



**SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT ON THE EFFECTIVENESS OF INTERNATIONAL
TRADE PRACTICES IN COMMERCIAL BANK OF ETHIOPIA**

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ADDIS ABABA**

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TRADE PRACTICES IN COMMERCIAL BANK OF ETHIOPIA

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DECLARATION

I, the undersigned, declare that this thesis is my original work prepared under the guidance of Dr. Mesfin Lemma and all sources of information used for the study have been duly acknowledged.

I further confirm that any part of this thesis has never been submitted to any other learning institution to get a degree.

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ENDORSEMENT

This thesis has been presented to Saint Mary's University, School of Graduate Studies for examination with my consent and approval.

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Saint Mary's University, June- 2017

Addis Ababa

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List of Acronyms

- CAD:** Cash Against Document
- CATS:** Customer's Accounts and Transaction Services
- CBE:** Commercial Bank of Ethiopia
- CPC:** Central Processing Centre
- CRO:** Customer Relationship Officer
- DC:** Document Collection
- FIR:** Financial Institutions Relationship
- FT:** Fund Transfer
- GDP:** Growth Domestic Product
- H.O.:** Head Office
- IBD:** International Banking Division
- ICC:** International Chambers of Commerce
- IMF:** International Monetary Fund
- INCOTERMS:** International Commercial Terms
- L/C:** Letter Of Credit
- MIS:** Management Information Services
- NBE:** National Bank of Ethiopia
- NR/NT:** Non Residence Transferable and Non Transferable Account
- PO:** Purchase Order
- SPSS:** Statistical Package for the Social Sciences
- SWIFT:** Society for World-wide Inter-Bank Financial Telecommunication
- TIN:** Tax Identification Number
- TS:** Trade Services
- TSCPC:** Trade Service Central Processing Centre
- TSO:** Trade Service Officer
- VP-TS:** Vice President-Trade Services
- WTO:** World Trade Organization

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ABSTRACT

This study is conducted to assess the existing trade Service practices of CBE from the international and domestic standards perspective, examine the major challenges & risks associated with international trade financing, and explore the acquaintance of staffs on international trade governing rules and guidelines. It is supposed to give insight for policy makers and customers about international trade services and procedures. This descriptive study employed both quantitative and qualitative approaches to get relevant data from the target populations and achieve the objectives of the study. Primary data was collected from 62 purposely selected respondents through a structured questionnaire and extensive interviews with experts and corporate customers. The collected data was empirically analyzed in light of different literatures and descriptive statistics using SPSS methods. The findings be evidence for the provision of fine international trade services in CBE that most of the performers are abide by ICC rules, NBE directives and circulars as well as CBE Trade Service policy. The study revealed the bank may suffer for-ex liquidity constraint or volatility quandary in an international trade; Customers' distinct payment preference and other countries policy and regulation, shortfall of domestic directives in light of international trade rules and practices, customers' lack of ample understanding on international trade, shortage of foreign currency; outdated NBE directives. In order to minimize the risks on international trade services, the bank should make successive assessment on foreign banks' risks & counterparty risks, check the changes in exchange rate before financing, have fear on regulatory framework to comply with an international trade laws; to include things like compliance, external auditing and anti-money laundering laws. Finally, the study recommended the bank shall make the procedure very clear, simple and participatory for most of the customers; facilitate LC, export permit and other international trade services as much and frequently as customers request timely; strengthen internal capacity of the bank; improve risk management and other security systems to minimize risks of line constraints with correspondent banks & compliance to terms of trade in an international trade.

Key Words: *International Trade, Customers, NBE Directives, Payment Preference, CBE TS policy*

CHAPTER ONE

INTRODUCTION

In this chapter, the research paper deals with the background of the study, statement of the problem, research questions, and objectives of the study and significance of the study. It outlines the historic development of the research topic, what initiated the study and what it contributes.

1.1. Background of the Study

The history of international trade chronicles notable events that have affected the trade between various countries. In the era before the rise of the nation state, the term 'international' trade cannot be literally applied, but simply means trade over long distances; the sort of movement in goods which would represent international trade in the modern world. Basically Trade, be domestic or international, is an exchange of goods or services for other goods or services out of which gains from it come in the form of economic utilities to the sellers and satisfaction of demand to the consumers. It is the transfer of ownership for goods or service from one person or entity to another by getting a product or service (Commercial Bank of Ethiopia, 2015).

Ethiopia has engaged on an international trade on both importing and exporting of goods and services. The major exports include coffee, gold, leather products, beeswax, canned vegetables, tea, sugar, cotton, and oil seeds. Ethiopia's major trading partner in Africa is Djibouti, a neighboring country through which Ethiopia must conduct all of its importing and exporting since Ethiopia is land locked and thus lacks a port of its own. Ethiopia's major imports include food and live animals, petroleum and petroleum products, chemicals, machinery, civil and military aircraft, transport and industrial capital goods, agricultural machinery and equipment, and motor vehicles.

However, Ethiopia has excessive challenges in cross border trade. The high cost of doing business across borders in Ethiopia has become a major constraint. The cost of accessing information, discrepancy and unpredictability in government policy decisions, general issues of custom which in particular includes customs valuation, and anticompetitive practices in transport, especially road and sea transport are directly related to the costs of trading in addition to the delay in time taken from the port to the inland destination, or the vice versa. The longer the time taken for import/export procedures or journey, the more expensive imports, exports and production becomes rendering Ethiopian exports less competitive (Tilahun, 2014).

In addition, the seller and the buyer are far from each other, they would have limited control over their business transaction in trading cross frontier. The seller wants to ensure receipt of payments for goods shipped or services rendered to the buyer while the buyer on the other hand wants to receive goods or services as per the agreed upon quality and time. To satisfy these mutual desires, the role of international business facilitators is unquestionable. These facilitators are financial institutions- Banks and Insurance Companies to facilitate payment and cover risks, Transport Companies- to move goods, and Agents- to search for a market and ensure sales. A Bank facilitates payment for merchandise shipped and services rendered, and moreover layouts funds for buyer and seller, and gives professional advice to international business traders or potential prospects of international trade (Commercial Bank of Ethiopia, 2015). Banks play a crucial role in facilitating this international trade by providing a wide range of trade service products like letter of credits, documentary collections, consignment, advance payment, supplier's credit to name a few (Niepmann, 2014).

Commercial Bank of Ethiopia, being one of the major international trade facilitators in Ethiopia, renders a variety of international banking services under an organizational structure called Trade Service in the department of International Banking Division (IBD). Trade Service is the major business of Commercial Bank of Ethiopia entrusted with the task of international banking services with targeting international trade society of the country. It mainly focuses on facilitation of payments and mitigation of risks associated with international trade through a process that is compatible with customers' need and

international standards. The services are now provided at all branches of the bank with a single contact point of customer service relationship officers assigned for this purpose only. As we all know, in every country, banking operations are subject to special regulations and restrictions. These regulations and restrictions are almost always intended to ensure the stability of national banking systems, to provide national authorities with effective instruments for economic management, or generally to encourage thrift and other social virtues. The trade service policy is the main guideline for international trade service, which the researcher thinks that should be uniformly demonstrated to all customers with relatively equal level of capital and investing at the same sector of investment. The trade service policy is important and mandatory for international business participants if strictly followed, monitored, and revised frequently to cope with international business environment. Hence, this study will assess an implementation of these international banking rules, regulations and policies in Commercial bank of Ethiopia.

The agreement that was reached in 1905 between Emperor Menilik II and Mr.Ma Gillivray, representative of the British owned National Bank of Egypt marked the introduction of modern banking in Ethiopia. Following the agreement, the first bank called Bank of Abyssinia was inaugurated in February 16, 1906 by the Emperor. The Bank was totally managed by the Egyptian National Bank operates until its liquidation 1931. In April 1943, the State Bank of Ethiopia commenced full operation and acted as the central Bank of Ethiopia and had a power to issue bank notes and coins as the agent of the Ministry of Finance. The Bank also functioned as the principal commercial bank in the country and engaged in all commercial banking activities. The Ethiopian Monetary and Banking law that came into force in 1963 separated the function of commercial and central banking creating National Bank of Ethiopia and give birth to commercial Bank of Ethiopia. Moreover it allowed foreign banks to operate in Ethiopia limiting their maximum ownership to be 49 percent while the remaining balance should be owned by Ethiopians. Following the incorporation as a share company on December 16, 1963 as per proclamation No.207/1955 of October 1963, Commercial Bank of Ethiopia took over the commercial banking activities of the former State Bank of Ethiopia. It started operation on January 1, 1964 with a capital of Eth. Birr 20 million. In the new Commercial Bank of Ethiopia, in contrast with the former State Bank of Ethiopia, all employees were Ethiopians (CATS, 2014).

In 1974, Commercial bank of Ethiopia (CBE) is a state owned and the leading bank in Ethiopia, merged with the privately owned Addis Ababa Bank. Since then, it has been playing significant roles in the development of the country (CATS, 2014). Pioneer to introduce modern banking to the country- It has more than 1100 branches stretched across the country. The leading African bank with assets of 359.3 billion Birr as on March 31th 2016 plays a catalytic role in the economic progress & development of the country (CBE Profile, 2015).

The bank's annual report 2014/15 shows that the bank has continued to earn significant amount of income and profit from its international banking operations as a result of its healthy and long lasting business relationship with many foreign banks around the world (Report, 2014). The bank has taken the responsibility of supporting the economy through finance as well as facilitating the major import processes of the country which require the availability of sufficient foreign Currency. It has strong correspondent relationship with more than 50 renowned foreign banks like Commerz Bank A.G., Royal Bank of Canada, City Bank, HSBC Bank. CBE has a SWIFT bilateral arrangement with more than 700 others banks across the world. CBE combines a wide capital base with more than 25,000 talented and committed employees. Pioneer to introduce Western Union Money Transfer Services in Ethiopia early 1990s and currently working with other 20 money transfer agents like Money Gram, Atlantic International (Bole), Xpress Money. CBE has opened four branches in South Sudan and has been in the business since June 2009. CBE has reliable and long-standing relationships with many internationally acclaimed banks throughout the world.

1.2. Statement of the Problem

Trade is the movement of goods and services that stems from a business transaction between a buyer and a seller. International Trade is the exchange of goods and services between countries; in such areas as transportation, tourism, banking, advertising, construction, wholesaling, and mass communication. Due to rapid globalization process, business transactions among traders who live in different political boundaries have increased from

time to time. This type of trade gives rise to a world economy, in which prices, supply and demand are affected by global events and trends.

Business companies operating in home markets encounter many common problems when selling their products or services minimizing costs, meeting quality standards, meeting deadlines, collecting payment and financing the whole operation. When exporting, these problems are not too different except that they are peculiar to the task of selling abroad (International Trade Manual, 2015). Over the last two decades, world services trade has recorded negative annual growth only once (-9 per cent in 2009), in the wake of the global financial crisis. In 2010, services trade resumed its pre-crisis level and has continued to expand steadily despite sluggish economic growth. In current dollars, global exports of services increased by 5 per cent in 2014 compared with 0.5 per cent for goods (WTO, 2015).

One of financial institution roles is facilitating most of the transactions both in an international and domestic trade. Among the financial institutions banks are the major one. Banks provide a very valuable and necessary and varied service to business clients which help to ease their transition into International Trade. Using experience acquired over a number of years together with a wide network of overseas banking contacts, they are able to provide advice on a wide range of issues; offer a wide range of products and generally work with the client to reduce risk and develop the business. The WTO website puts it as “the simplification and harmonization of international trade procedures... for collecting, presenting, communicating and processing data Required for the movement of goods in international trade” (WTO, Trade Facilitation, 2012).

Realizing the paramount importance of international trade finance to our country’s sustainable development, the researcher chose this study to throw in some insights that could help improve international trade and finance related policies and practices in Commercial Bank of Ethiopia as well as provide a solid grounding for further studies here forth.

According to scholars, international trades have four major risks, which are country risks, bank risks, fraud and piracy. Country risks are usually related with political, economic, exchange control, import/export regulations and storage facilities challenges. In addition, fraud and piracy risks are Documentary fraud forged DCs, forged documents; Insurance fraud over insurance; Charter party fraud and Cargo Theft. Banks are mainly exposed of

insolvency preventing fulfillment of obligations under DCs; Poor checking standards; Delays in making payments to correspondents; and adherence to ICC rules (W.A.WISE, 2015) Therefore, this study will focus on examining major risks associated with international banking, and strategies employed to deal with these risks.

In every country, banking operations are subject to special regulations and restrictions. These regulations and restrictions are almost always intended to ensure the stability of national banking systems, to provide national authorities with effective instruments for economic management, or generally to encourage thrift and other social virtues. According to IMF (2015) report, many countries tightened regulations on banks' international operations or strengthened their supervision between 2006 and 2014, while a more limited number loosened them since global financial crisis. The supervisory authorities in many countries are now more likely than before to limit banks' activities for instance, by imposing ring-fencing measures in a discretionary way. Many resolution authorities obtained more powers over local branches of foreign banks. Some countries amended banking secrecy laws to enhance information sharing about banks' operations and balance sheets with foreign supervisors. In contrast, a few countries have loosened regulations regarding foreign banking presence (for example, conditions for a foreign bank's acquisition of a domestic bank) and activity (for example, cross border lending and borrowing) (IMF, 2015). While commercial bank of Ethiopia is highly involved in international trades, tightening of its regulation on the bank's international operations may have direct or indirect impact. Hence, the study addressed the effect of this regulation and identifies the impact of international banks' regulations on commercial bank of Ethiopia.

In addition, banking professionals working in trade finance areas are expected to be aware of the rules and regulations on international banking operations. The principal concern of this study is, therefore, to assess the trade service practice of Ethiopian commercial banks in light of the international and local standard banking practices in order to shed light on risk areas, identify operational problems, and expose any malpractices and areas on non-compliance with the standards.

Generally, this investigation shall provide answers to the following basic research questions;

- ❖ How are CBE trade services practiced on an international trade?
- ❖ How are the employees acquainted with international trade governing rules and guidelines (standards, directives, circular and policy) perspective?
- ❖ What are the major risk areas of CBE with respect to main trade service products?
- ❖ Which are the major challenges of banks in an international trade? What are the possible solutions in order to mitigate those challenges?

1.3. Objective of the Study

1.4.1 General Objective

The general objective of this research is to assess the effectiveness of the practices of Commercial Bank of Ethiopia on International Trade.

1.4.2 Specific Objectives

The specific objective of this undertaking would be;

- To assess how CBE Trade Services are practiced from the international and domestic standards perspective.
- To examine major risks associated with international banking, and strategies employed to deal with these risks.
- To identify the major challenges of banks in an international trade and find out possible solutions.
- To explore understanding/acquaintance of staffs on CBE international trade governing rules and guidelines (standards, directives, circular and policy).

1.4. Significance of the study

The study primarily helps concerned or attracted parties understand the practice of international banking operations of CBE. Overall, the beneficiaries of this research are policy makers and stakeholders, so that they can better understand the risks and challenges of CBE on an international trade towards the achievement of the country's economic goals. Policymakers can also benefit on their decision making towards efficient and proper policies

on international banking operations. This study also helps the researcher acquire knowledge and practical experience about a business research undertaking.

1.5. Scope of the study

This undertaking encompasses the practical and procedural operation of International Trade (Trade Service) conducted in the Commercial Bank of Ethiopia. Descriptive methods of research used to cover the international trade theories and practices. Though the Bank provides Trade service products in its all branches across the nation, the main department for assessing customers' status and approval is located in our capital, Addis Ababa.

1.6. Limitations of the Study

There is not much to be said about the limitations to this study besides the under labeled few;

- Bulky policy and procedure which may lead to non-uniform delivery of service and non-genuine complement to the policy. Hence, this would have a direct or indirect impact on understanding and implementation of staffs on CBE international trade.
- Variations in the level of knowledge and expertise about trade service operations across different hierarchical levels in the bank.

1.7. Definition of Key Terms

In this undertaking:

- **A Customer:** any legal entity with whom the Bank agrees to conduct business.
- **Advance Payment Guarantee:** an undertaking issued by the guarantor to secure any claims by the buyers on the seller for reimbursement of the buyer's advance payment on the contract price in the event that the seller has failed to meet the contractual delivery obligations either partly or in full.
- **Advance Payment:** a method under which a seller receives payment from a buyer prior to shipment of goods or the rendering of the agreed upon service.
- **Bid Bond:** an undertaking issued by the guarantor to secure any claim by the party calling for tender on the bidder in the event of withdrawal of the bid before its expiry

date or if the bidder, upon being awarded the contract, refuses to sign the contract or provide further guarantees on request.

- **Consignment Payment:** a method of payment in which the title to the goods remains with the seller until an agent (distributor) in foreign country sells them. Payment is made to the seller if and when the agent (distributor) sells the goods.
- **Documentary Collection:** a method under which banks handle a seller's commercial documents with or without financial documents, in accordance with instructions received from the seller, in order to deliver the documents to the buyer (importer) against payment and/or against other terms and conditions.
- **Documentary Letter of Credit:** shall mean an undertaking given by a bank to the seller at the request and/or instructions of the buyer to make payment or accept and pay bills of exchange (Draft) drawn by the seller up to a stated sum of money within a prescribed time limit and against stipulated documents, provided that the terms and conditions of the credit are complied with.
- **Guarantee:** shall mean a letter of undertaking issued by an issuing bank/Guarantor to compensate (pay a sum of money) to the Beneficiary (local or foreign) in the event that the Obligor/Principal fails to fulfill his/her/its obligations, in accordance with the terms and conditions of the guarantee/agreement/contract.

1.8. Organization of the Study

This investigation entails five chapters structured as; Introduction, Related literature review, Research design and methods, Interpretation of findings, and Conclusion and recommendations. The first part is introducing to or giving insights on things to be discussed through the whole research work. The second chapter is devoted for theoretical and empirical review of related literatures regarding banking and international trade. The third chapter reveals the techniques and procedures for analyzing information gathered. The fourth chapter is about presenting the results or research findings. The last chapter is meant to summarize the whole research work and generate a personal proposition regarding on how to improvise the current trends of international banking.

CHAPTER TWO

RELATED LITERATURE REVIEW

In this chapter the research paper deals with the related theories, literatures and different empirical review on the international trade practices, facilitators / banks roles and what challenges and risks of banks have been presented.

International trade exposes the trading partners to various difficulties and risks due to the physical distance between parties, different time zones and currencies, different legal rules applicable to the transaction as well as the fact that the parties may not generally know each other.

2.1. Related Theories

2.1.1. What is international trade theory?

Goods and factors of production are more mobile within countries than among them, because of physical, political and psychological barriers of movement. In most models factors and goods are perfectly mobile within countries, but factors are immobile across borders. The mobility of goods across countries is an important variable, and ranges from none (autarchy) to complete (free trade). Some of the basic results in trade theory come from analyzing the effect of goods mobility.

The most basic question is probably, why do nations trade?

There are three possible answers yet: comparative advantage, division of labor and oligopolistic conduct.

- The first concept, originated by David Ricardo, It roughly says that trade is due to autarchy price differences. Because of differences in the underlying parameters, some countries can produce some goods relatively more efficiently, so when trade is allowed they will specialize in those goods.
- The second concept is even older, and (like almost everything in economics) goes back to Adam Smith. His idea was that nation's trade in order to exploit economies of scale that arise from specialization. The finer the division of labor, the richer the

countries are. By increasing the size of the market, trade allows for more specialization, and hence leads to gains for the participants.

- The third concept is fairly recent, and it was first advanced by James Brander in the early '80s. While specialization explains trade in similar but differentiated products, oligopolies can lead to trade in identical goods. If, for example, two firms in two countries compete in a Cournot-setting, they will export to each other's markets even if their products are identical. If there are transportation costs, firms will charge a lower price abroad than at home, which can lead to reciprocal dumping.

In general, a person's work may help to produce only a small range of goods, but the wages paid for that work help that person to obtain access to a much wider range of goods and services. The well-known economic concepts of specialization and division of labor, where people specialize in the production of certain items and then obtain other goods through trade evolved from the above concepts. Trade is therefore necessary if the full benefits of specialization are to be enjoyed. Even cities are not normally completely self-sufficient. Those cities that might technically be capable of such self-sufficiency would be worse off without trade because the variety and quality of goods would be reduced if trade did not take place. Because people gain by trading between each other, trade will take place naturally without the need for any encouragement. Trade also takes place naturally between countries, because it would be illogical to expect gains from trade to stop at national boundaries (Commercial Bank of Ethiopia, 2015).

2.1.2. International Trade Products and Services in Commercial Bank of Ethiopia

International trade process is one of the core-process which is rendered in commercial bank of Ethiopia. In CBE, there are two types of trade service customers which are namely foreign and local. Foreign customers are foreign banks while local ones are customers residing in Ethiopia. Based on Bank wide customer classification, Trade service local customers categorized, as 'high valued' will receive special privileges from the bank. These privileges can be:

- Directly lodge their request from their premises /at an outlet right from their office. The medium can be web, couriers at the cost of the bank or messenger of the bank or Customer Relationship Officers.

- Enjoys express service, i.e. processing priority. Receives any processed outputs at their premises. The medium can be web, couriers at the cost of the bank or messenger of the bank or Customer Relationship Officers.
- Can call/get consulting team at any time in order to get information or advisory service.
- May deal on prices subject to some terms and conditions.

A) General Eligibility Criteria

When a customer wishes to use TS products and services, except incoming foreign guarantee should fulfill the following criteria:

- Maintain an account with bank;
- Possess valid import/export license or business/investment /industry license or exist in the list of budgetary government organizations issued by the National Bank of Ethiopia (NBE), or own a certificate issued by the ministry of justice, Regional Governments and authorized offices in the case of non-governmental organizations.
- Have a Tax identification Number (TIN) or TIN exemption certificate or letter, and
- Not listed as a delinquent by the NBE

B) General responsibilities of every performers

All staff's and/or performer on an international trade services in commercial bank of Ethiopia are expected to do the following activities:

- Shall understand and comply international trade services in accordance with international banking operations procedure rules, regulations and standards of the bank.
- Advise customers on the main trade service product items before proceeding to the next steps
- Check eligibility criteria that the customer should fulfill to engage themselves in an international trade business
- Establishes and facilitates good business relationship with correspondent banks
- Facilitates correspondent account opening and closing matters
- Ensures the correspondent bank's inquiries are dealt with promptly

- Ascertain that the pro-forma invoice is a recent and show clearly full description of goods
- Follow up customers business physically appearing at their business or by any other means.
- Checks, approves sales contracts and all other documents are in line with the NBE directives and the exporters/ importers plan.
- Check that the items to be imported / exported are consistent with those listed at the back of the trade license.
- International trade procedure is clear and simple to all customers and staff's.
- Customers will get LC, export permit and other international service products as they request on time.
- The bank gives any support to a customer after they take import and export services.
- Check/ascertain that the seller and buyer do have a long-standing business relationship to justify a sale on consignment basis.
- Scans and sends/upload the application letter along with supporting documents to the CPC.
- Keep all necessary file of the application letter and all the other documents on the in the LC file.
- Shall record and follow-ups rectification of discrepancies
- Assess, identify, measure and manage risks based on International Banking Operations procedure.

C) Mode of Payments on an International trade

Banks facilitate international trade through a variety of trade service products like the letter of credit which are used to effect international payments and mitigate the risks, and also by providing the necessary working capital in the form of pre-shipment and post-shipment finance. According to CBE document (2015), before any goods are shipped the importer and exporter will, of course, agree upon the terms of the transaction, e.g. price, insurance, freight, dates of shipment etc. which will be incorporated in a commercial contract. Methods of payment under a contract vary widely according to the types of business, market standing of the customer and so on, but are broadly covered by the following methods:

- Open Account

- Documentary Collection
- Documentary Letters of Credit
- Cash with Order/Advance Payment.

Currently, Trade service procedure shows in order to facilitate international trade commercial bank of Ethiopia involved on the following main products (Trade Service, 2013):-

Documentary Letter of Credit: is a written undertaking by a bank given to the seller at a request and/or the instructions of the buyer to make payment or to accept and pay bills of exchange (Draft), drawn by the seller up to a stated sum of money within a prescribed time limit and against stipulated documents provided that the terms and conditions of the credit are complied with. The letter of credit is treated as import letter of credit on a buyer's side and as export letter of credit on a seller's side.

According to Niepmann (2015) theory, the importer initiates the letter of credit transaction by having its bank issue the instrument to the exporter. The letter of credit guarantees that the issuing bank will pay the agreed contract amount when the exporter proves that it delivered the goods, typically by providing shipping documents confirming the arrival of the goods in the destination country. To cover the risk that the issuing bank will not pay, an exporter may have a bank in its own country confirm the letter of credit, in which case the confirming bank agrees to pay the exporter if the issuing bank defaults.

Documentary Collection: is a method under which banks handle a seller's commercial documents with or without financial documents in accordance with instructions received from the seller in order to deliver the documents to buyer (importer) against payment and/or acceptance or against other terms and conditions.

A documentary collection does not involve payment guarantees. Instead, the exporter's bank forwards shipping/ownership documents to the importer's bank; the documents, which transfer the legal ownership of the traded goods to the importer, are handed to the importer only upon payment for the goods. Because the importer only receives the shipping/ownership documents upon payment, both LCs and DCs increase the probability that the exporter is paid for the delivered goods. However, a letter of credit provides more security to the exporter than does a documentary Collection. With a letter of credit, an exporter is paid by

the issuing bank/confirming bank upon proof of delivery regardless of whether the importer paid. In contrast, with a documentary collection, the exporter is remunerated only if the bank receives the payment from the importer. If the importer does not want the goods, or can take possession of the goods and divert them without the export documents, the exporter may not get paid even though it delivered (Niepmann Friederik, 2015).

Advance Payment: is a method under which a seller receives payment from a buyer prior to shipment or the agreed upon goods or rendering the agreed upon service.

Consignment Basis Payment: it is a method of payment in which, the title to the goods remains with the seller until an agent (distributor) in foreign country sells them. Payment is made to the seller if and when the agent (distributor) sells the goods.

Guarantee: A letter of guarantee issued by an Issuing Bank/Guarantor is a written undertaking by the bank to compensate (pay a sum of money) to the Beneficiary (local or foreign) in the event that the Obligor/Principal fails to fulfill his/her/its obligations in accordance with the terms and conditions of the guarantee/agreement/contract.

Franco Valuta License (Permit): is a license issued to importers of goods on which no foreign exchange is payable.

Small Export Items License (Permit): is a license issued to exporters of small export items from which no proceed is collectable.

In general, when exporter and importer trade they have to decide on how to settle the transaction. Under one option, the exporter produces the good and the importer pays upon receipt (open account). Under another, the importer pays before the exporter produces the good (cash in-advance). In each case, one of the trading partners bears substantial risk: With an open account, the exporter may never receive payment. Under cash-in-advance, the importer may never obtain the goods. To reduce the risk of the transaction for either party, firms can turn to banks, which can act as intermediaries and thereby attenuate enforcement problems (Niepmann Friederik, 2015). While cash-in-advance method of payment is the riskiest method from the buyer's point of view, open-account method, to the contrary, is the most disadvantageous from the seller's perspective. On the other hand, the letter of credit protects the interest of the seller through the principle of autonomy and the interest of the buyer through the principle of strict compliance. However, recently the two most common

trade finance instruments provided by CBE banks are letters of credit and documentary collections.

Commercial banks are authorized to facilitate import and provide associated services against required documents, currently, three mode of payment to import goods and services are mainly practiced.

- Documentary credit (LC)
- Documentary Collection (CAD)
- Advance payment (TT)

i) Import Letters of Credit (L/C)

A Documentary Credit is an instrument by which a bank undertakes to pay a seller for his goods providing he complies with the conditions laid down in the Documentary Credit. At the same time the buyer has the comforting knowledge that he will not have to part with his money until he is presented with documents evidencing that the stipulated conditions have been fulfilled.

Hence, commercial bank performer has to know and practice according to the following methods:-

- Assess the creditworthiness of the importer before issuing an L/C.
- Receives the following from the customer:
 - ✓ *Duly completed, signed and stamped Foreign Exchange Application Form for imports or properly signed and stamped application letter (in two copies) in the case of payments for services as they can be used for approving the requested Foreign Exchange. The letter should clearly specify the beneficiary's name and address, purpose of the request, pro forma number, method of payment and amount in specified currency;*
 - ✓ *Duly completed and signed L/C Application Form and*
 - ✓ *Supporting documents required as per current NBE directives and subsequent amendments.*
- Verifies the signature on the application against the signature specimen maintained by the system.
- If the customer has L/C facility, the Customer Relationship Officer shall make sure that

insurance policies or certificates:

- ✓ *Are issued in the name of the bank and the customer; and*
 - ✓ *Clearly specify the method of shipment, amount of money and description of goods as well as place/port of departure and destination as specified in the L/C application.*
- Ensures that the supporting documents presented are complete and the importer is in possession of a valid trade/investment/business/industry license for import with same reference on the application from the record of the Bank.
 - If the customer requests for the issuance of L/C against L/C facility the Customer Relationship Officer makes sure that the facility is valid and enough balance of the respective limit that covers the requested L/C amount exists.
 - Checks the application and the supporting documents against the Checklist for L/C Application and against each other.
 - If any inconsistency or deviation is observed in the documents, the Customer Relationship Officer contacts the customer either directly or by phone or e-mail as appropriate, and advises her/him/it on how to make the necessary correction(s).
 - Fill all necessary details on the electronic register sheet.
 - Scans and sends (upload) the following documents to the CPC:
 - ✓ Customer's application;
 - ✓ Supporting documents.
 - ✓ A completed checklist.
 - Maintains a dossier/file of the application letter and all the other documents.
 - All requested amendments are in order, operative and consistent with the directives of the NBE and rules of the ICC
 - Make a timely examination of documents and notify the presenting bank of any discrepancies within 5 banking days.

ii) Import Documentary Collection

Commercial bank performer has to know and practice according to the following methods:

- Check that the purchase order complies with NBE's directives by referring to the checklist and approves it by signing.

- Checks application form is duly completed, signed & sealed.
- Ascertain that the pro-forma invoice, valid trade licenses for foreign trade, investment or industry, local insurance certificate, shipping documents and clearance certificate are fully satisfied.
- Accept and handle collection documents evidencing shipment of goods was effected prior to Purchase Order approval.
- Accept and handle collection documents presented to your bank outside the banking channel.
- Accept and handle revised collection documents presented to your bank outside the banking channel in replacement of previously sent documents.
- All actions will be taken on collection documents solely based on the instruction of the Remitting Bank.
- Advise customers of the arrival of shipping documents.
- Urge customers (by way of 1st, 2nd, 3rd letter reminders) to take up documents as early as possible.
- Advise the remitting bank of the fate of documents by SWIFT.
- Automatically effect payment to the Remitting Bank once the buyer takes up the collection documents.
- Send advice of payment to the remitting bank by SWIFT.
- Send advice of non-payment or non-acceptance with reasons to the remitting bank without delay in the case where drawee fails to take up the documents.
- Return the collection documents to the remitting bank 60 days after advice of non-payment whenever drawee fails to take them up.

iii) Import Cash-in-advance

Commercial bank performer has to know and practice according to the following methods:

- Check the advance application form & foreign exchange application, undertaking letter and other supporting documents are duly completed, signed & sealed as per the directives of NBE.
- Ascertain that the buyer and seller do have a long-standing business relationship to justify a sale on cash-in-advance basis.

- Check that the Pro-forma invoice clearly states beneficiary's bank details?
- Let an importer send multiple cash-in-advance payments each not exceeding USD 5,000 to the same supplier and on the same date.
- In case an importer wishes to make transfer exceeding USD 5,000.00 he/she should submit foreign bank guarantee confirmed by local banks.
- Request the importer to confirm that shipment has not been effected prior to the issuance of import permit.
- Verify all signatures on the application and the undertaking letter the same, and check if the advance amount is within the limit set by the NBE.
- Make sure that the importer is eligible to import the specific items under the stated trade license in line with NBE's directives is important.
- If there is any inconsistency or deviation, you/staffs will communicate with the customer directly and advises her/him on how to make the necessary correction.
- Check the other certifications are as per the directives of NBE.

iv) Export Letters of Credit

Commercial bank performer has to know and practice according to the following methods:

- Assess the credibility of the issuing bank before advising the L/C to the beneficiary.
- Ensure that exporter has got approval before signing sales contract with import.
- Approve sales contract by checking the price of the goods comparing with local price given by National Bank of Ethiopia and other check lists.
- Collect sales contracts of exporters at the counter and check details on the contract and against the checklist.
- The contents of the documents against the directives of the NBE and you are sure that there is an approved sales contract and a letter of credit advice for the export.
- Exporters make presentation immediately after effecting shipment.
- Assess all documents required has been satisfied as per the directives of NBE before issuing export permit.
- Follow/handle exports' proceeds paid to a beneficiary collected within 60 days from the date of reimbursement.

v) Export Documentary Collection

Commercial bank performer has to know and practice according to the following methods:

- Make sure that exporter has got approval before signing sales contract with import.
- Approve sales contract by checking the price of the goods comparing with local price given by National Bank of Ethiopia and other check lists.
- Quite sure that all listed documents in the covering letter are enclosed and appropriate settlement instructions stated in the letter by using the export document checklist in.
- The branch/outlet manager's or his/her delegate's make endorsement if the transport document is a Bill of Lading issued to the order of CBE.
- Ascertain that the buyer and seller do have a long-standing business relationship to justify a sale on documentary collection basis?
- The bank will send a follow up SWIFT message to the collecting/ presenting bank after sending the documents.
- Make a follow up of exports on documentary collection to see that the proceeds of previous shipments are received before granting subsequent export permits on documentary collection basis.

vi) Export on Cash-in-advance

Commercial bank performer has to know and practice according to the following methods:

- Ensure that exporter is eligible to export the specific items under the stated license in line with directives of the NBE.
- Approve sales contract by checking the price of the goods comparing with local price given by National Bank of Ethiopia and other check lists.
- The bank will checks all the documents are in line with the NBE directives and the exporter is in possession of valid trade/business/investment license for export from a record on the electronic system
- Check and remind exporters to effect shipment of goods on time once they have received the advance payment.
- Make sure that the purpose of payment of the advance payment is stated in the MT103 or cash receipt and that it matches with the items to be exported.

vii) Export on Consignment

Commercial bank performer has to know and practice according to the following methods:

- Approve sales contract by checking the price of the goods comparing with local price given by National Bank of Ethiopia and other check lists.
- Ascertain that the seller and the consignee do have a long-standing business relationship to justify a sale on consignment basis.
- The documents submitted are in line with NBE directives; the exporter is in possession of valid trade license for export from the record on the electronic system; an approved sales contract related to the request is attached; and the exporter is eligible to export the specific items stated under the trade license in line with NBE directives.
- Make a follow up of consignment sales to see that the proceeds of previous shipments are received before granting subsequent export permits on consignment basis and receive before granting subsequent export permits on consignment basis.

2.1.3. Which trade Theory is Dominant today?

The many theories in international trade are simply that- theories. While they have helped economists, governments, and businesses better understand international trade and how to promote, regulate, and manage it, these theories are occasionally contradicted by real-world events. Countries don't have absolute advantages in many areas of production or services and, in fact, the factors of production aren't neatly distributed between countries. Some countries have a disproportionate benefit of some factors. The United States has ample arable land that can be used for a wide range of agricultural products. It also has extensive access to capital. While its labor pool may not be the cheapest, it is among the best educated in the world. These advantages in the factors of production have helped the United States become the largest and richest economy in the world. Nevertheless, the United States also imports a vast amount of goods and services, as US consumers use their wealth to purchase what they need and want- much of which is now manufactured in other countries that have sought to create their own comparative advantages through cheap labor, land, or production costs.

As a result, it's not clear that any one theory is dominant around the world. In practice, governments and companies use a combination of these theories to both interpret trends and develop strategy. Just as these theories have evolved over the past five hundred years, they will continue to change and adapt as new factors impact international trade.

2.1.4. Reasons for International Trade

All countries are not normally completely self-sufficient. Those countries that might technically be capable of such self-sufficiency would be worse off without trade because the variety and quality of goods would be reduced if trade did not take place. Therefore, basically countries will get in to international trade with different reasons, such as:-

Domestic Non-availability: A nation trades because it lacks the raw materials, climate, specialist labor, capital or technology needed to manufacture a particular good. Trade allows a greater variety of goods and services.

Principle of Comparative Advantage: The principle of comparative advantage states that countries will benefit by concentrating on the production of those goods in which they have a relative advantage.

For instance, France has the climate and the expertise to produce better wine than Ethiopia. Ethiopia is better able to produce coffee than France. Each country benefits by specializing in the good it is most suited to making. France then creates a surplus of wine which it can trade for surplus Ethiopian coffee.

Protectionism:

Advantages of Protectionism

Protectionism occurs when one country reduces the level of its imports because of:

- *Infant firms:* If sunrise *firms* producing new-technology goods (e.g. computers) are to survive against established foreign producers then temporary tariffs or quotas may be needed.
- *Unfair competition:* Foreign firms may receive subsidies or other government benefits. They may be dumping (selling goods abroad at below cost price to capture a market).

- *Balance of payments*: Reducing imports improves the balance of trade.
- *Strategic industries*: To protect the manufacture of essential goods.
- *Declining industries*: To protect declining industries from creating further structural unemployment.

Disadvantages of Protectionism

- ❖ Prevents countries enjoying the full benefits of international specialization and trade.
- ❖ Invites retaliation from foreign governments.
- ❖ Protects inefficient home industries from foreign competition. Consumers pay more for inferior produce.

Protection Methods

Tariffs (import duties): are surcharges on the price of imports.

Note that the tariff; raises the price of the import, reduces the demand for imports, encourages demand for home-produced substitutes, Raises revenue for the government.

Quotas: restrict the actual quantity of an import allowed into a country. Note that a quota: raises the price of imports, reduces the volume of imports, Encourages demand for domestically made substitutes.

Other Protection Techniques

- ❖ Administrative practices can discriminate against imports through customs delays or setting specifications met by domestic, but not foreign, producers.
- ❖ Exchange controls (currency restrictions) prevent domestic residents from acquiring sufficient foreign currency to pay for imports.

2.1.5. International Trade Rules and Regulations

The import export trade has been growing steadily in Ethiopia. However, for successive years the import trade has outweighed the export trade. According to Trade regulations No. 270/2012 or 270/2005 EC, Import trade (excluding LPG, bitumen, and raw materials imported by foreign investors who are in the manufacturing industry) in Ethiopia is exclusively reserved for domestic investors. A businessperson who wants to engage in import trade in Ethiopia must be registered with the Ministry of Trade, which regulates imports, and obtain a trading license. Obtaining a trading license is easy and takes a much

lesser time than it used to some years ago. Importers should get licenses to secure the necessary foreign currency (CBE, 2012). Any purchase worth more than USD.5000 should be processed either through letter of credit (LC) or Cash against Document (CAD).

According to Regulations No. 270/2012 or 270/2005 EC, export trade of raw coffee, chat, oil Seeds, pulses, hides and skins bought from the market and live sheep, goats and cattle not raised or fattened by the investor is exclusively reserved for domestic investors. Foreign investors cannot be involved in export trade of these items from Ethiopia. Businesses that wish to export from Ethiopia should know the export procedures needed to obtain export permit by commercial banks; should prepare application for Quality Testing and Certification to obtain Export Authorization Certificate from the Quality and Standards Authority of Ethiopia; should fill the Customs declaration.

2.1.6. Major Problems In International Trade

International trade in general can be characterized by the following problems or difficulties;

Distance: There is a great time lag between placement of order and receipt of goods from foreign countries. Distance creates higher costs of transportation and greater risks.

Different languages: Different languages are spoken and written in different countries. Price lists and catalogues are prepared in foreign languages. Advertisements and correspondence also are to be done in foreign languages. A trader wishing to buy or sell goods abroad must know the foreign language or employ somebody who knows that language.

Difficulty in transportation and communication: Dispatch and receipt of goods takes a longer time and involves considerable expenses. During the war and natural calamities, transportation of goods becomes even more difficult. Similarly, the costs of sending or receiving information are very high.

Risk in transit: Foreign trade involves much greater risk than home trade. Goods have to be transported over long distances and they are exposed to perils of the sea. Many of these risks can be covered through marine insurance but increases the cost of goods.

Lack of information about foreign businessmen: In the absence of direct and close relationship between buyers and sellers, special steps are necessary to verify the

creditworthiness of foreign buyers. It is difficult to obtain reliable information concerning the financial position and business standing of the foreign traders. Therefore, credit risk is high.

Import and export restrictions: Every country charges customs duties on imports to protect its home industries. Similarly, tariff rates are put on exports of raw materials. Importers and exporters have to face tariff restrictions. They are required to fulfill several customs formalities and rules. Foreign trade policy, procedures, rules and regulations differ from country to country and keep on changing from time to time.

Documentation: Both exporters and importers have to prepare several documents which involve expenditure of time and money.

Study of foreign markets: Every foreign market has its own characteristics. It has requirements, customs, weights and measures, marketing methods, etc., of its own. An extensive study of foreign markets is essential for success in foreign trade. It is very difficult to collect accurate and up to date information about foreign markets.

Problems in payments: Every country has its own currency and the rate at which one currency can be exchanged for another (called exchange rate) keeps on fluctuating. This change in exchange rate creates additional risk. Remittance of money for payments in foreign trade involves much time and expense. Due to wide time gap between dispatch of goods and receipt of payment, there is greater risk of bad debts.

Frequent market changes: It is difficult to anticipate changes in demand and supply conditions abroad. Prices in international markets may change frequently. Such changes are due to entry of new competitors, changes in buyers' preferences, changes in import duties and freight rates, fluctuations in exchange rates, etc.

Investment for longer period: There is longer time gap between supply of goods and receipt of payment. Therefore, the exporter's capital remains locked up over a longer period.

Intense competition: Traders who want to sell goods abroad have to face severe competition from different countries. Considerable market research is necessary to ensure suitability of product in foreign markets. Heavy expenditure on advertising and sales promotion may be necessary.

2.2. Related Literature

2.2.1. Trends of International trade and inter-bank trading (trade facilitators)

International trade largely relates to physical goods. Although increasing, trade in services accounts for a much lower share. As of 2014 world trade in goods has been valued at more than US\$18.5 trillion, while trade in services has accounted for almost US\$5 trillion. Trade in both goods and services promptly rebounded to reach pre-crisis levels by 2011. Since then year-on-year growth rates have been considerably lower. International trade can be broadly distinguished between trade in goods (merchandise) and services. The bulk of international trade concerns physical goods, while services account for a much lower share. World trade in goods has increased dramatically over the last decade, rising from less than US\$ 10 trillion in 2004 to more than US\$18.5 trillion in 2014. Trade in services has also greatly increased between 2004 and 2014 (from just above US\$ 2trillion to almost US\$ 5 trillion). As of 2014, the value of international trade of both goods and services has completely recovered from the dip in 2009, and largely surpassed pre-crisis levels. Following the stronger bound in 2010 and 2011, export growth rates (in current US\$) are now at much lower level than in the pre-crisis period. The slowdown has also largely affected developing countries' growth rates which have been below these of developed countries in some of most recent years, especially in relation to services (UNCTAD, 2015).

If we examine the characteristics of developing-nation trade, we find that developing nations are highly dependent on advanced nations. A majority of developing-nation exports go to the advanced nations, and most developing-nation imports originate in advanced nations. Trade among developing nations is relatively minor, although it has increased in recent years. Another characteristic is the composition of developing-nations' exports, with its emphasis on primary products (agricultural goods, raw materials, and fuels).Of the manufactured goods that are exported by developing nations, many (such as textiles) are labor intensive and include only modest amounts of technology in their production (Carbaugh, 2010).

All banks are prepared to purchase or sell foreign currencies to facilitate speculation for their own accounts, and to provide trading services for their customers such as corporations, government agencies, and wealthy private individuals. Bank purchases from and sales to their customers are classified as retail transactions when the amount involved is less than 1

million currency units. Wholesale transactions, involving more than 1 million currency units, generally occur between banks or with large corporate customers (Carbaugh, 2010).

2.2.2. The History of International Banking

Economic historians distinguish three “waves” that led to the development of modern international banking. The first wave, which started in the 1830s, was spurred by the underwriting securities business performed in the second half of the 19th century by JPMorgan, Lehman Brothers and Goldman Sachs. These firms helped finance US railroads, as well as states and municipalities, by selling the underwritten securities in London to European investors. The second wave, starting in the 1960s and lasting three decades, was mainly related to international banking transactions among developed countries. The third wave began in the second half of the 1990s. Like the first wave, it was associated with a concentration of branches and subsidiaries in developing countries. In comparison with earlier waves, it has been more oriented towards retail business (Bundesbank, 2010).

2.2.3. The role of trade facilitators on an International trade

Traditionally, the meaning of ‘trade facilitation’ was delimited to border procedure facilitation to make trade procedures as efficient as possible through the simplification and harmonization of documentation, procedures and information flows. It referred to policies and measures aimed at easing trade costs by improving efficiency at each stage of the international trade chain. According to the WTO definition, for example, trade facilitation is the “simplification of trade procedures”, understood as the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”. Accordingly, trade facilitation is a diverse and challenging subject with benefits for both business and government at national, regional and international levels. It involves economic, political, business, administrative, technical and technological as well as financial issues all of which converge at easing the cost and time of trading across borders. Thus any measure that eases transaction and leads to time and cost reductions in the transaction cycle fits into the category of trade facilitation (Tilahun, 2014).

The laws, languages and customs of most overseas markets are likely to be unfamiliar, as are particular commercial and specification requirements by overseas buyers. Shipment periods are longer and exporters can lose control over their goods once shipped, yet they need to ensure prompt and secure payment from distant buyers. Payments in foreign currency coupled with fluctuating exchange rates create uncertainty about the value, which exporters will finally receive. Also, foreign governments may impose exchange control restrictions, which slow down the receipt of proceeds from buyers. Special documentation may also be required for shipment of goods and these documents vary from country to country. Consequently there are significant differences between selling overseas and selling to home markets. To support the global interests of their customers, banks either have a multi-block presence or they have special arrangements with other banks operating in a region. These special arrangements are called correspondent relationships. A bank also facilitates payment, avails finance and gives professional advice for the importers and exporters (Commercial Bank of Ethiopia, 2015).

Policymakers have long been aware that the welfare of their economies is linked to that of the world economy. Because of the international mobility of goods, services, capital, and labor, economic policies of one nation have spillover effects on others. Recognizing these spillover effects, governments have often made attempts to coordinate their economic policies. International economic policy coordination is the attempt to significantly modify national policies monetary policy, fiscal policy, exchange-rate policy—in recognition of international economic interdependence. Policy coordination does not necessarily imply that nations give precedence to international concerns over domestic concerns. It does recognize, however, that the policies of one nation can spill over to influence the objectives of others; nations should therefore communicate with one another and attempt to coordinate their policies so as to take these linkages into account. Presumably, they will be better off than if they had acted independently (Carbaugh, 2010).

Therefore, in order to minimize this gaps essential bodies are needed to smooth the flow of goods and payments between buyers and sellers which are called International trade facilitators. As the nature of the trade needs special attention, the role played by these

facilitators is of great importance. The major ones are financial institutions; transport Companies, agents and others.

Banks provide a very valuable and necessary and varied service to business clients which help to ease their transition into International Trade. Using experience acquired over a number of years together with a wide network of overseas banking contacts, they are able to provide advice on a wide range of issues; offer a wide range of products and generally work with the client to reduce risk and develop the business (Commercial Bank of Ethiopia, 2015).

2.2.4. Bank risks on an international trade (International Banking)

In the process of providing financial services, commercial banks encounter various kinds of risks. The risks associated with the provision of banking services differ by the type of service rendered. According to IMF report, bank sector risks can be broken into six generic types: systematic or market risk, credit risk, counterparty risk, liquidity risk, operational risk and legal risks. Systematic risk (market risk) is the risk of asset value change associated with systematic factors. By its nature, this risk can be hedged, but cannot be diversified completely away. For the banking sector, systematic risk comes mainly from variations in the general level of interest rates and the relative value of currencies. (Magnus, 2006)

Similar, firms engaged in international trade face a number of risks, which are either not present or less severe for domestic trade. These include risk pertaining to the counterparty, such as the risk of insolvency or fraud, and risks pertaining to the country of the counter party, such as the possibility of war, political unrest, or unexpected import bans or tariffs. Although, comprehensive data is unavailable, it is clear that firms are keenly aware of country and partner risks and take both into account when engaging in international trade, both in the design of the sales contract and also in the possible inclusion of third parties to smooth the transaction (Olsen, 2010).

Individuals holding positions of responsibility with internationally oriented firms and banks engage in country risk analysis by evaluating the risk for each country in which they are considering doing business. For example, officers at Chase Manhattan Bank may establish limits on the amount of loans that they are willing to make to clients in Turkey according to the risk of terrorism, as well as market factors. Moreover, if Toyota fears runaway inflation

and escalating labor costs in Mexico, it may refrain from establishing an auto assembly plant there (Carbaugh, 2010).

Assessing the cost and benefits of doing business abroad entails analyses of political, financial, and economic risk. Political risk analysis is intended to assess the political stability of a country and includes criteria such as government stability, corruption, domestic conflict, religious tensions, and ethnic tensions. Financial risk analysis investigates a country's ability to finance its debt obligations and includes factors such as foreign debt as a percentage of GDP, loan default, and exchange rate stability. And, economic risk analysis determines a country's current economic strengths and weaknesses by looking at its rate of growth in GDP, per capita GDP, inflation rate, and the like. Analysts then calculate a composite country risk rating based on these three categories of risk. This composite rating provides an overall assessment of the risk of doing business in some country (Carbaugh, 2010).

2.2.5. International Trade challenges on Developing country

Many developing nations, with a total population of around 2 billion people, still have not integrated strongly into the global industrial economy; these nations are in Africa and the former Soviet Union. Their exports usually consist of a narrow range of primary products. These nations have often been handicapped by poor infrastructure, inadequate education, rampant corruption, and high trade barriers. Also, transport costs to advanced-nation markets are often higher than the tariffs on their goods, so that transport costs are even more of a barrier to integration than the trade policies of rich nations. For these developing nations, incomes have been falling and poverty has been rising in the past 20 years. It is important for them to diversify exports by breaking into global markets for manufactured goods and services where possible (Carbaugh, 2010).

On the basis of their trading experience with advanced nations, some developing nations have become dubious of the distribution of trade benefits between themselves and advanced nations. They have argued that the protectionist trading policies of advanced nations hinder the industrialization of many developing nations. Accordingly, developing nations have sought a new international trading order with improved access to the markets of advanced nations. Among the problems that have plagued developing nations have been unstable

export markets, worsening terms of trade, and limited access to the markets of advanced nations (Carbaugh, 2010).

2.2.6. Risk Management strategies in Bank for the case of international trade

Many countries involved in international trade find that they import more than they export and this situation is particularly prevalent. For importers here, the challenges are many; whether they are looking for raw materials, semi-processed goods or finished products.

How can buyers find the right suppliers, trading partners who are reliable and financially sound? What terms should they agree – including price, methods of payment and periods of credit? How can they protect themselves against someone's failure to deliver what they need? They may also need to protect themselves against the movement of exchange rates which can eat into profit margins and turn a hard won contract into a loss-maker.

It may all sound very worrying, but with help from the bank, the risks can be minimized and the uncertainties reduced. Banks are able to provide a variety of products and services to the importer and listed below are the key areas in which your bank's assistance could be invaluable:

- ✓ Finding overseas sources of supply
- ✓ Obtaining status reports on overseas suppliers
- ✓ Arranging prompt payment to suppliers
- ✓ Advising on exchange risk protection.
- ✓ Providing finance for imports.
- ✓ Information on trade fairs being held overseas at which the importer can be represented. The bank may have its own stand at such events and can arrange on the spot introductions to potential business partners.
- ✓ Advice on delivery terms, transport and commercial documents
- ✓ Advice on negotiating the most favourable terms of payment

2.3. Empirical Reviews on International Trades related with banking role

A very large part of world trade is clustered around three regions: North America, Europe and East Asia. Other regions' contribution to world trade is much lower. In addition, recent trends indicate that such a pattern has strengthened. On one hand, trade flows have generally

grown for the core regions since 2011, especially those relating to East Asia. On the other hand, the value of trade flows has often shrunk in the periphery, especially for Latin America (UNCTAD, 2015).

The picture in the African region is also varied. In the last decade, growth in sub-Saharan countries has been mostly driven by rising private consumption and infrastructure spending, linked in many countries to commodity production, with a positive impact mainly on the construction and service sectors. Recently, however, some large oil-exporting countries such as Angola and Nigeria have announced cuts in public spending, notably capital investment and subsidies. The Nigerian naira has been subject to speculative attacks that led to the adoption of tighter monetary and fiscal policies, which will have a further negative impact on growth prospects. Meanwhile, growth in most East African countries, whose terms of trade have improved, is expected to continue at a relatively fast pace. By contrast, West African countries are likely to continue to suffer from the consequences of the Ebola epidemic. Economic growth is forecast to remain subdued in South Africa due to supply-side constraints in the energy sector, coupled with restrictive fiscal and monetary policies. Added to this, though the widespread fall in commodity prices over the past year will have a mixed impact on the terms of trade of net oil importers, it may also delay investment spending and projects, particularly those relating to the extractive industries and construction sectors. Finally, conflicts and security concerns will have an impact on national incomes in a number of economies throughout the continent (UNCTAD, 2015).

According to the Niepmann theory (2015), firms should mostly rely on banks to facilitate international trade when shipping to countries with intermediate degrees of contract enforcement. In addition, letters of credit should be employed more than documentary collections by exporters that sell to riskier destinations. The theory also states that the size of a trade transaction affects the profitability of the different payment contracts. We show that these model predictions are strongly supported by the data. We also investigate the role of geographical distance for firms' choices (Niepmann, 2015).

CHAPTER THREE

RESEARCH DESIGN AND METHODS

In this section, the design and methods used in order to answer the research questions and meet the objectives of this research are presented. The purpose of this research is to assess effectiveness of the practices of Commercial Bank of Ethiopia on International Trade Services mainly for potential importers and exporters or at large to the general public. Therefore, research design, research type, data sources, instruments and procedures of data collection techniques, sampling strategy and method of data processing and analysis are presented independently as follows.

3.1. Research Design

To make this study practical both quantitative and qualitative research designs were used. Quantitative method is considering employees (Customer relation officers, experts and other groups) so that questionnaires are going to be distributed to the respondents. Qualitative method is to be used by conducting interview of managers, experts, customers and other groups who are directly involved in Trade service under the study.

A Survey methods carried out among branches and head office to assess effectiveness of practices of Commercial Bank of Ethiopia on International Trade services for potential importers and exporters or at large to the general public; how employees understand and practices from the international & domestic banking operations standard , directives and policy; look at major risk areas of CBE with respect to main trade service products; identify the major challenges of banks in an international trade and find out possible solutions. Since there is no comparative analysis, descriptive methods are the best to conduct the study.

3.2. Data Sources

The study used both primary and secondary data. Primary data were gathered from the employees who are directly or indirectly involved on international trade services in Commercial Bank of Ethiopia, International Banking Division, National Bank of Ethiopia, and Customers. Face to face interview has been conducted with selected division heads and

employees CBE-Trade Service, IBD and NBE. In addition to this, secondary data have been obtained from published and unpublished theoretical literatures, bank reports and empirical studies. Where, previous studies, policy manuals, office annual reports and publication were gathered from CBE branch offices.

3.3. Population

Trade Service is one of the core processes of the bank entrusted with the task of international banking services. The services are now provided at all branches of the bank with a single contact point of customer service relationship officers assigned for this purpose only. In addition, head office-International Banking Division (IBD) and National Bank of Ethiopia (NBE) are involved on different issues. The research has been targeted on trade service practices at Commercial Bank of Ethiopia branch offices, Importers and Exporters, head office-International Banking Division (IBD) and National Bank of Ethiopia (NBE) as a population.

3.4. Research Setting and Sampling Technique

Primary source of data were gathered from the employees who are directly or indirectly involved on international trade services in Commercial Bank of Ethiopia, International Banking Division, National Bank of Ethiopia, and Customers. Trade Service in commercial bank of Ethiopia has been mainly held in Addis Ababa. To make this study reliable all targeted groups are selected based on the intensity of the intervention, number of employees and provision of comprehensive Trade services.

Sampling Technique:

Most of trade service operation is operated on the Addis Ababa branch than other regional branches. Here primary data were collected by taking only from Addis Ababa branches due to intensity of the work and budget constraints. However, in Addis there are around 242 CBE branches which are operating trade services so that the researcher purposively selected one of the main and busy areas in Trade Services operation which are grade 3 and grade 4. There are around 26 grade 3& 4 branches those are operating in Addis where each of them holds 62 customer relation officers (CROs) which are in charge of operating trade operations.

Therefore, in order to get primary data will be obtained from the total of 62 customer relation officers (CRO's) using structured questionnaire. In short, all targeted population (CRO and other groups) will be participated on this study from purposively selected branches.

In order to obtain necessary information on the effectiveness of Trade Service Practice and major and specific objectives of the study information from experts and managers an in-depth interview is needed. In the target areas (26 branches of grade 3 and 4), International Banking Division, National Bank of Ethiopia, using judgmental sampling method 34 experts and managers are going to be selected and interviewed. Interviews will be held with representatives (managers, experts and academia) of the CBE and other groups.

Since the customers (importers and exporters) are our main target areas, the method of sampling should be employed for this research is purposive type of non-probability sampling by which the researcher contacted only most relevant respondents for the interview. The purposive sampling technique is chosen to take sample from importer/exporters because it is actually impossible to carry on a probability sampling because there is no point in time during which all the exporters are around and also difficult to access the selected customers to their address.

3.5. Data collection Tools

The study used different data collection tools having both quantitative and qualitative components. Under the quantitative approach, a structured questionnaire has been prepared, translated and administered through interview of individuals that has included in the sample. Under the qualitative approach, in-depth interview of professionals was conducted at various levels.

Procedures of Data collection:

The quantitative and qualitative data from hopefully honest and unanimous respondents was generated with help of:-

Questionnaire: The questionnaire consisted of socio-economic and demographic characteristics, how employees understand and practice from the international & domestic banking operations standard, directives and policy; look at major risk areas of CBE with

respect to main trade service products; identify the major challenges of banks in an international trade and find out possible solutions.

Interview: A semi structure questions were developed and employed to will be held with key informants (managers, officers, expert’s, customers and other concerned groups) in order to assess effectiveness of Trade Service Practices, Challenges and Risks.

Desk Review: Secondary sources of information were used in order to generate valuable data. Furthermore, to deeply understand the situation of trade service intervention in Commercial Bank of Ethiopia based on the previous findings including survey findings, annual reports and other written documents were used as secondary sources.

3.6. Reliability and Validity

As it is mentioned above, this research were used both quantitative and qualitative designs. These questionnaires are structured and reliable with the existing problem. Most of the questions in the questionnaire have been developed from the stated objectives and review of related literature. Questionnaires were distributed to employees of CBE, which has represented the whole groups at an acceptable level. Therefore, the questionnaire is expected to be well organized, clearly prepared, easy to complete and then will be returned to the researcher. In addition to that, interviews will be semi-structured and obtain informants' views on the evidence of the banks practice on international trade, identification of promising way forwards and challenges related to implementation.

3.6.1. Reliability test

Test for reliability of constructs is indirectly achieved by testing the reliability of the scale measurement used in data collection. Scale reliability test methods available to researches include test-retest, equivalent form, and internal consistency. This reliability test is conducted for the questionnaires distributed to the exporters.

Reliability Statistics

Cronbach's Alpha (α)	N of Items
.859	77

Reliability is fundamentally concerned with issues of consistency of measures. So that, Cronbach's Alpha is 0.859, which indicates high overall internal consistency among the one items representing the sample. According to (Robert Ho), if α is greater than 0.7, it means that it has high reliability and if α is smaller than 0.3, then it implies that there is low reliability (Ho, 2006).

3.7. Method of Data Analysis

After collecting the required data through questionnaires, Statistical Package for the Social Sciences (SPSS) version 20 were used for the purpose of processing and analysis of the results. Data was checked for consistency and completeness and then coded, checked, and entered to computer. Then, to analyze the data, different kinds of statistical methods including descriptive statistics are used. Furthermore, descriptions were made based on the results of the tables and figures using percentage and mean value. The data collected through open ended questions and interviews were analyzed qualitatively by descriptive statements. In addition to that, bank procedures, international trade rules and regulations, economic theories and different guidelines were referred from literatures to sort-out and design the practice of international trade services in CBE effectively and efficiently.

3.8. Ethical Considerations

This study seriously applies Ethical Considerations from every dimensions starting from the very beginning accordingly;

- ❖ The respondents on this study were aware of the objective & participated willingly without disclosing their identity.
- ❖ All the information gathered is presented in its original form, free of edition.
- ❖ The content of the questionnaires only involve questions that do not harm the respondents or the company under study and largely the norm & culture of the society. Moreover it involves only relevant questions for the study.
- ❖ Any literatures collected for the purpose of this undertaking are appreciated.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This section, deals with data presentation, interpretation and analysis of findings. The data that has been described are also analyzed and discussed in this chapter thematically. The themes were selected basically from the research questions and of course from the responses in the interview and questionnaire. The data collected through interview contains information on the general practices on international banking trends of commercial bank of Ethiopia. In order to analyze findings the researcher focused and categorized under five major sub-topics of the major objectives of the study. They include: General practices of International Trade Services in commercial bank of Ethiopia; Staffs understanding and practices on an international trade products and process; International Trade Finance Rules and Regulations practices of the bank; Major Challenges of the banks on an international trade practices; and potential risks of CBE in an international trade practices. The analysis made on the interview responses are consolidated under each sub-topic since the issue of which is correspondent to the respective responses based on the guideline and procedure of the bank; directives of NBE and International Rules and Regulations. Therefore, researcher consolidated similar responses together in order to make the analysis more readable.

4.1. Respondent's Background Information

The data has been gathered from employees of commercial bank of Ethiopia that are currently involved in International Trade Services such as customer relation officer, branch managers, experts and other customers with diverse demographic characteristics. The first part of the questionnaire consists of demographic information of the respondents. The variables include: sex, educational background, working experience and office positions which are summarized and presented as below.

In the table 2, from the total targeted employees around 62 (97%) respondents give responses, of which 20(32%) of them are female and the rest 39(63%) are male. Regarding

their education, only 6(10%) of them have diploma and the rest 50(81%) have first degree holder and above.

Table 1: Respondents profile

		Frequency	%
Gender	Male	41	66%
	Female	21	34%
	Total	62	100%
Educational Background			
Educational Background	Diploma	7	11%
	Degree	42	68%
	Masters and Above	13	21%
	Total	62	100%
Working Experience			
Working Experience	1-5 years	19	31%
	5-10 years	25	40%
	More than 10 years	18	29%
	Total	62	100%
Position			
Position	Managerial	20	32%
	Professional	39	63%
	Clerical	3	5%
	Total	62	100%

Regarding their working experience, 18 (29%) of them the respondents have below five year's experience, 24(39%) of them are between five up to ten years of experience, and the rest 17(27%) of them have more than ten years of experience. This shows that majority of the employees who have involved in trade service practices CBE are first degree holders and at least five years of banking experience. Therefore, it is believed that their educational background and working experience enables them to easily understand banking procedures, international regulatory rules, guidelines and regulations and deliver the best service for the customer. Among the respondents position, 18 (29%) of them are managerial and 35(57%) of them are professional and 3(5%) are clerical.

In line to this, the interview has also been employed for 12 experts and all of them were given the responses, of which 4(33%) male and 8(67%) of them were female. In regard with their educational background all of them have first degree and above. In line to that, 4(33%)

of them have 5-10 years working experience and the others 8(67%) have more than ten years of working experience, where all of them currently in charge of expert level.

4.2. Data Analysis

4.2.1 General practices of International Trade Services in CBE

According to CBE Trade Service manual report, any Trade Service request is processed on team base following the process pattern wherein branches/outlets receive customer requests and forward them to Trade Service Central Processing Centre (TS-CPC) for processing. So that the outputs of a processed request are basically, delivered to customers through branches/outlets but if the customer is a highly valued one (corporate customer), they can be delivered to the customer via internet or courier directly from TS-CPC. In case of outlying branches' customer, it is allowed to handover the processed import shipping documents to the customer's authorized person or the customer itself, if the latter requests so, at a convenient branch/outlet in the city where the TS-CPC is located (CBE, 2015).

Under this section of the questionnaires, issues related to general trade service practices were raised and the responses are summarized as follows.

As it is described in table 2, 50(80%) of the respondents will make advises to customers on the main trade service product items before proceeding to the next steps whereas the rest 6(10%) and 6(10%) of them either do not make any advises or do advise sometimes. So, form this response we can easily understand, based on the average mean results majority of the respondents agreed on the practices they should advise their customers on the main trade products.

After making all advisees to the potential customer, 21(34%) responded as agree and 23(37%) strongly agree that the bank has the practice of checking eligibility criteria what the customer should fulfill to engage themselves in an international trade business as per the product items and TS guideline. In line to this, the respondents were also asked whether the respondent check the customer's delinquent status consistently and rigorously with the NBE directives or not, so that 47 (76%) of them agree they have the practices and others 6 (10%) replied that they don't have and the other 9 (14%) keep neutral. Similarly, interview

responses also show that banks do check the past historic of the customer, if it is timely paid for the export proceed. This all shows that, even if majority of the respondents knows and/or have experience on the bank should advise, guide, check customers and treat them based on their interest, delinquent status and their eligibility criteria but not few numbers of respondents do not have such practices so this would have huge impact on the overall performance of CBE international trades practices. And, the average means value also show the bank has such practices sometimes.

Respondents were also asked requested whether or not they ascertain that the pro-forma invoice is a recent and show clearly full description of goods so that 39(63%) of the respondent agree they do check whereas 3(5%) of them either do check sometimes or do not check respectively.

With regard to the banks following up of customers business physically appearing at their business or by any other means, so that 56(90%) of them replied that the bank has such a practice, all the times or sometimes but the rest 6(10%) of them responded the bank do not have such practices. Similarly, majority 47(76%) of the respondent proved that they will check the items to be imported or exported are consistent with those listed at the back of the trade license and 6(10%) of them do check sometimes but the rest 9(15%) replied the do not have such experience. In the end, the assigned banker shall check, approve sales contracts and all other documents based on the NBE directives and the exporters/ importers plan, so that 44(71%) of respondent agreed either they do check all the times or sometimes whereas the 18(29%) of them do not agree the bank has such experience.

The respondents were also requested weather the banks international trade procedure and practice is clear and/or simple to all customers and staff's, so that most of the respondent 50(80%) reported that they agree that, either all the times or sometimes, the procedure is easy to customers and staffs to practice but the rest 12(20%) them agree the bank procedure is difficult to understand and practice.

In order to assess service delivery of the bank on LC, export permit and other international service products so that 32(52%) and 9(15%) of the respondent replies, either all the times and sometimes, the customers will get as they request on time respectively. The rest 21(33%) of them replied that customers will not get what they requested on their time. In line with

employee's response, interview responses also show that majority 8(67%) of them replied that the banks international trade service or/and process is simple and timely for customer, but not few number 4(33%) of them do not agree on that. The reasons are lack of awareness of both in employee and customer; communication barriers; technological problems and others problems makes very difficult to accomplish the process within stipulated as planned time.

With respect to the customer and bank relationship, majority 50(81%) of the respondent replied the bank gives all necessary supports to a customer after they taking import and export services ,either all the times or sometimes but 12(19%) of them do not accept that the bank will render any supports to the customer.

In a similar manner, most of the respondents 50(81%) reported that they, all or most of the time, the seller and buyer do have a long-standing business relationship to justify a sale on consignment basis.

After completing of all the tasks, application letter along with supporting documents should be scanned, uploaded and /or sent with the to the CPC, hence majority 50(81%) of the respondents do that all the times or sometimes .In addition to that, majority 53(85%) the respondent were also agreed that the bank will keep all necessary file of the application letter and all necessary documents in the LC file.

Overall, in the above table the mean value shows us the average level of agreement of the respondents and most of the respondents proved existence of such experiences on the major international trade services practices in commercial bank of Ethiopia. Therefore, the bank (CBE) usually make advisee of customers on the main trade service product items before proceeding any steps; check eligibility criteria that the customer have to fulfill; ascertain the pro-forma invoice status; check the customer's delinquent status; then scans and sends/upload the application letter along with supporting documents to the CPC and keep all necessary file of the application letter and all the other documents on the in the LC file. In addition, the mean value of level of agreement also shows that the bank sometimes do the following activities such as following up of customers business physically; checks, approves sales contracts and all other documents; the procedure is clear and simple to all customers

and staff's; and customers will get LC, export permit and other international service products as they request on time.

Table 2: Practices of International Trade Services

SD: Strongly disagree D: Disagree S: Sometimes/Neutral A: Agree SA: Strongly Agree

General practices of International Trade Services in CBE		SD	D	S	A	SA	Total	Mean
1) Advise to customers on the main trade service product items before proceeding to the next steps	N	3	3	6	30	20	62	3.98
	P	5%	5%	10%	48%	32%	100%	
2) Check eligibility criteria that the customer should fulfill to engage themselves in an international trade business	N	3		12	21	23	59	4.03
	P	5%	0%	19%	34%	37%	95%	
3) Check the customer's delinquent status consistently and rigorously with the NBE.	N		6	9	24	23	62	4.03
	P	0%	10%	15%	39%	37%	100%	
4) Ascertain that the pro-forma invoice is a recent and show clearly full description of goods	N	3		3	30	9	45	3.93
	P	5%	0%	5%	48%	15%	73%	
5) Follow up customers business physically appearing at their business or by any other means.	N	6	15	12	23	6	62	3.13
	P	10%	24%	19%	37%	10%	100%	
6) Checks, approves sales contracts and all other documents are in line with the NBE directives and the exporters/ importers plan.	N	12	6	18	18	8	62	3.06
	P	19%	10%	29%	29%	13%	100%	
7) Check that the items to be imported / exported are consistent with those listed at the back of the trade license.	N	3	6	6	27	20	62	3.89
	P	5%	10%	10%	44%	32%	100%	
8) International trade procedure is clear and simple to all customers and staff's.	N	3	9	18	29	3	62	3.32
	P	5%	15%	29%	47%	5%	100%	
9) Customers will get LC, export permit and other international service products as they request on time.	N	9	12	9	20	12	62	3.23
	P	15%	19%	15%	32%	19%	100%	
10) The bank gives any support to a customer after they take import and export services.	N	9	3	21	14	15	62	3.37
	P	15%	5%	34%	23%	24%	100%	
11) Check/ascertain that the seller and buyer do have a long-standing business relationship to justify a sale on consignment basis.	N	3	9	18	29	3	62	3.32
	P	5%	15%	29%	47%	5%	100%	
12) Scans and sends/upload the application letter along with supporting documents to the CPC.	N	6	6	15	21	14	62	3.50
	P	10%	10%	24%	34%	23%	100%	
13) Keep all necessary file of the application letter and all the other documents on the in the LC file.	N	9		9	27	17	62	3.69
	P	15%	0%	15%	44%	27%	100%	
Average		69	75	156	313	173	786	3.57

4.3. Staffs understanding and practices on an international trade products & process

Business clients are increasingly relying on their bankers for sound practical advice when in the process of negotiating contracts with their trading partners overseas. Whilst bankers cannot make commercial decisions for their clients, knowledge of this key element in trade negotiations inspires confidence and assists future business development. Also, staff in trade operations must have a very sound working knowledge of these terms when processing letters of credit and checking documents before providing export/import finance facilities to clients. Banks facilitate international trade through a variety of trade service products like the letter of credit which are used to effect international payments and mitigate the risks, and also by providing the necessary working capital in the form of pre-shipment and post-shipment finance (CBE, 2015).

4.3.1. Docmuentry Credit/Letter of Credit

A Documentary Credit is an instrument by which a bank undertakes to pay a seller for his goods providing he complies with the conditions laid down in the Documentary Credit. At the same time the buyer has the comforting knowledge that he will not have to part with his money until he is presented with documents evidencing that the stipulated conditions have been fulfilled. Broadly speaking, the benefit of the Documentary Letter of Credit system is that providing the exporter complies with all the terms of the credit, payment is guaranteed. There is no risk of non-payment in the event of the insolvency of the buyer or through exchange difficulties as the establishment of the credit signifies that Exchange Control regulations in the country of the importer have been complied with (WISE, 2015).

4.3.1.1 Import Letters of Credit

As it shown in table 4, 62 respondents were requested on understanding and practice of respondents in letter of credit, all of them were replied on the correspondent questions, majority 38(61%) of the respondents do assessment on the creditworthiness of the importer before issuing of L/C to the customer and 18(29%) do sometimes, but 6(10%) respondents replied they that never make any assessment.

Similarly, 44 (71%) checks LC application letter and all supporting documents against the checklist and 6(10%) do sometimes, whereas 18(29%) respondents replied that they never do assessment.

Change of terms and condition of a letter of credit including its cancellation can be made by way of amendment. In order to amend an L/C, there should be both applicant's and beneficiary's agreement. If the amendment relates to goods description, amount, delivery term (trade term), expiry date, supplier's name and address and place of destination, prior to issuance of the amendment, the CBE should receive the consent of the beneficiary (seller) (CBE, 2015).

Accordingly, all respondents were replied on weather all requested amendments are in order, operative and consistent with the directives of the NBE and rules of the ICC, so that 35(56%) of the respondents agree that they are doing accordingly and 15(24%) of them has such practices sometimes. However, 12(20%) of the respondent do not agree that they are doing according to the NBE and rules of the ICC respectively.

Sometimes, goods may arrive before the shipping documents are received by the bank and the importer may require a banker's guarantee in order to clear the goods. Such guarantees may be given against payment of the remaining value of the letter of credit, where the L/C is opened with facility and after the appropriate charges are collected as per tariff. However, care should be exercised, to ensure that the delivery order contains the description of the goods stated in the letter of credit (Trade Service, 2013).

In regard with making a timely examination of documents and notify the presenting bank of any discrepancies within 5 banking days, majority 53(85%) of them doing that, all the times or sometimes, whereas 9(15%) of the respondent disagreed to do that.

In general, the average level of agreements on the import letters of credit shows us the bank performers make usually make practice accordingly.

Table 3 : Import Letters of Credit

Import Letters of Credit (L/C)		SD	D	S	A	SA	Total	Mean
1) Assess the creditworthiness of the importer before issuing an L/C.	N	6		18	29	9	62	3.56
	P	10%	0%	29%	47%	15%	100%	
2) Check application and the supporting documents against the Checklist	N		6	12	33	11	62	3.79
	P	0%	10%	19%	53%	18%	100%	
3) All requested amendments are in order, operative and consistent with the directives of the NBE and rules of the ICC	N	3	9	15	27	8	62	3.45
	P	5%	15%	24%	44%	13%	100%	
4) Make a timely examination of documents and notify the presenting bank of any discrepancies within 5 banking days.	N	3	6	21	26	6	62	3.42
	P	5%	10%	34%	42%	10%	100%	
Average		12	21	66	115	34	248	3.56

4.3.1.2. Export Letters of Credit

In table 5, 33(53%) of the respondent are usually make assessment on the credibility of the issuing bank before advising the L/C to the beneficiary and 18(29%) of them do sometimes but 9(15%) were not. In line to this, 51(82%) of the respondent do checks the contents of the documents against the directives of the NBE , either every time or sometimes , and they make sure that there is an approved sales contract and a letter of credit advice for the export but 9(15%) they do not do that. Similarly, 45(73%) of them agree that the bank will make assessment of all documents required that has been satisfied as per the directives of NBE before issuing export permit, whereas 15(25%) of them do not agree on that.

In regard with payment, 51(82%) of the respondent proved that exporters make presentation immediately after effecting shipment, but the rest 9(15%)do not agree on that. In addition, 48(77%) of them agree the bank will follow or handle exports' proceeds paid to a beneficiary collected within 60 days from the date of reimbursement whereas 12(19%) of them never do that.

Overall, when looking the mean value, the average level of agreement shows us the bank has such practices all the time. Therefore, it is believed that the performer is doing the international trade according to the banks procedure.

Table 4: Export Letters of Credit

Export Letters of Credit		SD	D	S	A	SA	Total	Mean
1) Assess the credibility of the issuing bank before advising the L/C to the beneficiary.	N	3	6	18	24	9	60	3.50
	P	5%	10%	29%	39%	15%	97%	
2) The contents of the documents against the directives of the NBE and you are sure that there is an approved sales contract and a letter of credit advice for the export.	N		9	15	24	12	60	3.65
	P	0%	15%	24%	39%	19%	97%	
3) Assess all documents required has been satisfied as per the directives of NBE before issuing export permit.	N	9	6	9	24	12	60	3.40
	P	15%	10%	15%	39%	19%	97%	
4) Exporters make presentation immediately after effecting shipment.	N	3	6	18	30	3	60	3.40
	P	5%	10%	29%	48%	5%	97%	
5) Follow/handle exports' proceeds paid to a beneficiary collected within 60 days from the date of reimbursement.	N		12	18	24	6	60	3.40
	P	0%	19%	29%	39%	10%	97%	
Average		15	39	78	126	42	300	3.47

4.3.2. Documentary collection

Documentary collection is a method under which banks handle a seller's commercial documents with or without financial documents in accordance with instructions received from the seller in order to deliver the documents to buyer (importer) against payment and/or acceptance or against other terms and conditions (CBE, 2015).

Under this system the exporter dispatches the goods and sends the documents to exporter bank for onward transmission to an overseas bank and then to the importer. Settlement is effected by the importer paying bills of exchange drawn on by the exporter. The exporter is protected to a degree, as the documents proving title to the goods are only released against acceptance or payment by the importer. The importer can benefit from having a period of credit within which to pay for the goods and, if importer ultimately fails to pay, the exporter can sue on the bill of exchange without having to go to the trouble of proving the contract of sale (Trade Service, 2013).

4.3.2.1. Import Documentary Collection

In table 6, the respondents were asked to replay on their understanding and real practices on the import documentary collection. When an importer concludes a contract with a seller indicating method of payment as documentary collection, before ordering shipment of goods, in line with NBE directive, should prepare and submits her/his purchase order (P/O) in three

copies to the CBE for approval. The purchase order (P/O), among others, if applicable, should specify trade/business/ investment/ industry license number (CBE, 2015).

Therefore, majority 32(52%) of the respondents agree that they usually check the purchase order complies with the NBE's directives by referring to the checklist and approves it by signing and 12(15%) of them do check sometimes but 21(34%) of them replied that they never check.

Sometimes, goods may arrive before the shipping documents are received by the bank or transport documents such as original Bill of Lading, Airway Bills etc, may be missing and the importer may require a banker's guarantee in order to clear the goods. Such guarantees may be given against collection of 100 percent of invoice value and after the appropriate charges are collected as per tariff. The exporter's documents must be accompanied by a signed collection order which is a standard form of authority enabling the exporter to include specific instructions to his bank regarding the handling of the documentary collection (W.A.WISE, 2015).

In this regard, 44(71%) of them have practice to accept and handle collection documents evidencing that shipment of goods was effected prior to purchase order approval whereas 18(29%) of them do not do that.

Similarly, 41(66%) of the respondent also replied that they will accept and handle collection documents presented to the bank outside the banking channel but the others 18(29%) of them still do not do that.

Where it is not possible in the contract between exporter and importer to agree that payment should be made under a documentary letter of credit, an alternative for the exporter is to send the documents on a collection basis (W.A.WISE, 2015).

After the arrival of shipping documents the same number 41(66%) of the respondent advise customers whereas 21(34%) of the respondent do not that. In addition to that, 36(58%) of the respondent replied that international banking performer urge customers (by way of 1st, 2nd, 3rd letter reminders) to take up documents as early as possible, not small number but 21(34%) of them do not agree there is such experience.

In regard with, advising of the remitting bank of the fate of documents by SWIFT AND send advice of payment, majority 51(82%) of the respondent agree there is such experience in the bank but 9(15%) of them do not agree that the bank will advise the remitting bank and send advice of payment. In line to this, 45(73%) of the respondent agree that the bank will automatically effect payment to the remitting bank once the buyer takes up the collection documents, whereas 15(24%) of them do not agree on that.

In general, when looking the mean value the average level of agreement shows us sometimes the bank has such practices. Therefore, it is believed that the performer are doing the import documentary collection according to the banks international trade procedure but still a lot works has to be done to internalize by performer and to make the habit of the bank.

Table 5 : Import Documentary Collection

Import Documentary Collection		SD	D	S	A	SA	Total	Mean
1) Check that the purchase order complies with NBE's directives by referring to the checklist and approves it by signing.	N	3	6	21	23	9	62	3.47
	P	5%	10%	34%	37%	15%	100%	
2) Accept and handle collection a document evidencing that shipment of goods was affected prior to Purchase Order approval.	N	3	15	9	35		62	3.23
	P	5%	24%	15%	56%	0%	100%	
3) Accept and handle collection documents presented to your bank outside the banking channel.	N	6	12	18	20	3	59	3.03
	P	10%	19%	29%	32%	5%	95%	
4) Advise customers of the arrival of shipping documents.	N	15	6	18	14	9	62	2.94
	P	24%	10%	29%	23%	15%	100%	
5) Urge customers (by way of 1st, 2nd, 3rd letter reminders) to take up documents as early as possible.	N	9	12	15	15	6	57	2.95
	P	15%	19%	24%	24%	10%	92%	
6) Advise the remitting bank of the fate of documents by SWIFT AND send advice of payment.	N	9		9	30	12	60	3.60
	P	15%	0%	15%	48%	19%	97%	
7) Automatically effect payment to the Remitting Bank once the buyer takes up the collection documents.	N		15	21	24		60	3.15
	P	0%	24%	34%	39%	0%	97%	
Average		45	66	111	161	39	422	3.20

4.3.2.2. Export Documentary Collection

After goods are forwarded for export, the customer/exporter presents shipping documents to the bank for collection of payment. Clearing agents might send transport documents directly to the bank (CBE, 2015). From the above table 6, all of the respondents were asked whether or not the bank will ensure that all listed documents in the covering letter are enclosed and/or

appropriate settlement instructions stated in the letter by using the export document checklist, so that 51(82%) of the respondent agree they have such experience, but 9(15%) of them do not agree.

In the branch, outlet manager's or the delegate's shall make endorsement if the transport document is a Bill of Lading issued to the order of CBE, in this regard only 54(87%) of the respondent agree either they do it every day or sometimes, but the rest 6(10%) of the respondent do not do agree on that.

Respondents were also requested whether or not the bank have such practices of sending of follow up SWIFT message to the collecting/ presenting bank after sending the documents, so that majority 48(77%) of the respondent agree the bank will make a follow up of exports on documentary collection to see that the proceeds of previous shipments are received but 12(20%) of the respondent do not agree on that.

In case of all outstanding items, close follow up should be made with the collecting banks and if acknowledgement for receipt of documents is not received within 10 days, a reminder must be sent via CPC. The position of the bills must be advised to the customer in order to get fresh instructions. In line with NBE directive, collection of proceeds of Outward Documentary Bills for Collection (ODBC) should be ensured within 90 days. Thus, list of ODBC's for which proceeds are not collected within 90 days should be reported by CPC to NBE immediately (CBE, 2015).

From the above table, when looking the mean value in the end, the average levels of agreement in export documentary collection shows us most of the time the bank have such practices. Therefore, it is obvious that the performers are doing the export documentary collection according to the banks international trade procedure.

Table 6: Export Documentary Collection

Export Documentary Collection		SD	D	S	A	SA	Total	Mean
1) Be quite sure that all listed documents in the covering letter are enclosed and appropriate settlement instructions stated in the letter by using the export document checklist in.	N	6	3	9	36	6	60	3.55
	P	10%	5%	15%	58%	10%	97%	3.55
2) The branch/outlet manager's or his/her delegate's make endorsement if the transport document is a Bill of Lading issued to the order of CBE.	N	3	3	15	27	12	60	3.70
	P	5%	5%	24%	44%	19%	97%	
2) The bank will send a follow up SWIFT message to the collecting/ presenting bank after sending the documents.	N	3	3	15	27	12	60	3.38
	P	5%	5%	24%	44%	19%	97%	
3) Send a follow up SWIFT message to the collecting/ presenting bank after sending the documents.	N					12	12	5.00
	P	0%	0%	0%	0%	19%	19%	
4) Make a follow up of exports on documentary collection to see that the proceeds of previous shipments are received.	N	3	9	21	21	6	60	3.30
	P	5%	15%	34%	34%	10%	97%	
Average		12	24	57	111	36	240	3.56

4.3.3. Cash in advance

Cash in advance payment is a method under which a seller receives payment from a buyer prior to shipment or the agreed upon goods or rendering the agreed upon service. It is the best and most secure method of payment for an exporter would be to receive an advance payment of the full contract value before any shipments are made. This method of payment, often called 'Cash with Order', is extremely rare in connection with overseas trade. It is quite usual, however, for the buyer to make a deposit, i.e. 10%, upon signing the contract with the balance being paid by other methods (W.A.WISE, 2015).

In commercial bank of Ethiopia trend, first of all advance payment application duly signed by the customer. The application should indicate number of the trade/business/industry/investment license for import and attached with foreign exchange application for imports form; undertaking letter that states the customer is responsible for import of the said goods to the country and otherwise the customer will refund the advance payment effected to the bank in foreign currency and other supporting documents required as per NBE's directives issued in 1998(GC) and subsequent amendments. After verifying the signature on the application and the undertaking letter, other supporting document; and

checks if the advance amount is within the limit set by NBE, then send scanned document to TS CPC (CBE, 2015).

4.3.3.1. Import Cash in advance

In this regard as it has been shown in table 8, the respondents were requested on their/bank practice on Import Cash-in advance. 30(49%) majority of them will let an importer send multiple cash-in-advance payments each not exceeding USD 5,000 to the same supplier and on the same date whereas 21(34%) do that sometimes but others 9(15%) will never do that.

In case an importer wishes to make transfer exceeding USD 5,000.00 he/she should submit foreign bank guarantee confirmed by local banks, so that 27(44%) them agree that they usually check that but 21(34%) sometimes and 12(20%) never check respectively.

Employees who have engaged in international trade should request the importer to confirm that shipment has not been effected prior to the issuance of import permit,33(53%) majority of them ask every time but 21(34%) do sometimes whereas the rest 6(10%) of them they never do that.

In regard with, verifying all signatures on the application and the undertaking letter the same, and check if the advance amount is within the limit set by the NBE,42(68%) majority of them agreed that they usually do check and verify but 9(15%) them do sometimes and the others 9(15%) do never that.

If there is any inconsistency or deviation, employees shall communicate with the customer directly and advises her/him on how to make the necessary correction, so that, 39(63%) agree that they will communicate that but the rest 9 (15%) and 12(20%) them either do it sometimes and never do respectively.

In general, when looking the mean value in the end, the average level of agreement of import Cash-in-advance shows us most of the time the bank have such practices. Therefore, it is obvious that the performer is doing the import Cash-in-advance according to the banks international trade procedure and directives of regulatory bodies.

Table 7: Import Cash-in-advance

Import Cash-in-advance		SD	D	S	A	SA	Total	Mean
1) Let an importer send multiple cash-in-advance payments each not exceeding USD 5,000 to the same supplier and on the same date.	N	3	6	21	21	9	60	3.45
	P	5%	10%	34%	34%	15%	97%	
2) In case an importer wishes to make transfer exceeding USD 5,000.00 he/she should submit foreign bank guarantee confirmed by local banks.	N	3	9	21	18	9	60	3.35
	P	5%	15%	34%	29%	15%	97%	
3) Request the importer to confirm that shipment has not been effected prior to the issuance of import permit.	N	3	3	21	21	12	60	3.60
	P	5%	5%	34%	34%	19%	97%	
4) Verify all signatures on the application and the undertaking letter the same, and check if the advance amount is within the limit set by the NBE.	N	6	3	9	33	9	60	3.60
	P	10%	5%	15%	53%	15%	97%	
5) If there is any inconsistency or deviation, you/staffs will communicate with the customer directly and advises her/him on how to make the necessary correction.	N	9	3	9	24	15	60	3.55
	P	15%	5%	15%	39%	24%	97%	
Average		24	24	81	117	54	300	3.51

4.3.3.2. Export on Cash-in-advance

Among the major task of the employees who are engaged in an export on cash in advance in an International Trade Services, they were requested whether or not they check and remind exporters to effect shipment of goods on time once they have received the advance payment, so as we have seen in table 9 majority 39(63%) of them usually do that and 9(15%) them do sometimes, but others 12(20%) will never check that.

In addition, they have make sure that the purpose of payment of the advance payment is stated in the MT103 or cash receipt and that it matches with the items to be exported, hence, 30(38%) of them they usually do check that, 15(24%) the do check sometimes but others do not even make sure advance payment is stated as it with MT103.

From the above table, when looking the mean value in the end, the average level of agreement of export cash-in-advance shows us most of the time the bank have such practices. Therefore, it is obvious that the performer is doing the export Cash-in-advance according to the banks international trade procedure and directives of regulatory bodies.

Table 8: Export on Cash-in-advance

Export on Cash-in-advance		SD	D	S	A	SA	Total	Mean
1) Check and remind exporters to effect shipment of goods on time once they have received the advance payment.	N	3	9	9	24	15	60	3.65
	P	5%	15%	15%	39%	24%	97%	
2) Make sure that the purpose of payment of the advance payment is stated in the MT103 or cash receipt and that it matches with the items to be exported	N	9	6	15	18	12	60	3.30
	P	15%	10%	24%	29%	19%	97%	
Average		12	15	24	42	27	120	3.48

4.3.4. Consignment

Under the consignment method of payment, the seller delivers the goods to his agent in the foreign land, who arranges for the sale of the goods and remits the payment to the supplier. Title to the goods remains with the exporter until the goods is sold to the ultimate buyer. Under this method, the exporter is not protected against loss that could arise if the agent or consignee fails to repatriate the proceeds to the exporter from the sale of goods. (SAID, 2015)

In the above table 10, respondents were asked their experience on export on consignment, among 60 respondents 27(44%) of them agreed they ascertain that the seller and the consignee do have a long-standing business relationship to justify a sale on consignment basis whereas not small numbers but around 18(29%) do it sometimes and 15(25%) of them never do that. Similarly, 30(49%) make a follow up of consignment sales to see that the proceeds of previous shipments are received before granting subsequent export permits on consignment basis but 18(29%) never do that and the others 12(19%) do it sometimes.

Overall, when looking the mean value of export on consignment method of payment the average level of agreement shown us bank practice still they are doing sometimes. Hence, this indicates that the performers have to do more to improve consignment method accordingly.

Table 9: Export on Consignment

Export on Consignment		SD	D	S	A	SA	Total	Mean
1) Ascertain that the seller and the consignee do have a long-standing business relationship to justify a sale on consignment basis.	N	9	6	18	24	3	60	3.10
	P	15%	10%	29%	39%	5%	97%	
2) Make a follow up of consignment sales to see that the proceeds of previous shipments are received before granting subsequent export permits on consignment basis.	N	12	6	12	24	6	60	3.10
	P	19%	10%	19%	39%	10%	97%	
Average		21	12	30	48	9	120	3.10

4.4. International Trade Finance Rules and Regulations

Most banks throughout the world handle collections in accordance with the standardized code of practice formulated by the International Chamber of Commerce. The purpose of the Uniform Rules for Collections, Publication No 522 (1995 Revision) is to assist banks in their collection operations and to codify the international rules to be applied. They are also intended to lay down the conditions governing the presentation for payment of clean and documentary collections, thus attempting to lessen the difficulties likely to be encountered by banks and their customers when attempting to reconcile the difficulties in phraseology and commercial practice that exists in international trade. The Uniform Rules for Collections No.522 (1995 Revision) are detailed at the end of this chapter the Appendix (WISE, 2015).

While processing TS request, care should be taken on adherence to International Chamber of Commerce (ICC) publications on uniform rules and practice of TS products so that the bank's service gets acceptance by foreign banks. Directives and circulars issued by the National Bank of Ethiopia as well as CBE Trade Service policy and procedure should be strictly observed. For calculation of charges and commissions, the TS Tariff should be applied and the daily exchange rate that is issued by the CBE should be used for converting foreign currencies in to Birr as well as to other currency taking due care for posting the specific entry on the same value date (CBE, 2015). Among all respondents, they were requested on their understanding and experience on an International Standard Banking Practice for Examination of Documents (ISBP AND ICC).

Accordingly, majority (80-92%) of them replied that have knowledge and practice on Exchange Control regulations; documentation requirements AND INCOTERMS; UCP 600 - Uniform Customs and Practices for Documentary Credits; URR 725 - Uniform Rules for Bank to Bank Reimbursement ;URC 522 - Uniform Rules for Collections; URDG 458 - Demand Guarantees; ISP98 - International Standby Practices; ISBP Article No. 6-42: General Principles; ISBP Article No. 57-67: Invoice; ISBP Article No. 91-114: Bill of Lading; ISBP Article No. 134-169: Other Transport Documents; and ISBP Article No. 181-185: Certificate of Origin.

Similarly, interview has also been distributed in order to examine staffs knowledge, skills and practice how they are proceeding international trade services especially with regards the mechanism of trade payment methods, Uniform Rules for Collection, Uniform Customs Practice for Documentary Credits, and the directive of the NBE, so that 10(83%) of them have replied that staff's has such practice whereas 2(17%) of them were not agree on that. They argue that the level of staff knowledge different from staff to staff; NBE directive and subsequent ,amendment are not available in compiled form to get full information; and they also added there is no experience sharing practice on of the case against URC, UCP and ICC regulation.

In the above table, the mean value of the responses which are the average level of agreement indicates us the staffs perform based on an international standard banking practice for examination of documents (ISBP AND ICC). This shows that the staff has good experience/practices on supporting customers on international trade services. So that it has also positive impact on the effectiveness of the implementation in the bank.

Table 10: International Standard Banking Practice for Examination of Documents

International Standard Banking Practice for Examination of Documents (ISBP AND ICC)	SD	D	S	A	SA	Total	Mean	
1) Exchange Control regulations; documentation requirements AND INCOTERMS.	N		6	27	27	60	4.35	
	P	0%	0%	10%	44%	44%	97%	
2)UCP 600 - Uniform Customs and Practices for Documentary Credits	N		3	3	24	30	60	4.35
	P	0%	5%	5%	39%	48%	97%	
3)URR 725 - Uniform Rules for Bank to Bank Reimbursement	N			3	24	33	60	4.5
	P	0%	0%	5%	39%	53%	97%	
4) URC 522 - Uniform Rules for Collections	N	3		3	24	30	60	4.3
	P	5%	0%	5%	39%	48%	97%	
5) URDG 458 - Demand Guarantees	N		3	3	15	39	60	4.5
	P	0%	5%	5%	24%	63%	97%	
6) ISP98 - International Standby Practices	N			6	24	30	60	4.4
	P	0%	0%	10%	39%	48%	97%	
7) ISBP Article No. 6-42: General Principles	N	3		3	21	33	60	4.35
	P	5%	0%	5%	34%	53%	97%	
8) ISBP Article No. 57-67: Invoice	N			6	24	30	60	4.4
	P	0%	0%	10%	39%	48%	97%	
9) ISBP Article No. 91-114: Bill of Lading	N			6	30	24	60	4.3
	P	0%	0%	10%	48%	39%	97%	
10) ISBP Article No. 134-169: Other Transport Documents	N			9	21	30	60	4.35
	P	0%	0%	15%	34%	48%	97%	
11) ISBP Article No. 181-185: Certificate of Origin	N			6	21	33	60	4.45
	P	0%	0%	10%	34%	53%	97%	
Average		6	6	54	255	339	660	4.39

4.5. Major Challenges of CBE on an international trade practices

As we have seen in table 12, 51(82%) majority of the respondents believe that the bank may suffers forex liquidity constraint or volatility problem in an international trade and they also understand that macro climate or trade flows in the market will have direct impact on the performance of CBE whereas 9(15%) do not agree that the bank will have such a challenge.

Here, 21(34%) of them agree that the banks internal capacity and capital priorities would or limited bank capacity on the international trade and 24(39%) of them think the capacity of the bank will be a challenge but it is sometimes but the others 15(24%) of them do not agree on this would be a major challenge of the bank.

In an international banking one of the major challenge of the bank is customer's preference for other payment forms so that 39(63%) the respondent replied that CBE would have either

all the time or sometimes this challenge, but 21(34%) not small number of the respondent replied it would not be a challenge for the bank.

51(82%) majority of the respondent will agree that countries domestic policy and regulation is one of the major challenges on an international trade of CBE, whereas 9(15%) of them do not agree on that. Similarly, 45(73%) of them also believe that the banks suffers line constraints with correspondent banks and compliance to terms of trade but 15(24%) do not agree.

51(82%) of the respondents agree it has difficulties of importers and banks to comply with foreign currency externalization documentation requirement, but 9(15%) do not agree on that. Majority 48(77%) of the respondent agree that time lag between placement of order and receipt of goods from foreign countries; different languages are spoken and written in different countries; exporters and importers prepares several documents which involve expenditure of time and money; and distance creates higher costs of transportation and greater risks are the major challenge of the bank but 12(20%) of them do not believe that this would be that.

In general, when we are looking the mean values, the average level of agreement of the respondent on the major challenges of CBE in an international trade practices shows us the challenges could affect the bank in the future. However, not a small numbers of the performers still hesitate to full agree that the above challenges are not the major for the bank.

Interview has also been employed to experts and managers to list out the major challenges/problems, malpractices and instances of non-compliance with NBE directives and international standard practice that they have observed with regards the handling of international trades, so that they replied that CBE faces the following challenges:-

- International trade depends on countries domestic rules sometimes variations seen or observed for instance chamberization of invoices and so on.
- Sometimes NBE directives contrast with other international rules and practices. For example, some INCOTERMS uses internationally but when we come to our case it is restricted to be practical.
- The importer/exporters are not knowledgeable the job they do.

- Shortage of foreign currency.
- NBE directives is outdated,
- NBE is not timely revised its directive, considering the changing environment.
So, it leads to malpractices and instances of non-compliance with NBE directives.

Table 11: Major Challenges of CBE on an international trade practices

Major Challenges of CBE on an international trade practices		SD	D	S	A	SA	Total	Mean
01) The bank suffers forex liquidity constraint or volatility problem in an international trade.	N	3	6	12	39		60	3.45
	P	5%	10%	19%	63%	0%	97%	
02) Macro climate or trade flows in the market will have direct impact on the performance of CBE.	N		9	27	21	3	60	3.3
	P	0%	15%	44%	34%	5%	97%	
03) The banks internal capacity and capital priorities would (Limited bank capacity)	N	3	12	24	21		60	3.05
	P	5%	19%	39%	34%	0%	97%	
04) Customer's preference for other payment forms has been a major challenge of CBE.	N	6	15	6	33		60	3.1
	P	10%	24%	10%	53%	0%	97%	
05) Domestic policy and regulation is one of the major challenges on an international trade of CBE.	N		9	15	33	3	60	3.5
	P	0%	15%	24%	53%	5%	97%	
06) The banks suffer line constraints with correspondent banks and compliance to terms of trade.	N	3	12	12	24	9	60	3.4
	P	5%	19%	19%	39%	15%	97%	
07) Difficulties for importers and banks to comply with Foreign currency externalization documentation requirement.	N	9		27	24		60	3.1
	P	15%	0%	44%	39%	0%	97%	
08) Time lag between placement of order and receipt of goods from foreign countries.	N	3	9	18	27	3	60	3.3
	P	5%	15%	29%	44%	5%	97%	
09) Different languages are spoken and written in different countries	N	3	9	12	24	12	60	3.55
	P	5%	15%	19%	39%	19%	97%	
10) Exporters and importers prepare several documents which involve expenditure of time and money.	N	9	3	18	18	12	60	3.35
	P	15%	5%	29%	29%	19%	97%	
11) Distance creates higher costs of transportation and greater risks.	N	9	3	27	15	6	60	3.1
	P	15%	5%	44%	24%	10%	97%	
Average		48	87	198	279	48	660	3.3

4.6. Risks of CBE on an international trade practices

In table 13, the respondents were requested on future possible risks of commercial bank of Ethiopia on international trade services, 48(77%) of them agree that the bank assesses foreign banks' risks or counterparty risks in order to identify the ones CBE will be dealing with, whereas 9(15%) them do have this practice in sometimes.

Among the respondent, 36(58%) of them responded that they will usually take the laws, languages and customs of most overseas markets in to consideration before dealing will international trade and 18(29%) of them check that sometimes but 6(10%) of them do not do that. Majority 33(53%) of them believe that the bank will usually checks change in exchange rate before conducting international finance, 18(29%) of the respondent replied that the banks will do that sometimes but the rest 9(15%) never do that.

The respondents were requested whether or not the bank assesses countries of counterparty like the risk of insolvency or fraud, and risks pertaining to the country of the counterparty, such as the possibility of war, political unrest, or unexpected import bans or tariffs, so that 33(54%) them believe that the bank will usually do assessment and also 18(29%) of them do believe sometimes but 9(15%) never agree on that.

Similarly, 27(44%) of the respondents agree that the bank do not have fear on regulatory framework to comply with an international laws to include things like compliance, external auditing and anti-money laundering laws which means the bank adhere to ICC rules and 18(29%) of them do sometimes whereas 15(25%) them believe that the bank have fear of regulatory framework to comply with an international laws.

In order to check risk of the bank, the performer shall check all supporting documents and standards during import/export trade before proceeding to next steps, in this regard 54(87%) of the respondent agree that either the check the documents every day or sometimes but 6(10%) of them believe the bank will never check all supporting documents.

Once the commercial bank of Ethiopia engaged in to the international banking the banks should not have a problems on delays in making payments to correspondent banks, so that 45(73%) of them agree that the bank is do have smooth relationship with correspondent but the rest believe that the banks have problems in this regard.

Majority 42(68%) of the respondent believe that the bank will assess the customer for how long he/she has been in the business and relationship with others every day or sometimes, whereas 18(29%) of them never seen when the bank do that.

Overall assessment on the mean value , in the above table the average level of agreement shows us the staff's do agree on the most of the listed risk types could be the bank risk in the future while operating in an international trade practices. Therefore, since the bank is operating in an international trade services, if the bank does not take actions on the above risks in the near future they will be affected by that.

In line to the above questions, interview was also employed to experts and manager on the major fear or/and risk areas of commercial bank of Ethiopia in an international trade, the following answers were replied:-

- Foreign currency inflow and outflow.
- Always to go with current or timely innovated technology may bring its own risk but it's unavoidable.
- Export/import prices some importer/exporter provides over/under paid.
- Lack of foreign currency
- The malpractice activities in some private banks is the major problem faces CBE in export business.
- Bank risk like insolvency of the bank
- Country risk
- Fraud
- Document handling, inconsistency with in ICC.

Table 12: Risks of CBE on an international trade practices

Risks of CBE on an international trade practices	SD	D	S	A	SA	Total	Mean	
01) The bank assesses foreign banks' risks or counterparty risks in order to identify the ones CBE will be dealing with.	N	3	9	36	12	60	3.95	
	P	0%	5%	15%	58%	19%	97%	
02) The laws, languages and customs of most overseas markets have been taken in to consideration before dealing will international trade.	N	3	3	18	18	18	60	3.75
	P	5%	5%	29%	29%	29%	97%	
03) The bank will checks change in exchange rate before conducting international finance.	N		9	18	21	12	60	3.6
	P	0%	15%	29%	34%	19%	97%	
04) The bank assesses countries of counterparty like the risk of insolvency or fraud, and risks pertaining to the country of the counterparty, such as the possibility of war, political unrest, or unexpected import bans or tariffs.	N	3	6	18	27	6	60	3.45
	P	5%	10%	29%	44%	10%	97%	
05) The bank does not have fear on regulatory framework to comply with international laws to include things like compliance, external auditing and anti-money laundering laws. (Adhere to ICC rules)	N	9	6	18	18	9	60	3.2
	P	15%	10%	29%	29%	15%	97%	
06) The bank will check all supporting documents and standards during import/export trade.	N	3	3	24	27	3	60	3.4
	P	5%	5%	39%	44%	5%	97%	
07) The banks do not have problems on delays in making payments to correspondent banks.	N	12	3	15	24	6	60	3.15
	P	19%	5%	24%	39%	10%	97%	
08) The bank will assess the customer for how long he/she has been in the business and relationship with others	N	12	6	12	24	6	60	3.1
	P	19%	10%	19%	39%	10%	97%	
Average		42	39	132	195	72	480	3.45

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

In the previous chapter, result and discussion of the study was made based on the data obtained from the respondents. Here under are the findings from tables summarized, conclusions and recommendations of the study.

5.1. Summary of Findings

5.1.1. *Practices of International Trade Services in Commercial Bank of Ethiopia*

- Majority (80%) of the respondents make advises to customers on the main trade service product items before proceeding to the next steps.
- Most (71%) of the respondents agree that the bank has the practice of checking eligibility criteria what the customer should fulfill to engage themselves in an international trade business as per the product items and TS guideline.
- Among the respondents, majority (76%) of them have the practices of they are checking the customer's delinquent status consistently and rigorously with the NBE directives or not.
- Most (63%) of the respondents agree that they do check the pro-forma invoice is recent and show clearly full description of goods.
- The banks follow up of customers business physically appearing at their business or by any other means, so that (90%) of them replied that the bank has such a practice.
- Majority (76%) of the respondent proved that they will check the items to be imported or exported are consistent with those listed at the back of the trade license.
- The assigned banker shall check, approve sales contracts and all other documents based on the NBE directives and the exporters/ importers plan, so that (71%) of respondent agreed either they do check all the times.
- The banks international trade procedure and practice is clear and/or simple to all customers and staff's, so that most of the respondent (80%) reported that they agree that, either all the times or sometimes, the procedure is easy to customers and staffs to practice.
- In order to assess service delivery of the bank on LC, export permit and other international service products so that (67%) of the respondent replies, either all the

times and sometimes, the customers will get as they request on time respectively. However, some (33%) of the respondent that the banks international trade service or/and process is not simple and timely for customer because of lack of awareness of both in employee and customer; communication barriers; technological problems and others problems makes very difficult to accomplish the process within stipulated as planned time.

- With respect to the customer and bank relationship, majority (81%) of the respondent replied the bank gives all necessary supports to a customer after they taking import and export services, either all the times or sometimes.
- Most of the respondents (81%) reported that they, all or most of the time, the seller and buyer do have a long-standing business relationship to justify a sale on consignment basis.
- Majority (81%) of the respondents replied the bank will do scanned, uploaded and /or sent application letter along with supporting documents to the CPC while completing of all the tasks. In addition to that, majority (85%) the respondent were also agreed that the bank will keep all necessary file of the application letter and all necessary documents in the LC file.

5.1.2. Staff understanding and practice on the main international trade service products and process

5.1.2.1. Docuentry Credit/Letter of Credit

- Majority (61%) of the respondents do assessment on the creditworthiness of the importer before issuing of L/C to the customer.
- Most (71%) of the respondent checks LC application letter and all supporting documents against the checklist.
- Change of terms and condition of a letter of credit including its cancellation can be made by way of amendment, so that (56%) of the respondents agree that amendments are in order, operative and consistent with the directives of the NBE and rules of the ICC.
- In regard with making a timely examination of documents and notify the presenting bank of any discrepancies within 5 banking days, majority (85%) of them doing that.

5.1.2.2. Export Letters of Credit

- (53%) of the respondent are usually make assessment on the credibility of the issuing bank before advising the L/C to the beneficiary and (29%) of them do sometimes.
- (82%) of the respondent do checks the contents of the documents against the directives of the NBE , either every time or sometimes , and they make sure that there is an approved sales contract and a letter of credit advice for the export.
- (73%) of them agree that the bank will make assessment of all documents required that has been satisfied as per the directives of NBE before issuing export permit.
- In regard with payment, (82%) of the respondent proved that exporters make presentation immediately after effecting shipment. In addition, (77%) of them agree the bank will follow or handle exports' proceeds paid to a beneficiary collected within 60 days from the date of reimbursement.

5.1.2.3. Import Documentary Collection

Among the respondents, majority (52%) of them agree that they usually check the purchase order complies with the NBE's directives by referring to the checklist and approves it by signing, and (71%) of them have practice to accept and handle collection documents evidencing that shipment of goods was effected prior to purchase order approval. Similarly, (66%) of the respondent also replied that they will accept and handle collection documents presented to the bank outside the banking channel.

5.1.2.4. Export Documentary Collection

After goods are forwarded for export, the customer/exporter presents shipping documents to the bank for collection of payment. So that, (82%) of the respondent agree the bank will ensure that all listed documents in the covering letter are enclosed and/or appropriate settlement instructions stated in the letter by using the export document checklist. In the branch, outlet managers or the delegate's shall make endorsement if the transport document is a Bill of Lading issued to the order of CBE. In this regard only (87%) of the respondent agrees either to do it every day or sometimes. Respondents were also requested whether or not the bank have such practices of sending of follow up SWIFT message to the collecting/ presenting bank after sending the documents, so that majority (77%) of the respondent agree

the bank will make a follow up of exports on documentary collection to see that the proceeds of previous shipments are received.

5.1.2.5. Import Cash in advance

According to trends commercial bank of Ethiopia, first of all advance payment application duly signed by the customer. So that, (49%) majority of them will let an importer send multiple cash-in-advance payments each not exceeding USD 5,000 to the same supplier and on the same date. In case an importer wishes to make transfer exceeding USD 5,000.00 he/she should submit foreign bank guarantee confirmed by local banks, hence (44%) them agree that they usually check that but (34%) of them do sometimes.

Employees who have engaged in international trade should request the importer to confirm that shipment has not been effected prior to the issuance of import permit, (53%) majorities of them ask every time but (34%) do sometimes. In regard with, verifying all signatures on the application and the undertaking letter the same, and check if the advance amount is within the limit set by the NBE, (68%) majority of them agreed that they usually do check and verify but (15%) them do sometimes. In addition to that, if there is any inconsistency or deviation, employees shall communicate with the customer directly and advises her/him on how to make the necessary correction, so that, (63%) agree that they will communicate that but the rest 9 (15%) them do it sometimes.

5.1.2.6. Export on Cash-in-advance

Among the major task of the employees who are engaged in an export of cash in advance in an International Trade Services, every performer shall check and remind exporters to effect shipment of goods on time once they have received the advance payment, so that majority (63%) of them usually do that and (15%) them do sometimes. In addition, they have to make sure that the purpose of payment of the advance payment is stated in the MT103 or cash receipt and that it matches with the items to be exported, hence (62%) of them do check that.

5.1.2.7. Export on Consignment

On the experience performers on export on consignment, majority (44%) of respondents agreed they ascertain that the seller and the consignee do have a long-standing business relationship to justify a sale on consignment basis whereas not small numbers but around

(29%) do it sometimes. Similarly, (49%) make a follow up of consignment sales to see that the proceeds of previous shipments are received before granting subsequent export permits on consignment basis and the others (19%) do it sometimes.

5.1.3. International Trade Finance Rules and Regulations

While processing trade service request, care should be taken on adherence to International Chamber of Commerce (ICC) publications on uniform rules and practice of TS products so that the bank's service gets acceptance by foreign banks. Directives and circulars issued by the National Bank of Ethiopia as well as CBE Trade Service policy and procedure should be strictly observed. The purpose of them is to assist performer in their collection operations and to codify the international rules to be applied. Accordingly, majority (80-92%) of them agree that they have knowledge and practice/experience on exchange control regulations; documentation requirements AND INCOTERMS; UCP 600 - Uniform Customs and Practices for Documentary Credits; URR 725 - Uniform Rules for Bank to Bank Reimbursement ;URC 522 - Uniform Rules for Collections; URDG 458 - Demand Guarantees; ISP98 - International Standby Practices; ISBP Article No. 6-42: General Principles; ISBP Article No. 57-67: Invoice; ISBP Article No. 91-114: Bill of Lading; ISBP Article No. 134-169: Other Transport Documents; and ISBP Article No. 181-185: Certificate of Origin. However, some of them on the interview response argue that the level of staff knowledge different from staff to staff; NBE directive and subsequent ,amendment are not available in compiled form to get full information; and they also added there is no experience sharing practice on of the case against URC, UCP and ICC regulation.

5.1.4. Major Challenges of CBE on an international trade practices

Majority (82%) of the respondents believe that the bank may suffers forex liquidity constraint or volatility problem in an international trade and they also understand that macro climate or trade flows in the market will have direct impact on the performance of CBE.

Among the respondents, (34%) of them agree that the banks internal capacity and capital priorities would or limited bank capacity on the international trade and 24(39%) of them think the capacity of the bank will be a challenge but it is sometimes.

In an international banking one of the major challenges of the bank is customer's preference for other payment forms so that (63%) the respondent replied that CBE would have either all the time or sometimes this challenge.

Majority (82%) of the respondent will agree that countries domestic policy and regulation is one of the major challenges on an international trade of CBE. Similarly, (73%) of them also believe that the bank suffers line constraints with correspondent banks and compliance to terms of trade.

Majority (70%-82%) of the respondents agree it has difficulties of importers and banks to comply with foreign currency externalization documentation requirement. In addition, most of the respondent also agree that time lag between placement of order and receipt of goods from foreign countries; different languages are spoken and written in different countries; exporters and importers prepares several documents which involve expenditure of time and money; and distance creates higher costs of transportation and greater risks are the major challenge of the bank.

Interview responses from experts and managers also shows, in the future CBE may faces different challenges for instance since international trade depends on countries domestic rules sometimes variations seen or observed for instance chamberization of invoices and so on; sometimes NBE directives contrast with other international rules and practices. For example, some INCOTERMS uses internationally but when we come to our case it is restricted to be practical; the importer/exporters are not knowledgeable the job they do; Shortage of foreign currency; NBE directives is outdated; and NBE is not timely revised its directive, considering the changing environment. So, it leads to malpractices and instances of non-compliance with NBE directives.

5.1.5. Risks of CBE on an international trade practices

In the future possible risks of commercial bank of Ethiopia on international trade services, (77%) of them agree that the bank assesses foreign banks' risks or counterparty risks in order to identify the ones CBE will be dealing with. And, (58%) of them responded that they the bank will usually take the laws, languages and customs of most overseas markets in to consideration before dealing with international trade. Similarly, most (53%) of them believe that the bank will usually checks change in exchange rate before conducting international finance, (29%) of the respondent replied that the banks will do that sometimes.

In regard with, the bank assessment on countries of counterparty like the risk of insolvency or fraud, and risks pertaining to the country of the counterparty, such as the possibility of war, political unrest, or unexpected import bans or tariffs, so that (54%) them believe that the bank will usually do assessment and also (29%) of them do believe sometimes.

Similarly, (44%) of the respondents agree that the bank do not have fear on regulatory framework to comply with an international laws to include things like compliance, external auditing and anti-money laundering laws which means the bank adhere to ICC rules and (29%) of them do sometimes.

In order to check the risk of the bank, the performer shall check all supporting documents and standards during import/export trade before proceeding to next steps, in this regard (87%) of the respondent agree that either the check the documents every day or sometimes .

Once the commercial bank of Ethiopia engaged in to the international banking the banks should not have a problems on delays in making payments to correspondent banks, so that (73%) of them agree that the bank is do have smooth relationship with correspondent but the rest believe that the banks have problems in this regard.

Majority (68%) of the respondent believe that the bank will assess the customer for how long he/she has been in the business and relationship with others every day or sometimes.

In line to this additional interview were employed to experts and manager , the possible fear or/and risk areas of commercial bank of Ethiopia in an international trade are foreign currency inflow and outflow problem; current or timely innovated technology may bring its own risk but its unavoidable; export/import prices some importer/exporter provides over/under paid; lack of foreign currency; the malpractice activities in some private banks ;

bank risk like insolvency of the bank; country risk ; fraud; document handling and inconsistency with in ICC.

5.2. Conclusions

Under this section, conclusions are drawn based on results and discussion of the assessment.

The concluding remarks organized are;

General Practices of International Trade Services in CBE:

- In this study majority of the respondents proved the existence of good practices of international trade services, which has been held based on the bank procedure and other governing rules. In this regard, the performers usually make advisee to customers on the main trade service product items before proceeding any steps; check eligibility criteria that the customer have to fulfill; ascertain the pro-forma invoice status; check whether the customer's is in delinquent status or not; then collecting all the documents the performer will scans and sends/upload the application letter along with supporting documents to the CPC and keep all necessary file/document in the LC file. However, majority of the them do sometimes, follow up of customers business activities; checkup and approval of sales contracts and other documents; believe that the procedure is clear and simple to all customers and to them and customers will get LC, export permit and other international service products as they request and on time.

Staffs' Understanding and Experience on the Main Products of International Trade:

Letter of Credit (import)

- In the study shows that majority of the respondents do assessment on the creditworthiness of the importer before issuing of L/C to the customer and then they will checks LC application letter and all supporting documents against the checklist.
- Change of terms and condition of a letter of credit including its cancellation can be made by way of amendment; the bank should receive the consent of the beneficiary (seller). So that, the study shows that all respondents practice based on the request of

amendments, operative and consistent with the directives of the NBE and rules of the ICC.

- In regard with making a timely examination of documents and notify the presenting bank of any discrepancies within 5 banking days, majority of the respondent doing that, either all the times or sometimes. In general, in the above table the average level of agreements on the import letters of credit shows us the bank performers make usually make practice accordingly.

Letter of Credit (Export)

- The information gathered from the respondent indicate that, majority of them are usually make assessment on the credibility of the issuing bank before advising the L/C to the beneficiary. In line to this, they will check the contents of the documents against the directives of the NBE and make sure that there is an approved sales contract and a letter of credit advice for the export. Similarly, majority of them usually make assessment of all documents required that has been satisfied as per the directives of NBE before issuing export permit.
- In regard with payment, majority of the respondent proved that exporters make presentation immediately after effecting shipment then they will follow or handle exports' proceeds paid to a beneficiary collected within 60 days from the date of reimbursement. Therefore, it is believed that most of the performers are doing letter of credit –export according to the banks procedure and international banking rules/regulations.

Documentary Collection (Import)

- The study also show that, majority of the respondent replied that they usually check the purchase order complies with the NBE's directives by referring to the checklist and approves it by signing and they have practice to accept and handle collection documents evidencing that shipment of goods was effected prior to purchase order approval. In addition, most of the respondent also replied that they will accept and handle collection documents presented to the bank outside the banking channel. So that, they are promptly advise customers of the arrival of shipping documents and

they will urge customers (by way of 1st, 2nd, 3rd letter reminders) to take up documents as early as possible.

- In regard with, advising of the remitting bank of the fate of documents by SWIFT AND send advice of payment, majority of the respondent have such experience in the bank and they also proved that the bank will automatically effect payment to the remitting bank once the buyer takes up the collection documents. Hence, it is believed that the performer are doing the import documentary collection according to the banks international trade procedure but still a lot works has to be done to internalize by performer and to make the habit of the bank.

Documentary Collection (Export)

- According to the information gathered from respondents on Export documentary collection, the bank procedure directs indicates , the customer/exporter shall presents shipping documents to the bank for collection of payment after goods are forwarded for the export. So that, majority of them confirmed that they will ensure all listed documents in the covering letter are enclosed and/or appropriate settlement instructions stated in the letter by using the export document checklist. Similarly, most of them also confirmed that the outlet manager's or the delegate's in the branch will also make endorsement if the transport document is a Bill of Lading issued to the order of CBE.
- The study also shown us most of them have the practice of sending of follow up SWIFT message to the collecting/ presenting bank after sending the documents in order to see that the proceeds of previous shipments are received. In general, when looking the practice of the performers in export documentary collection most of respondents will perform according to the banks international trade procedure.

Cash-in-advance (Import)

- The data gathered from the respondent on the import cash-in advance shows that, majority of the respondent will let an importer send multiple cash-in-advance payments each not exceeding USD 5,000 to the same supplier and on the same date. In case an importer wishes to make transfer exceeding USD 5,000.00 he/she should

submit foreign bank guarantee confirmed by local banks, so that most of them either do check all the times or do check sometimes.

- The study also shows that majority of the respondent who have engaged in an international trade will confirm that the importer that shipment has not been effected prior to the issuance of import permit. In regard with, verifying all signatures on the application and the undertaking letter the same, and check if the advance amount is within the limit set by the NBE, majority of them usually do check and verify the limit. Similarly, most of them will communicate with the customer directly and advises her/him on how to make the necessary correction if there is any inconsistency or deviation. In general, the study shows that most of the performer are doing the import Cash-in-advance practices according to the banks international trade procedure and directives of regulatory bodies.

Cash-in-advance (Export)

- The data that has been gathered from the study shows that, among the major task of the employees who are engaged in an export on cash in advance in an international trade services, most of them will check and remind exporters to effect shipment of goods on time once they have received the advance payment. In addition, they will also make sure that the purpose of payment of the advance payment is stated in the MT103 or cash receipt and that it matches with the items to be exported, hence. In general, when looking the average level of agreement of export cash-in-advance shows us most of the time they have such practices. Therefore, it is obvious that the performers are doing the export Cash-in-advance according to the banks international trade procedure and directives of regulatory bodies.

Consignment (Export)

- From the information gathered from respondent, majority of them agreed they will ascertain that the seller and the consignee do have a long-standing business relationship to justify a sale on consignment basis whereas not small numbers. Similarly, most of them will make a follow up of consignment sales to see that the proceeds of previous shipments are received before granting subsequent export permits on consignment basis. Although, it has been observed that consignment

method of payment is not practiced mostly but when looking the average level of agreement the bank still do practice sometimes.

Acquaintance of Staff's with International Trade Finance Rules and Regulations:

- In order to process TS request, care should be taken on adherence to International Chamber of Commerce (ICC) publications on uniform rules, practice of TS products Directives and circulars issued by the National Bank of Ethiopia as well as CBE Trade Service policy and procedure, accordingly this study indicates us majority of the respondents perform or practice international trade services based on an international banking standard for examination of documents. So this helps them (staffs) to have a good experience/practice on supporting customers about international trade services. However, some of the respondent argue that the level of staff knowledge different from staff to staff ; NBE directive and subsequent ,amendment are not available in compiled form to get full information; and they also added there is no experience sharing practice on of the case against URC, UCP and ICC regulation.

Major Challenges of CBE on an international trade practices:

- It has been found that, majority of the respondents agree that the bank may suffers forex liquidity constraint or volatility problem in an international trade and they also understand that macro climate or trade flows in the market will have direct impact on the performance of CBE.
- And some of them believe that the banks internal capacity and capital priorities would or limited bank capacity on the international trade.
- In an international banking one of the major challenges of the bank is customer's preference for other payment forms so that majority of the respondent proved that would be a challenge for the bank.
- The study also shows that most of them agree that countries domestic policy and regulation is one of the major challenges on an international trade of CBE. Similarly, most of them also believe that the banks may suffer line constraints with correspondent banks and compliance to terms of trade.

- According to findings, majority of them believe that it has difficulties of importers and banks to comply with foreign currency externalization documentation requirement.
- In the study, majority of the respondent also agreed that time lag between placement of order and receipt of goods from foreign countries; different languages are spoken and written in different countries; exporters and importers prepares several documents which involve expenditure of time and money; and distance creates higher costs of transportation and greater risks are the major challenge of the bank. In general, most of the respondents agree in all the listed challenges could affect international trade practices of the bank in the future. However, not a small numbers of the performers still hesitate to fully agree on the above challenges the major one for the bank.
- In addition to that, most of the experts and managers listed out the major challenges/problems, malpractices and instances of non-compliance with NBE directives and international standard practice that they have observed with regards the handling of international trades, so that they have listed that CBE faces the challenge of international trade depends on countries domestic rules sometimes variations seen or observed for instance chamberization of invoices and so on; sometimes NBE directives contrast with other international rules and practices. For example, some INCOTERMS uses internationally but when we come to our case it is restricted to be practical; the importer/exporters are not knowledgeable the job they do; shortage of foreign currency; NBE directives is outdated and it is not timely revised the directive, considering the changing environment. So, it leads to malpractices and instances of non-compliance with NBE directives.

Risks of CBE on an international trade practices:

- All banks will make risk assessment while working in an international trade services, so that in this study majority of the respondent believe the bank will continuously make assessment of foreign banks' risks or counterparty risks. In addition, most of them respondent also believe that the bank usually take the laws, languages and

customs of most overseas markets in to consideration before dealing with international trade .

- In addition, majority of them believe that the bank will usually check change in exchange rate before conducting international finance. In this study, some of them also think that the bank assesses countries of counterparty like the risk of insolvency or fraud, and risks pertaining to the country of the counterparty, such as the possibility of war, political unrest, or unexpected import bans or tariffs.
- In this finding, most of the respondents agree that the bank do not have fear on regulatory framework to comply with international laws to include things like compliance, external auditing and anti-money laundering laws which mean the bank adhere to ICC rules. Similarly, in order to check risk of the bank most of the respondent agrees that performer will check all supporting documents and standards during import/export trade before proceeding to next steps.
- Once the commercial bank of Ethiopia engaged in to the international banking the banks should not have a problems on delays in making payments to correspondent banks, so that the study show us most of them agree that the bank do have smooth relationship with correspondent bank. In addition, majority of the respondent also believe that the bank will assess the customer for how long he/she has been in the business and relationship with others every time before making any relationship with customer.
- Most of the experts and manager have fear that in an international trade could be risky for commercial bank of Ethiopia, on foreign currency inflow and outflow; always to go with current or timely innovated technology may bring its own risk ; export/import prices some importer/exporter provides over/under paid; lack of foreign currency ; the malpractice activities in some private banks is the major problem faces CBE in export business; bank risk like insolvency of the bank; country risk , fraud and document handling, inconsistency with in ICC.

5.3. RECOMMENDATIONS

Taking into consideration all the findings, the analysis and the conclusion drawn, the following points were made as recommendations:-

- The top management, all line managers and supervisors at all levels should be sensitive to change and development by creating smooth and open communication channels toward the achievement of the strategy with close follow-up and monitoring.
- Although, the result shows that international trade services practices looks good in Commercial Bank of Ethiopia but from internal report we have observed that the bank shall make the procedure very clear, simple and participatory for most of the customers. In addition, customers shall get LC, export permit and other international service products as they request and on time.
- The CBE strategy should be thoroughly worked in order to minimize bank risk before suffering of forex liquidity constraint or volatility problem in an international trade. In addition, import and export permission should take in to consideration of macro climate or trade flows in the market because it would have direct impact on the performance of CBE.
- In order to fully participate on the international trade and be competent with correspondent banks the banks shall improve internal capacity and capital. In fact, the countries domestic policy and regulation have also major impact on the banks international trade, commercial bank have to come up with different payment forms based on the customer's preference.
- In order to minimize risks of line constraints with correspondent banks and compliance to terms of trade, the bank shall strengthen internal capacity of the bank; improve risk management systems and other security systems in an international trade. In addition, the bank shall also update the international trade services procedure taking NBE directives and other countries domestic rules deference in an international trade service in to consideration.

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Appendix I
Saint Mary's University
School of Graduate Studies

Questionnaire filled by Employees

Dear Respondent,

My name is **Ermias Abraham**, and I am MBA student at Saint Mary's University. Currently I am conducting a research on "**Assessing the Effectiveness of International Trade Finance Practices in the Commercial Bank of Ethiopia**". You are kindly requested to provide genuine and honest information so as it would helpful to understand the issues and come up with reliable conclusion.

The questionnaire may take about half an hour to complete. Whatever information you may provide, it will be kept strictly confidential and will never be forwarded to other persons. You don't need to write your name on this form, and thus, it will never be used in connection with any of the information you may provide.

Consent given: 1. YES 2. NO

Result: 1. Complete 2. Incomplete

Part I. Respondent's Background Information

1. Sex Male Female
2. Educational Background: Diploma 1st Degree Masters & Above
3. Working Experience (in years): 1-5 5-10 More than 10
4. Position: Managerial Professional Clerical

NB: before you fill the questions, please make sure that you have understood the purpose of the questions and you are able to respond them.

1	2	3	4	5
I Strongly Disagree	I Disagree	Somehow Agree	I Agree	I strongly agree

Part II. General practices of International Trade Services in commercial bank of Ethiopia

	I. International Trade Services practices in CBE	Score
1.	You/staffs will advise customers on the main trade service product items, benefit and risks of the intended trade payment method before proceeding to the next steps.	
2.	You/Staffs will check eligibility criteria that the customer should fulfil to engage themselves in an international trade business (valid trade license, TIN, Account Number, certification and others).	
3.	You/Staffs ascertain that the pro-forma invoice is a recent and show clearly full description of goods (quantity, grade, quality, volume, measurement, weight, mode of shipment, terms of payment, unit an total price of the goods at a named place of delivery).	

4.	You/Staffs will consistently and rigorously check the customers' delinquent status with the NBE.	
5.	You/Staffs follow up customers business physically appearing at their business or other means.	
6.	You/Staffs will checks and approve sales contracts and all other documents are in line with the NBE directives and the exporter/importer.	
7.	You/Staffs will check that the items to be imported or exported are consistent with those listed at the back of the trade license.	
8.	International trade procedure & process is clear, simple and timely to all customers and Staffs.	
9.	Customers will get LC, export permit & other international service products as they request & on time.	
10.	The bank gives any support to a customer after they take import and export services.	
11.	You/Staffs will check/ascertain that the seller and buyer do have a long-standing business relationship to justify a sale on consignment basis.	
12.	You necessary scan and sends/upload the application letter along with supporting documents to the CPC on time.	
13.	Do you maintains/keep all necessary file of the application letter and all the other documents on the in the LC file.	

Part III. Staffs understanding and practices on an international trade products and process

II. Staffs knowledge, skills and experience on main trade service products and process		Score
A	Import Letters of Credit (L/C)	
1.	You/Staffs and other departments of the bank assess the creditworthiness of the importer before issuing an L/C.	
2.	You/Staffs will check application and the supporting documents against the Checklist for L/C application and against each other.	
3.	The requested amendments are in order, operative and consistent with the directives of the NBE and rules of the International Chamber of Commerce (ICC)	
4.	You/Staffs make a timely examination of documents and notify the presenting bank of any discrepancies within 5 banking days.	
B	Import Documentary Collection	
1.	You/Staffs will check that the purchase order complies with NBE's directives by referring to the checklist and approves it by signing.	
2.	You/Staffs will accept and handle collection documents evidencing that shipment of goods were made prior to Purchase Order approval.	
3.	You/Staffs will accept & handle collection documents presented to your bank outside the banking channel.	
4.	You/Staffs will promptly advise customers of the arrival of shipping documents.	
5.	You/Staffs will urge customers (by way of 1 st , 2 nd , 3 rd letter reminders) to take up documents as early as possible.	
6.	You/Staffs will advise the remitting bank of the fate of documents by SWIFT AND send advice of payment.	
7.	You/Staffs will automatically effect payment to the Remitting Bank once the buyer takes up the collection documents.	
C	Import Cash-in-advance	
1	You/Staffs will let an importer send multiple cash-in-advance payments each not exceeding USD 5,000 to the same supplier and on the same date.	
2	In case an importer wishes to make transfer exceeding USD 5,000.00 he/she should submit	

	foreign bank guarantee confirmed by local banks.	
3	You/Staffs will request the importer to confirm that shipment has not been effected prior to the issuance of import permit.	
4	You/Staffs will verify all signatures on the application and the undertaking letter the same, and check if the advance amount is within the limit set by the NBE.	
5	If there is any inconsistency or deviation, you/staffs will communicate with the customer directly and advises her/him on how to make the necessary correction.	
D	Export Letters of Credit	
1	You/staffs will assess the credibility of the issuing bank before advising the L/C to the beneficiary.	
2	The contents of the documents against the directives of the NBE and you are sure that there is an approved sales contract and a letter of credit advice for the export.	
3	Exporters make presentation immediately after effecting shipment.	
4	You/Staffs will assess all documents required has been satisfied as per the directives of NBE before issuing export permit.	
5	You/Staffs follow/handle exports' proceeds paid to a beneficiary collected within 60 days from the date of reimbursement.	
E	Export Documentary Collection	
1	You/staffs make sure that all the listed documents in the covering letter are enclosed and appropriate settlement instructions are stated in the letter by checking it against the document checklist.	
2	The branch/outlet manager's or his/her delegate's make endorsement if the transport document is a Bill of Lading issued to the order of CBE.	
3	The bank sends follow up SWIFT message to the collecting/ presenting bank after sending the documents.	
4	You/Staffs make follow up of exports on documentary collection to see that the proceeds of previous shipments are received before granting subsequent export permits on documentary collection basis.	
F	Export on Cash-in-advance	
1	You will check and remind exporters to effect shipment of goods on time once they have received the advance payment.	
2	You will make sure that the purpose of payment of the advance payment is stated in the MT103 or cash receipt and that it matches with the items to be exported	
G	Export on Consignment	
1	You/Staffs will ascertain that the seller and the consignee do have a long-standing business relationship to justify a sale on consignment basis.	
2	You/Staffs will make a follow up of consignment sales to see that the proceeds of previous shipments are received before granting subsequent export permits on consignment basis.	

Part IV. International Trade Finance Rules and Regulations

III.	The bank will take in to account the under listed International Standard Banking Practice of ISBP AND ICC guidelines when examining documents and determining whether the documents have discrepancy or not?	Score
A	Exchange Control regulations; documentation requirements and INCOTERMS	
B	UCP 600 - Uniform Customs and Practices for Documentary Credits	
C	URR 725 - Uniform Rules for Bank to Bank Reimbursement	
D	URC 522 - Uniform Rules for Collections	

E	URDG 458 - Demand Guarantees	
F	ISP98 - International Standby Practices	
G	ISBP Article No. 6-42: General Principles	
H	ISBP Article No. 57-67: Invoice	
I	ISBP Article No. 91-114: Bill of Lading	
J	ISBP Article No. 134-169: Other Transport Documents	
K	ISBP Article No. 181-185: Certificate of Origin	

Part V. Major Challenges of CBE on an international trade practices

The following are the major challenges to international trade finance practices in the commercial bank of Ethiopia		Score
1	The bank suffers forex liquidity constraint or volatility problem in an international trade.	
2	Macro climate or trade flows in the market will have direct impact on the performance of CBE.	
3	The bank has limited internal capacity or capital priorities.	
4	Customers' preference for other payment forms has been a major challenge of CBE.	
5	Domestic policy and regulation is one of the major challenges of CBE.	
6	The banks suffer line constraints with correspondent banks and compliance to terms of trade.	
7	Difficulties for importers and banks to comply with Foreign currency externalization documentation requirement.	
8	Time lags between placement of order and receipt of goods from foreign countries.	
9	Different languages are spoken and written in different countries	
10	Exporters and importers prepare several documents which involve expenditure of time & money.	
11	Distance creates higher costs of transportation and greater risks.	

Part VI. Risks of CBE on an international trade practices

i. Risk assessment	Score
1	The bank assesses foreign banks' risks to verify CBE will be dealing with.
2	The laws, languages and customs of most overseas markets have been taken in to consideration before dealing will international trade.
3	The bank will checks change in exchange rate before conducting international finance.
4	The bank assesses countries of counterparty (risk of insolvency or fraud, and risks pertaining to the country of the counterparty, political unrest, or unexpected import bans or tariffs).
5	The bank does not have fear on regulatory framework to comply with international laws to include things (Adhere to ICC rules, compliance, external auditing and anti-money laundering laws.)
6	The bank will check all supporting documents and standards during import/export trade.
7	The banks do not have a problem on delays in making payments to correspondent banks.
8	The bank will make detail assessment on the customer for how long he/she has been in the business and relationship with others.

Thank You-

Saint Mary's University
School of Graduate Studies
Questionnaire filled by Managers/Experts

Dear Respondent,

My name is **Ermias Abraham**, and I am MBA student at Saint Mary's University. Currently I am conducting a research on "**Assessing the Effectiveness of International Trade Finance Practices in the Commercial Bank of Ethiopia**". You are kindly requested to provide genuine and honest information so as it would be helpful to understand the issues and come up with a reliable conclusion.

The questionnaire may take about half an hour to complete. Whatever information you may provide, it will be kept strictly confidential and will never be forwarded to other persons. You don't need to write your name on this form, and thus, it will never be used in connection with any of the information you may provide.

Consent given YES NO

Result: 1. Complete 2. Incomplete

Part I. Respondent's Background Information

1. Sex Male Female

2. Educational Background: Diploma 1st Degree Masters & Above

3. Working Experience (in years): 1-5 5-10 More than 10

4. Position: Managerial Professional Clerical

Part II. Questions on overall International Trade Service Practices

1. Do you have the practice of assessing the creditworthiness of the importer/exporter before negotiating a discrepant document? A) Yes B) No
2. If your answer is "YES", please describe your practices? (Skip this question if your answer to Q#3 is "NO")

3. Do you think, CBE international trade services or/and process is simple and timely for customer? A) Yes B) No
4. If your answer is "No", please describe your reason? (Skip this question if your answer to Q#3 is "Yes")

5. Do you think, Staffs knowledge, skills and experience is good enough on proceeding international trade services especially with regards the mechanism of trade payment methods, Uniform Rules for Collection, Uniform Customs Practice for Documentary Credits, and the directive of the NBE?
A) Yes B) No
6. If your answer is "No", please describe your reason? (Skip this question if your answer to Q#5 is "Yes")

7. What challenges, problems, malpractices and instances of non-compliance with NBE directives and international standard practice do you observe with regards the handling of international trades?

8. What possible remedial solutions do you propose in order to meet these challenges, solve the problems, and correct the malpractices?

9. What are the major fear or/and risk areas of commercial bank of Ethiopia in an international trade?

10. What possible remedial solutions do you propose in order to mitigate these risks?

Thank You-

Appendix II
Saint Mary's University
School of Graduate Studies
Questionnaire filled by Customers

Dear Respondent,

My name is **Ermias Abraham**, and I am MBA student at Saint Mary's University. Currently I am conducting a research on "**Assessing the Effectiveness of International Trade Finance Practices in the Commercial Bank of Ethiopia**". You are kindly requested to provide genuine and honest information so as it would helpful to understand the issues and come up with reliable conclusion.

The questionnaire may take about half an hour to complete. Whatever information you may provide, it will be kept strictly confidential and will never be forwarded to other persons. You don't need to write your name on this form, and thus, it will never be used in connection with any of the information you may provide.

Consent given YES NO

Result: 1. Complete 2. Incomplete

Part I. Respondent's Background Information

1. Sex A) Male B) Female
2. Educational Background: A) Diploma B) 1st Degree C) Masters & Above
3. Relationships with CBE (in years): A) 1-5 B) 5-10 More than 10
4. Business Sector: A) Import B) Export C) BOTH
5. Business Type: A) Export/Import B) Service C) Agriculture

Part II. Questions on overall International Trade Service Practices

1. Do you think that the practice of assessing the creditworthiness of the customer before negotiating a discrepant document? A) Yes B) No
2. If your answer is "YES", please describe your practices? (Skip this question if your answer to Q#3 is "NO")

3. Do you think, CBE international trade services or/and process is simple and timely for customer? A) Yes B) No
4. If your answer is "No", please describe your reason? (Skip this question if your answer to Q#3 is "Yes")

5. Do you think, Staffs knowledge, skills and experience is good enough to manage international trade services especially with regards the mechanism of trade payment methods, Uniform Rules for Collection, Uniform Customs Practice for Documentary Credits, and the directive of the NBE?
A) Yes B) No
6. If your answer is "No", please describe your reason? (Skip this question if your answer to Q#5 is "Yes")

7. What challenges, problems, malpractices and instances of non-compliance with NBE directives and international standard practice do you observe with regards the handling of international trades?

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8. What possible remedial solutions do you propose in order to meet these challenges, solve the problems, and correct the malpractices?

9. What are the major fear or/and risk areas for the commercial bank of Ethiopia in an international trade?

10. What possible remedial solutions do you propose in order to mitigate these risks?

Thank You-