ] YES
- [ ] NO

10. Were you successful?

- [ ] YES
- [ ] No

11. If yes, what purpose was the facility be used for? (multiple answer is possible)

- [ ] To Buy raw materials or components
- [ ] To Buy or hiring equipment
- [ ] To Packing and shipping
- [ ] Day to day business expenses
- [ ] Other (please specify) ....

12. If not, why?

- ☐ Lack of collateral
- ☐ Lack of adequate financial records
- ☐ Lack of credit history
- ☐ No export contract
- ☐ Other___________

13. If your answer for question number 9 is NO, Which of the following do you consider to be the main factors hindering you from obtaining export finance? Please list the most important factor first using numbers 1-5.

- ☐ No shortage of working capital
- ☐ Bank's collateral requirements
- ☐ Cumbersome loan application procedures
- ☐ High cost of the loan
- ☐ Inability of bank staff to inform and assist exporters
- ☐ Other (specify)______________

14. Did you receive the facility on time?

- ☐ Yes
- ☐ No.

15. If your answer to question number 14 is no, how long the time delayed by creditors?

- ☐ Around one week
- ☐ Around two to three weeks
- ☐ Around four to five weeks
- ☐ Around six to seven weeks
- ☐ More than seven weeks

16. What are your major problems in your export business?

- ☐ Lack of foreign market
- ☐ Lack of skill and experience in foreign trade
- ☐ Inadequate guarantee or any other support from the government
- ☐ Too little/poor support from the local financial institution
- ☐ Other (specify)_________________________________

17. Have you heard about export Credit Guarantee Schemes given by Development bank of Ethiopia (DBE)?

☐ Yes

☐ No

18. How do you evaluate the support of the government towards encouraging the utilization of these export loans? ____

19. How do you evaluate the service of the bank you served in terms of :

	Excellent	Very Good	Good	Poor	Very poor
Reliability,					
Length of time,					
Cost					
Requirements					
Complexity					

20. What are major problems identified in the export loan financing process?

21. What are the possible solutions that help to solve those problems and increase the performance of banks in provision of the Export loan? ______________________

Thank you,

Appendix B ---Interview guide for bank professionals

1. How do you evaluate the importance of export loan towards improving the export business in Ethiopia?
2.
3. What are your requirements and preconditions to provide the export loan?
4. What are the different types of export loans to be provided by your bank? (Classification can be based on the nature of the loan, time of payment or considering any other criteria)?
5. Which facility is taken as very important and need by exporters majorly?
6. What are the major problems that affect the provision of this loan?
7. What supports do you expect from the government that helps improve in financing export sector?

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Zenegnaw Aby (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

__________________________ _______________________

Name Signature & Date

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

____________________________ _________________________

Advisor Signature & Date