ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESEMENT OF PRACTICE AND CHALLENGES OF INTERNATIONAL TRADE FINANCING IN SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY

GETNET MEKONNEN

ENROLMENT No: SGS/0176/2007

JUNE, 2017

ADDIS ABABA,

ETHIOPIA

ASSESEMENT OF PRACTICE AND CHALLENGES OF INTERNATIONAL TRADE FINANCING IN SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BY

GETNET MEKONNEN

ENROLMENT No: SGS/0176/2007

JUNE, 2017

ADDIS ABABA,

ETHIOPIA

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACULTY OF BUSINESS

PRACTICE AND CHALLENGES OF INTERNATIONAL TRADE FINANCING IN SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY

GETNETMEKONNEN

APPROVED BY BOARD OF EXAMINERS

______________________	______________________
Advisor	**Signature**
______________________	______________________
External Examiner	**Signature**
______________________	______________________
Internal Examiner	**Signature**
______________________	______________________
Dean, Graduate Studies	**Signature**

Table of Contents

Contents **Page No**

ACKNOWLEDGEMENT

This journey would not have been possible without the support of very kind people behind me. First of all, I would like to express my deepest gratitude to my advisor Dr. Solomon Markos for his valuable guidance and understanding me during the course of the study.Many thanks for the respondents and interviewees without them it would be impossible to accomplish this project.

I also feel much indebted to the staff and colleagues at Dashen Bank for their support and understanding. I really thank Cherenet Ayalew for his inspiration to start education and for his valuable comments. My heartfelt appreciation goes to Matiwos Berhanu for his unreserved effort in providing all the required assistance and understanding.

Finally, I want to express my deepest thanks those who encouraged me, which I did not mentioned their name, by providing all the necessary support in my endeavor.

Acronyms

CAD	Cash Against Document
CIA	Cash In Advance
DC	Documentary Collection/Credit
ICC	International Chamber of Commerce
IMF	International Monetary Fund
ISBP	International Standard Banking Practice
LC	Letter of Credit
NBE	National Bank of Ethiopia
OA	Open Account
PCB	Private Commercial Banks
SPSS	Statistical Package for Social Science
UCP	Uniform Customs Practice
UNCTAD	United Nation Conference on Trade and Development
UNDP	United Nation Development Program
WTO	World Trade Organization

List of Tables

List of Figures

Abstract

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. Banks facilitate international commerce through a variety of products which include managing their international payments, mitigating the risks, and providing working capital. This study makes an assessment of the trade services practice and challenges of selected Ethiopian private commercial banks by employing descriptive research design with view to assess the practice of trade financing. A mixed approach research method was used to collect and analyze data relevant for the study. Questionnaire and in-depth interview were used to gather relevant data. The study collected data from 120 respondents using purposive sampling technique out of which 108 are found to be good for analysis. In-depth interview was conducted with international banking managers. Descriptive statistics is used to analysis the data. One item mean, frequency, and standard deviation were used according to objective. From the research it has been found out that, due to a relatively high staff turnover among the bank staff and inefficiency or in some cases the lack of periodic training, the level of the job knowledge is not well developed. The foreign currency shortage in the country nowadays is seriously affecting private commercial banks trade financing activities which also indirectly affects the other banking services such as deposit and credit. On the other hand, the fact that most banks are competing unfairly on those inadequate foreign currency resources, especially during export document negotiation, may expose themselves for highly risky activities. In addition, it can be concluded that foreign currency transaction in the black market significantly influencing the banks effective trade financing service. To curb the identified problems, Firstly it is recommended that banks should be beneficially competitive to their staffs in retaining them, provide regular training and gradually centralize the unit activities. Secondly, banks should totally avoid the practice of multiple advance payment to the same supplier at a time by complying with NBE directives. Thirdly, on export document negotiation banks should seriously and consistently have the exporter sign a personal guarantee.

Key Words: International Trade Financing, Trade Service, Commercial Banks

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

International Trade can be a powerful force for growth or poverty reduction. Countries that have increased their share of trade in their GDP[1] have grown faster and reduced poverty more rapidly. International trade has become more imperative in this era of globalization than ever before(Asiedu-Appiah, 2005). According to Reyes (2012) International Trade is an important stimulator of economic growth, country's consumption capacities, increases world output to scarce resources and worldwide markets for products without which poor countries would be unable to grow.

Risks in international trade vary continuously, so the initial step for any bank dealing in international trade is to analyse country risks and foreign banks' risks in order to identify the ones they will be dealing with. Next, they need to define the credit limits available for dealing with each of these countries and banks. While the commercial risks involved in an international trade transaction seem in principle to be larger than in a domestic trade transaction (non-payment, loss or alteration of the merchandise during shipment, fluctuating exchange rates) trade finance is considered to be a particularly safe form of finance since it is underwritten by strong collateral and documented credit operations. The low risk nature of short-term trade finance is supported by data organized in the International Chamber of Commerce's (ICC) Trade Finance Loss Register, established in 2011. According to the ICC's "Global Risks - Trade Finance Report 2014", the average transaction default rate on short-term international trade credit is no more than 0.021per cent, of which 57 per cent is recovered through the sale of the underlying asset, the merchandise.

Trade finance relates to the process of financing certain activities related to commerce and international trade. Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance. Trade finance is completely different from regular commercial bank lending, mortgage lending or insurance. Companies involved with trade finance include importers and exporters, banks and financiers, insurers and export credit agencies, and other service providers. Although international trade has been in existence for centuries, trade finance has recently developed as a means of facilitating it. The widespread use of trade finance is one of the factors that

[1] Gross Domestic Product

have contributed to the enormous growth of international trade. Trade finance is vital importance to the global economy, with the World Trade Organization (WTO) estimating that 80 to 90% of global trade relies on this method of financing (UNCTAD, 2012).

One of the private banks' core corporate business products is foreign trade finance. Banks' primary task is to provide payment instruments such as foreign credit transfers and foreign-currency cheques. Payment not tied to any special conditions such as the presentation of certaininternational transactions through clean payment orders is quite straightforward and relatively low cost; it is at the same time riskier, since the exporter does not know whether the importer will actually meet his payment obligation on the agreed date. Besides handling payments, banks advise exporters, finance their projects and hedge typical foreign trade risks. This requires them to analyze and assess the political and economic risks associated with export business beforehand. They thus compile country reports and country ratings and regularly visit the countries concerned, unless they have already established a presence there through a representative office or branch. They also examine importers' profit and loss statements, balance sheets and various financial indicators, credit-rate borrowers and analyze the sectors in which exporters and importers operate(Bankenverband, 2015).

According to Demir (2014) financing or payment terms in international trade fall under three broad categories. Under open account (OA) terms, goods are shipped and delivered before a payment is made by the importer. Under cash-in-advance (CIA) terms, the payment is received before the ownership of the goods is transferred. If a transaction is on letter of credit (LC) terms, the importer's bank commits to make the payment to the exporter upon the verification of the fulfillment of the terms and conditions stated in the LC. Jim & Jonathan , 2008) show that each payment method places the financing burden on a different actor: the entire burden is on the exporter in a transaction on OA terms, and on the importer in a transaction on CIA terms. LC is the safest financing instrument for both trade partners where the exporter obtains a bank guarantee to secure payment, and the importer is protected against potential losses arising from exporter misbehavior. Nevertheless, LC is a costly instrument as banks levy fees and charges for issuing LCs Demir (2014).

According to Damtew (2015) the empirical evidence on the challenges of Ethiopia commercial banks in export financing survey availability of finance for pre shipment, post shipment, term loans and foreign currency requests were not adequate as most of the respondents agreed nearly 50 percent of their request were granted. Damtew (2015) explained that though bank experts agreed exporters were financed with less interest rate and charges as compared to other sector loans with due priority and attention given to them through clear procedure. On the contrary, exporters were not performing as expected by banks by diversion of funds and export proceeds from the intended.

In this study the researcher's assessed the international financing practice and its challenges during post export and import financing methods.

1.2. Statement of the Problem

In international trade since the seller and the buyer both resident in a countries with different political and economic conditions, legal regimes, cultural traditions and business practice the risk of non-payment and the default risk is very high. Obtaining information about the importing country is not always easy, and in some cases compliance with separate statutory export regulations is required. What is more, goods often have to be transported over long distances and transactions settled in different currencies (Demir, 2014).

The availability of finance is essential for a healthy trading system. Today, up to 80 per cent of global trade is supported by some sort of financing. However, there are significant gaps in provision and therefore many companies cannot access the financial tools that they need. The black market in foreign currency exchange and unnecessary competition among banks exposed them risky activities contrary to the country's regulations and directives issued by the NBE.

From the very nature of international market price volatility, trade financing for exporters by Private Commercial Banks (PCBs) in Ethiopia requires serious follow-up in pre-shipment and post-shipment export financing. Though pre-shipment export financing by its nature is short term loan compare to other loans its interest is very small PCBs facing problems to earn better profit from financing other types of loan especially during shortage of loanable funds. In contrast to this for the means of foreign currency generation, there is high risk taking practice and some malpractice among them (Mengistu, 2014).

There are international laws and regulations issued by International Chamber of Commerce (ICC). In connection to that, even if the documentary credit presented is not complied with the terms and conditions of the contract exporters may influence the PCBs to get advance payments against the compliancy to the documentary credit, considering they are the means for foreign currency generation to the bank.

With respect to import finance collateralized with bill of lading consigned to the bank, it is common for banks to secure the financing of international trade by taking pledges over the goods purchased by the importer with the credit advanced. Export receivables-backed financing, a loan is granted to an exporter, security is provided by the assignment of export sales contracts and receivables, and repayment comes from export proceeds paid by identified off takers into a bank account controlled by the bank.

Some referenced researches were conducted locally focusing on the problems of export financing in relation to the availability of funds and the export performance. For instance Nega (2013) tried to analyze the determinants of export performance in Ethiopia on time series base from 1974-2011by econometric model analysis. Mengistu (2014) tried to show specifically focused on pre sanction appraisal and post sanction control of pre-shipment export credit financing and the results was luck of procedural guide lines, lack of information from controlling government body and the like. Thus, the study tries to address the gap in the area of post-export financing challenges, practice of applying trade finance instruments and tries to further investigate on the issues mitigating risks of PCBs on the method of payment selection criteria during document negotiation.

1.3. Research Questions

To systematically address the stated problem, the study raised the following research questions.

1. What are operational problems faced by selected PCBs in line with trade services?
2. What are the risk areas in relation to trade service products?
3. Are there instances of non-compliance with international and domestic standards and directives?
4. What are challenges which hinder the effective functioning of trade financing services?

1.4. Objectives of the Study

This research study has the following general and specific objectives.

1.4.1. General Objective

The general objective of this study is to assess practice and challenges of international trade finance in Selected Private Commercial Banks in Ethiopia.

1.4.2. Specific Objective

Based on the above general objective, the study has the following specific objectives. These are:-

1. To assess the practice of trade financing in selected private commercial banks in Ethiopia.

2. To find out instances of non-compliance with international and domestic standards and directives.

3. To identify specific problems and challenges which hinder the effective functioning of trade finance services?

4. To evaluate existing familiarity and information gaps among the bank staffs with regard to trade payment mechanism.

1.5. Definitions of Terms

Correspondent Bank:	A bank which is a depository for another bank and which performs various banking services for it(CITIGROUP, 2004).
Financiers:	Intermediary banks that facilitate payment in international trade.
Foreign Exchange:	Refers to exchange of one's country currency by other country currency.
Incoterms 2010	A set of definitions published by the ICC from time to time for the interpretation of commonly used trade terms which define the obligations of the parties and when the risk of loss passes from one party to another (ICC, 2010).
International Chamber of Commerce (ICC) :	Refers to the body which published the Uniform Customs and Practice for Documentary Credits, the Uniform Rules for Collections, the Uniform Rules for Reimbursements, Inco-terms 2010and other works commonly used in international trade.
Issuing Bank(Opening Bank) :	Refers to the bank that establishes (issues) a Letter of Credit (CITIGROUP, 2004).
Negotiating Bank :	Refers to a nominated bank, sometimes unnamed in the Letter of Credit, which elects to "negotiate" (purchase documents from or advance funds or otherwise give value to the Beneficiary) against presentation of complying documents. Negotiation may be made with or without recourse(CITIGROUP, 2004).
Reimbursing Bank :	A bank nominated by the Issuing Bank to honor reimbursement claims.

1.6. Significance of the Study

The study is assumed to be significant in terms of its contribution for awareness creation to the top management of the banks and concerned staffs on the major international trade finance challenges from certain findings and recommendations by the researcher. Besides it signifies the challenges of private commercial banks of the country to the regulatory bodies. It also helps the banks to get more important information or feedback regarding their strengths and weaknesses. Therefore, the findings of the study is of paramount importance to top level management, trade service staffs and the National Bank of Ethiopia to draw lessons on the issue under consideration for better practices. Finally, this study can be used as a foundation for other researchers who would like to undertake research on similar and/or related area of study.

1.7. Scope of the Study

The scope of the study was delaminated conceptually on assessing the international trade finance from import and export wings; particularly it focuses on import and export trade finance instruments and post-export financing practice and challenges. Though trade finance includes pre-export financing which is handled by credit department and guarantees (the occurrence of guarantee being rare), these issues are not focused in this study. Geographically this research includes only city branches of the selected private banks. Methodologically this research was focuses on the sample respondents and also will use cross sectional survey methods. Thus the researcher will only be incorporate for the targeted population for this study.

1.8. Organization of the Study

The study is organized in five chapters. The first chapter deals with background of the study, definition of terms, statement of the problem, basic research questions, objectives of the study, scope of the study. The second chapter comes up with the review of related literatures. The third chapter illustrates the research design, sample and sampling techniques, source of data, methods of data collection, and procedures of data collections and methods of data analysis. The fourth chapter summarizes the results and findings of the study and interpretation of discussion of findings. The fifth chapter, which is the closing chapter of this study focuses on summary of the findings, conclusions and recommendations.

CHAPTER TWO

RELATED LITRATURE REVIEW

2.1 Theoretical Literature Review

2.1.1. International Trade Finance: Concepts and Definition

David et al.(2004) define trade finance as the process of financing certain activities related to commerce and international trade. Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance. Companies involved with trade finance include importers and exporters, banks and financiers, insurers and export credit agencies, and other service providers. Bankenverband (2015) defines trade finance as *"instruments for funding the trade of goods (usually raw materials, semi-finished goods, spare parts or consumer goods) and services with short (less than one-year) and medium-term (one to five-year) maturities" (p. 28).*

From functionality perspective Bankenverband (2015), defined Trade Finance as:

> Trade finance is a short and medium-term funding of commercial transactions including the warehousing of commodities and stocks(e.g. semi-finished goods, spare parts, consumer goods), on the one hand, and export finance, i.e. medium to long-term funding in the capital goods or plant and equipment sector, on the other, are therefore highly important. In this research, the term "foreign trade finance" is used to refer collectively to trade and export finance[2].

> Trade finance refers to the financing of imports and exports by the sources of interbank credits, attracted by foreign banks with use of financial instruments, such as letters of credit or guarantees (Ivan, 2014).

Banks are able to grant finance to customers in a foreign currency. This financing is normally limited for consumer financing to 180 days after shipment of goods. The borrowing is in a currency against a line of credit. The applicable interest rate will be based on current rates for the currency concerned. The important consideration for the importer is that this type of finance will extend the period of

[2]There are no uniform definitions in either literature or practice. What is more, reference is made simply to export finance although import finance, which is also part of foreign trade, is often meant as well. By making a distinction between trade finance and export finance, we are adopting an approach frequently employed by banks.

exchange risk and the cost/benefit of covering this exchange risk must be considered. It should be remembered, however, that borrowing in foreign currencies can sometimes be cheaper than domestic borrowings (Global International Trade & Business Finance, 2000).

Trade financing shares a number of common features with the traditional value chain activities conducted by all firms. All companies must search out suppliers for the many goods and services required as inputs to their own goods production or service provision processes. The buyer must determine whether each potential supplier is capable of producing the product to required quality specifications, producing and delivering in a timely and reliable manner, and continuing to work with buyers in the ongoing process of product and process improvement for continued competitiveness. All must be at an acceptable price and payment terms. The nature of the relationship between the exporter and the importer is critical to understanding the methods for import-export financing utilized in industry.

2.1.2. The Role and Benefits of Trade Finance

Although international trade has been in existence for centuries, trade finance developed as a means of facilitating it further (UNCTAD, 2012). The widespread use of trade finance is one of the factors that have contributed to the enormous growth of international trade. Trade finance is of vital importance to the global economy, with the WTO estimating that 80 to 90% of global trade relies on this method of financing (UNCTAD, 2012). Trade between different countries developed first where one country could produce something desirable which others could not. International trade therefore owes its origin to the varying resources and climate of different regions. Besides according to Asiedu-Appiah(2005) while international trade is a two-way traffic, countries in the development of their trade finance schemes have place a lot of emphasis on exports which generate earnings for the country and makes it possible for the country to purchase any imports of its choice.

Only a small part of international trade is paid cash in advance, as importers generally wish to pay, at the earliest, upon receipt of the merchandise in order to verify its physical integrity on arrival. Exporters, however, wish to be paid upon shipment. In order to bridge the gap between the time at which exporters wish to be paid and the time at which importers will pay, a credit or a guarantee of payment is required. Trade finance provides the credit, payment guarantees and insurance needed to facilitate the payment for the merchandise or service on terms that will satisfy both the exporter and the importer. Intrinsically, trade finance is often described as a lubricant of trade. Most trade credit, payment guarantees and insurance are short-term, with a standard maturity of 90 days. In certain cases, trade credit can be extended for longer periods of time, particularly for categories of goods subject to longer production and delivery cycles such as aircraft and capital equipment(WTO, 2016).

General financing may be used to cover an issue of solvency or liquidity, but trade financing may not necessarily indicate a lack of funds or liquidity on the buyer's part. Instead, it may be used to protect against the unique risks present in international trade, such as currency fluctuations, political instability, issues of non-payment or questions regarding the creditworthiness of one of the involved parties.

Trade finance is considered to be a particularly safe form of finance since it is underwritten by strong collateral and documented credit operations. Although trade finance is routine, it is universal and vital for trading activities.

Financing is needed not only during the import-export process itself, but also for the production of the goods and services to be exported, which often includes imports of machinery, raw material and intermediate goods. Lack of financing at any stage of the processes of production or export can stop the flow of transactions and potentially break up budding or even long-standing commercial relationships (UNCTAD, 2012).

Trade finance is undoubtedly, the very fulcrum for international trade. By bridging the information asymmetry between buyers and sellers, and creating a trust-based system whereby upon fulfillment of certain conditions, sellers receive payment for goods sold and buyers get the goods they paid for, trade finance guarantees increased international trade.

2.1.3. Trade Finance in Developing Countries

The trade financing gap is especially noticeable in the least developed countries, where the financial sector tends to be heavily trans-nationalized and strongly risk-averse. The trade and finance problems of developing countries are almost in variably aggravated by financial, balance of payments and exchange rate turbulence, as these countries tend to be vulnerable to the liquidity shortages and extreme risk aversion that characterize periods of crisis. Similarly, during these periods, even the most creditworthy firms can find it difficult to access credit, demonstrating that financial markets are prone to significant failures(UNCTAD, 2012).

The shortage of funds is a serious problem that limits production at least as much as trade barriers. In the developed world, government agencies and the private sector provide adequate financing to businesses, with trade being a major part of the effort. In developing countries, businesses may not have as broad an access to trade finance, or instruments, as do their counterparts in developed countries, but there are always some government agencies and financial institutions that actively make trade finance available. Even the least developed African countries have financial institutions that can assist in trade finance, and the World Bank and the IMF are possible international funding sources, if the countries show consistent evidence of economic and political stability(Jonathan & Sarah, 1999).

Government regulation of foreign trade activity in Ethiopia is carried out in order to ensure favorable conditions for this type of activity, as well as to protect the economic and political interests of Ethiopia.

2.1.4. The Role of Financial Intermediaries in Trade Finance

Banks play a part in financing the delivery of goods and guaranteeing payment obligations by offering a wide range of instruments designed to meet the differing needs of buyers and sellers. Trade service and trade finance have, therefore, become a strong bargaining point in the conduct of international trade. DanskeBank (2008), state that Trade Finance enables to handle your international transactions quickly and efficiently.

In international trade transactions, as with any purchase or sale of a good or service, there is typically a lag between the time at which the good or service is provided and the time at which payment is settled, necessitating the extension of credit by one party to the other. Global and local banks facilitate international trade by providing trade finance. A broad range of banking products which help importers and exporters manage international payment risks and access working capital financing that is directly tied to their international trade transactions. (John J. C., 2014).

According to Frida (1996) the role that banks play in documentary credits is very important; it basically implies assisting their clients in minimizing the risks in trade and settlement mechanisms. The following points are some the roles played by banks as explained by Frida (1996).

- ❖ Advising the creditworthiness of buyers and/or suppliers and giving advice on dealing with foreign markets.
- ❖ Providing information on various financing tools and various forms of guarantee.
- ❖ Arranging letters of credit and transferring funds.
- ❖ Providing guidance in the preparation of the documents.
- ❖ Arranging foreign exchange transactions.

2.1.5. Risks in International Trade Finance

What makes foreign trade trickier, however, is that the buyer and the seller are both resident in countries with different political and economic conditions, legal regimes, cultural traditions and business practices. Obtaining information about the importing country is not always easy, and in some cases compliance with separate statutory export regulations is required. What is more, goods often have to be transported over long distances and transactions settled in different currencies(Demir, 2014).

The positions of the seller and buyer of goods and services in foreign trade are initially no different from those in domestic trade: the seller (exporter) produces or obtains the ordered goods and faces the risk of the buyer (importer) cancelling his order or being unable, unwilling or due to political constraints, for example not being allowed to pay for it. Conversely, the buyer relies on the seller supplying the goods or services promptly in the agreed manner(Demir, 2014).

The value of risk mitigation through bank intermediation is offset to a degree by the cost of the intermediation. Because banks can reduce but cannot eliminate the risk of a trade transaction, the fees they charge rise with the remaining risk they take on. For the riskiest destination countries, bank fees are so high that exporters prefer cash-in-advance. In that case, the importer pays before the exporter produces, and payment risk is eliminated. Similarly, LCs is not used for low-risk destinations; for those transactions, the exporter can save on bank fees by bearing the risk itself (Niepmann & Schmidt-Eisenlohr, 2013).

The risks involved in foreign trade may be generally subdivided into political risks and commercial risks.

2.1.5.1. Political risks

Political unrest, acts of war, a change in economic system may give rise to the following risks in particular:

- ✓ Risk of delays in payment.
- ✓ Risk of expropriation and damage to the goods.

Conversion risk in the importing country: the danger that, for economic or political reasons, payment of the purchase price by the importer to the exporter is not made in the contractually agreed currency.

Transfer risk: the risk of government intervention in the trade and payment sectors with the result that, despite being willing to pay, the importer is prevented from settling his debt with a foreign creditor on time and in full.

Risk of a moratorium: temporary suspension of payments to creditors imposed by the debtor country.

2.1.5.2. Physical risk

Goods moving internationally face a very real risk of physical loss or damage. This may simply be damage caused to the goods in handling and transit, possibly due to inadequate packing or bad handling, or loss due to accidental diversion or deliberate pilferage or theft. It is clear that the risks are generally far greater for export consignments than for domestic movements due to the length of international journeys, the range of transport modes involved, the increased handling and the great variety of conditions encountered.

2.1.5.3 Credit risk

Even if the goods arrive complete and undamaged the problems do not stop there because there is the risk that the buyer will not actually pay for the goods. This may be perfectly legitimate in that there is a contractual dispute between buyer and seller; after all, the exporter may have shipped total rubbish to the importer. However we must accept that non-payment may be the result of a dishonorable intention of the buyer. This takes many formsfromnon-acceptance of the goods, through taking over the goods and deliberately delaying payment, to simply not paying for the goods. It is possible for the exporter to arrange insurance cover for such risks(Marcel , 2008).

2.1.5.4. Exchange risk

Movements in exchange rates are broadly subject to supply and demand within the market for currencies. This is affected by the demand for trading currency and by the differences in interest rates from one country, and one currency, relative to another. The higher the interest rate available on the money market to foreign depositors, the more that currency will be demanded(Marcel , 2008).

2.1.5.5. Commercial risks

According to Jim & Jonathan (2008) commercial risks comprise in particular:

- Risks pertaining to goods, e.g. the risk of failure tosell, risk of failure to take delivery, transport risk.
- Legal risks, e.g. product liability risk or breaches ofexport/import regulations.
- Payment risk, e.g. in the form of an unwillingnessto pay, insolvency or default in the case of advance payment, payment on account and/or payment afterdelivery or performance.
- Currency risk, e.g. exchange rate fluctuations

Table 1.1 provides more detailedrisk characteristics across specific categoriesof short-term trade finance instruments.

Table 2.1: ***Risk characteristics of short-term trade finance products, 2008-11***

Category	Transaction default rate	Implied maturity (days)	Recovery rate[3]	Defaulted transaction loss rate[4]	Specific Transaction level loss rate
Import letters of credit	0.020%	80	71%	42%	0.008%
Export confirmed letters of credit	0.016%	70	40%	68%	0.011%
Loans for Import	0.016%	110	45%	64%	0.010%
Loans for Export Bank Risk	0.029%	140	32%	73%	0.021%
Loans for Export: Corporate Risk	0.021%	70	51%	57%	0.012%
Performance Guarantee	0.034%	110	18%	85%	0.029%
Total	0.021%	90	52%	57%	0.012%

Source: Adopted from (WTO, 2016)

[3] Observed recoveries as a percentage of defaulted exposure across products
[4] Estimated economic loss rate as a percentage of defaulting exposure after discounting and costs.

2.1.6. Instruments of Trade Finance

International trade exposes exporters and importers to substantial risks, especially when the trading partner is far away or in a country where contracts are hard to enforce. Firms can mitigate these risks through specialized trade finance products offered by financial intermediaries(Niepmann & Schmidt-Eisenlohr, 2013).

Importers and exporters are looking for any competitive advantage that would help them to increase their sales. For example flexible payment terms make a product more competitive(Asiedu-Appiah, 2005).

Method of payment is the means by which the money will be paid and the exporter has a range of choices which offer varying degrees of security (Jim and Jonatan 2008). According to Banu (2015) Financing/payment terms in international trade fall under three broad categories. Under open account (OA) terms, goods are shipped and delivered before a payment is made by the importer. Under cash-in-advance (CIA) terms, the payment is received before the ownership of the goods is transferred. If a transaction is on letter of credit (LC) terms, the importer's bank commits to make the payment to the exporter upon the verification of the fulfillment of the terms and conditions stated in the LC.

In developing countries the choice of financing terms in international trade determines many factors among this are Banu (2015) showed that institutional quality and financial sector efficiency are important in determining financing terms. In particular, a transaction is more likely to occur on CIA terms if the importer is located in a country with weak enforcement (low institutional quality) and/or with low financing costs (efficient financial sector), and on OA terms if the exporter is located in a country with weak enforcement and/or with low financing costs. If both trade partners are located in countries with weak enforcement, then the transaction is more likely to occur on LC terms.

2.1.6.1. Types of method of payment

1. **Open Account**

This is the sale where goods are shipped and documents are remitted directly to the buyer, with a request for payment at the appropriate time which could be immediately, or at an agreed future date(Agbonika, 2015). The least secure method of payment and therefore only used regularly in low risk markets. It is thus quite common in Western Europe and the USA The seller will send the goods and all the documents direct to the buyer and trust them to pay on the agreed date(Jim & Jonathan , 2008).

2. **Cash in advance/with order**

This is the simplest and most common method of payment for small transactions. This method also known as prepayment method reduces the risk of failure to pay and provides the seller with a reasonable certainty of payment. A seller may insist on payment in cash by providing contracts which require “cash against documents” or “cash on delivery”. The importer pays the exporter by using telegraphic transfer or international cheque before the exporter ships the goods. The parties may even agree on “cash on order” so that payment in fact precedes the sale or require credit transactions where large amounts of money are involved(Agbonika, 2015).

It is the most secure method of payment for the exporter because of exporter’s perceptions of an increased credit risk in world trade, and the fact that they do not regard L/C as an absolute guarantee, that there has been a clear increase in the incidence of advance payments. It is increasingly the case that overseas buyers in certain high risk countries also accept it as the normal method of payment subject to their exchange controls. In this context many African markets are regularly paying in advance. In the case of large projects, it is not unusual for a percentage of the payment to be made in advance, the balance often being paid in installments. The money can be transferred just as for an open account payment, the only difference being that the transfer takes place before shipment (or even before manufacture) against a pro-forma invoice rather than a final invoice(Jim & Jonathan , 2008).

According to Agbonika (2015) Cash-in-Advance Terms can be used under the following circumstances, where;

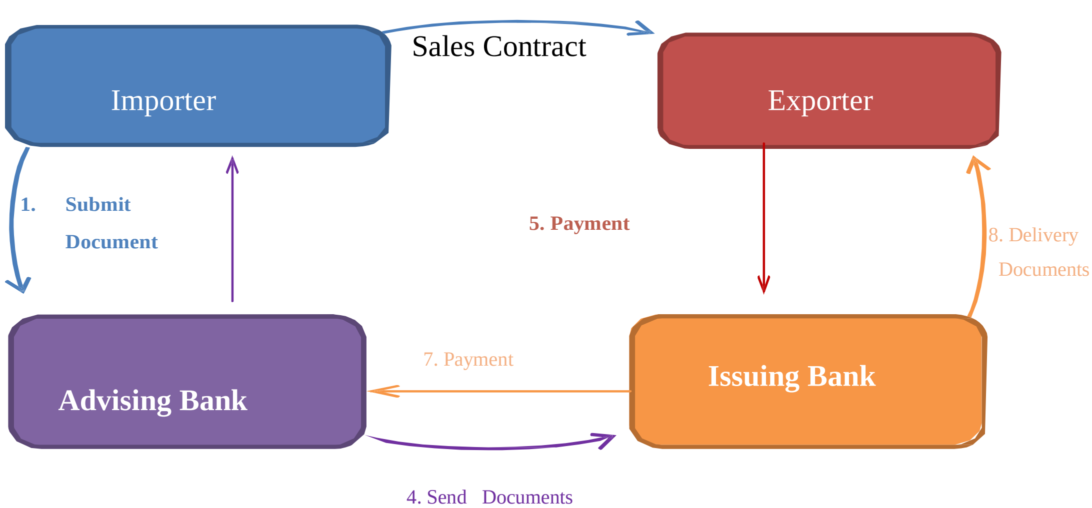
• The importer is a new customer and/or has a less-established operating history.
• The importer’s creditworthiness is doubtful, unsatisfactory, or unverifiable.
• The political and commercial risks of the importer’s home country are very high.
• The exporter’s product is unique, not available elsewhere, or in heavy demand.
• The exporter operates an Internet-based business where the use of convenient payment methods is a must to remain competitive.

3. **Documentary Collection (DC)**

A Documentary Collection is a payment mechanism whereby an exporter uses the services of several agent banks to obtain payment from an importer in exchange for presentation of trade documents as pre-agreed in the commercial contract. A Documentary Collection provides a compromise between open account terms and advanced payment terms in terms of risk to both the importer and the exporter. It is also a simpler but less secure payment alternative to the Letter of Credit. D/Cs involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The draft gives instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients, D/Cs offers no verification process and Limited recourse in the event of non-payment. Drafts are generally less expensive than LCs(Citigroup, 2006).

On the other hand, with the increasing private sector involvement in commodity trading, companies are looking for quick cash flows and optimization. Letters of credit are becoming cumbersome and time-consuming and, in some instances, this leads traders to use the cash against documents (CAD) mechanism for some of their main buying transactions. It is a method of payment for goods in which documents transferring title are given to the buyer upon payment of cash. Payment is therefore made once the bill of lading is presented. This technique minimizes costs and facilitates payments to traders who are using it to pay for their purchases. Nevertheless, CAD does not provide the security which letters of credit offer. The risks that CAD brings do not allow every trader to use such a mechanism, especially when dealing with a new partner or in emerging markets. Moreover, it depends on national law. Traders in some countries are obliged by the law to use letters of credit in order to transfer funds (Frida , 1996).

Figure1: ***How a documentary collection works***



Adopted from niepmann & schmidst Eisenlohr, 2013

Types of Documentary Collection

A. *Documents Against Payment (D/P)*

Under D/P Collections, the Collecting Bank will release documents (and therefore goods) to the Drawee only after receipt of payment from the Drawee. The Drawee is normally expected to pay within 3 working days of presentation of documents. The Principal maintains control of goods through the use of title shipping documents until such time that the Drawee pays for the goods. Upon receiving payment, the Collecting Bank will hand over the control of the goods to the Drawee.

B. *Documents Against Acceptance (D/A)*

Under D/A Collections, the Collecting Bank will release documents (and therefore goods) to the Drawee only against the promise of payment at a fixed future date. This promise is executed through an acceptance of a financial document called the bill of exchange (also commonly known as the Draft). Bill of exchange serves as the official financial document by which one party (the drawer) demands for payment from another party (the Drawee).

4. Consignment Sale

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 rise if the agent or consignee fails to repatriate the proceeds to the exporter from the sale of goods(Cherunilam, 2006).

5. Letters of credit (LCs)

An LC, also referred to as a documentary credit, is a contractual agreement whereby a bank in the buyer's country, known as the issuing bank, acting on behalf of its customer (the buyer or importer), authorizes a bank in the seller's country, known as the advising bank, to make payment to the beneficiary (the seller or exporter) against the receipt of stipulated documents[5]. It is a commitment by a bank on behalf of the buyer that payment will be made to the exporter provided that the terms and conditions have been met, as verified through the presentation of all required documents

[5] Documents required as per the letter of credit terms and conditions.

(Agbonika, 2015). It is the preferred mode of settlement between a buyer and a seller under the following circumstances:

- They are not well-known to each other.
- They are located in different countries and the seller is not sure of the credit worthiness of the buyer.

The Letter of Credit is governed by the ICC rules defined in Uniform Customs Practice (UCP) 600. UCP 600 Article 2 has defined "Credit" as "*Any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation*".

From functionality perspective Commercial code of Ethiopia Art. 959 (1960), defined Letter of Credit as:

> A documentary credit is a credit opened by a bank providing for payment against presentation of specified documents to the opening bank or to its agent. Goods represented by such documents maybe held and disposed of by the bank in accordance with the terms agreed between the bank and its principal (p.208-209).

Letters of Credit have been a cornerstone of international trade dating back to the early 1900s. They continue to play a critical role in world trade today. For any company entering the international market, Letters of Credit are an important payment mechanism which helps eliminate certain risks(Zsuzsanna, 2006).

Letters of credit play a significant role in financing international trade, and have gained great importance. They have been described as "the life blood of international commerce and have been referred to as "quint essential international instruments The law of letters of credit has emerged mainly from the customs of bankers dealing with importers, exporters, freight forwarders, shipping and insurance companies. Today, these customs are embodied in a Code drafted by the International Chamber of Commerce titled "Uniform Customs and Practice for Documentary Credits" (UCP)(Zsuzsanna, 2006).

Documentary credit is an essential part of the export process. It is a trade finance mechanism that was developed to add a measure of security to trade transactions, particularly between buyers and sellers from different countries, and to assert sufficient pressure in case of any violation or non-performance to the trade contract. The letter of credit calls for the participation of a third party, which is the bank. The bank provides additional security for both parties; it plays the role of an intermediary, by assuring the seller that he will be paid if he provides the bank with the required documents, and by assuring the buyer that his money will not be paid unless the shipping documents evidencing proper shipment of his goods are presented(Frida , 1996).

Letter of credits are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. The buyer pays his or her bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. An LC also protects the buyer because no payment obligation arises until the goods have been shipped or delivered as promised.

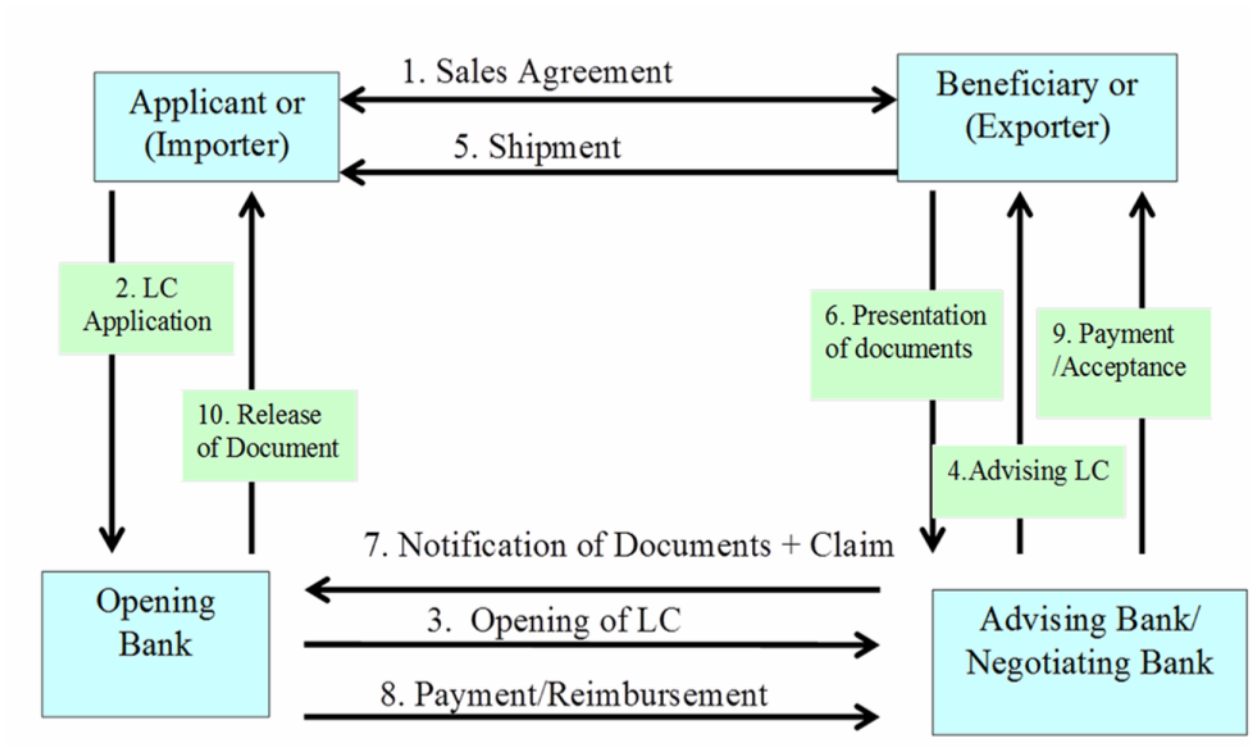
Cycle in a Letter of Credit

Usually the contract provides for the opening of a letter of credit within a specified time[6]. The banks open LCs according to instructions they have received from importers. The stages to be followed in executing this contract are as follows:

- The importer pays the exporter by arranging for the issuing bank to open an LC in favour of the exporter.
- The issuing bank transmits the LC to the advising bank, which forwards it to the exporter.
- The exporter forwards the goods and documents to a freight forwarder.
- The freight forwarder dispatches the goods and submits documents to the advising bank.
- The advising bank checks documents for compliance with the LC and pays the exporter.
- The importer's account at the issuing bank is debited.
- The issuing bank releases documents to the importer to claim the goods from the carrier.

[6] As per agreed Performa validity date.

Figure 2: ***How a letter of credit works***



Source: Adopted from CITIGROUP (2004)

According to CITIGROUP (2004), parties involved in the letter of credit are the following:-

Applicant	The party, also known as the Importer or the Buyer, on whose request the L/C has been issued.
Beneficiary	The party, also known as the Exporter or the Seller, in whose favor the L/C has been issued.
Opening or Issuing Bank	The bank that issues a credit at the request of an Applicant or on its behalf in favor of the Beneficiary. It is the bank that provides irrevocable and independent undertaking to pay the Beneficiary.

Advising Bank	The bank that authenticates and advises the establishment of the LC to the Beneficiary at the request of the issuing bank.
Second Advising Bank	The bank that further authenticates and advises the LC to the Beneficiary at the request of the First Advising Bank.
Nominated Bank	The bank with which the credit is available or any bank in the case of a credit available with any bank.
Confirming Bank	The bank that adds another level of definite undertaking, in addition to that of the issuing bank, to honor or negotiate a complying presentation.
Reimbursing Bank	The bank nominated by the issuing bank to pay claims under the credit to the negotiating or paying.
Negotiating Bank	The bank that advances funds, at its own discretion, to the beneficiary against a complying presentation under the terms of conditions of a credit. The negotiating bank always negotiates with recourse
Remitting Bank	The bank which receive the stipulated documents under the credit from the beneficiary and then forwards that to the issuing bank
Paying Bank	The bank nominated in the credit by the issuing bank that will be responsible to effect the payment on behalf of the issuing bank. The paying bank always pays without recourse.

Types of letters of credits

1. Payment at sight, deferred payment, acceptance and negotiation credits

It is important for the beneficiary to know in what manner he will be able to obtain payment. The UCP allows for the following options: the credit may be available by:

a) Sight payment;

b) Deferred payment;

c) Acceptance; or

d) Negotiation.

The parties to the underlying agreement should agree on which of the above mentioned method they wish to use and the applicant should open the letter of credit accordingly. Moreover, the UCP 500 requires that the credit itself indicates whether it is available by sight payment, by deferred payment, by acceptance or by negotiation. *Sight payment* means payment against documents. The authorized bank shall pay the beneficiary upon presentation of documents, provided that the terms and conditions of the credit are fully compiled with. For checking the documents the banks are given a specific period of time.

By deferred payment the beneficiary shall receive payment at some future date (maturity date), specified by the credit. A deferred payment credit may, for example, provide for payment 90 days after the date of shipment (date of issuance of the bill of lading) or 15 days after presentation of documents. On submission of the documents that meet the conditions of the credit, the beneficiary is given a written statement by the authorized bank that payment will be made on the due date. If the beneficiary wishes to receive payment before this maturity date, he can resort to negotiating the letter of credit, normally at a discount.

Under an *acceptance* credit "the issuing bank undertakes to pay a non-documentary bill drawn by the beneficiary". It is a "bipartite transaction in which the letter of credit is opened by the issuing bank at the account party's request and in that very party's favour". UCP Article 7(a) (iii) clarifies the liabilities of the issuing bank under an acceptance credit. It states that the issuing bank is obliged to accept drafts drawn by the beneficiary on the issuing bank and to pay them at maturity. If the nominated bank refuses to accept the draft or accepts the draft but does not pay at maturity, the beneficiary is entitled to require payment from the issuing bank.

The credit may also be a *negotiation* credit. The UCP 600 defines negotiation as “giving of value for Draft(s) and/or document(s) by the bank authorized to negotiate”. This bank is called the negotiating bank, which will endorse and negotiate the draft or documents, with certain deductions of discount or interest and commission. Under the UCP 600 there are two kinds of negotiation credits. A credit may restrict the negotiation to a certain bank nominated in the credit, or it can be freely negotiable, which means that any bank can become a negotiating bank by undertaking the negotiation. However, it is important to note that the term “negotiable credit” is misleading, since the credit itself is not negotiable. It is the draft under the credit that may be freely negotiable.

1. Revocable and irrevocable credits

A distinction has to be drawn between revocable and irrevocable credits. The feature of “revocability” or “irrevocability” of a credit refers to the undertaking of the issuing bank. A revocable letter of credit gives the applicant maximum flexibility, whereas it gives less security to the beneficiary. It can be amended, revoked or cancelled without the beneficiary’s consent and even without prior notice to the beneficiary.

An irrevocable letter of credit, on the other hand, constitutes a definite undertaking of the issuing bank to pay and accept drafts and/or documents, provided that the stipulated documents are presented and that the terms and conditions are complied with. Consequently, an irrevocable credit gives greater assurance to the beneficiary as to the payment by the bank, since it cannot be modified or cancelled without the express consent of the beneficiary.The UCP 600 requires the issuing bank to clearly state in the credit whether it is revocable or irrevocable. In the absence of such indication the credit is presumed to be irrevocable. The majority of the legal systems with statutory provisions on documentary credits address the issue of revocability and irrevocability. Most statutes treat documentary credits irrevocable if the credit does not specifically indicate it. There are however countries, where the presumption of revocability prevails. In practice, revocable credits are not often accepted as method of payment in Ethiopia. The more widely used form is the irrevocable credit, which may be confirmed or unconfirmed.

2. Confirmed and Unconfirmed Credits

While “irrevocability” or “revocability” refers to the obligation of the issuing bank towards the beneficiary, the feature of a credit as “confirmed” or “unconfirmed” is related to the undertaking of another bank invited into the transaction by the issuing bank. In many transactions the issuing bank communicates the letter of credit through another bank that may act as an advising or a confirming bank. Upon the authorization or request of the issuing bank, a bank may confirm a letter of credit, which constitutes a definite undertaking of the confirming bank, in addition to that of the issuing bank, towards the beneficiary to pay, accept draft or to negotiate. Needless to say, that in conformity with the principles of a letter of credit transaction, the obligation of the confirming bank can be evoked upon presentation of documents stipulated by and being in full compliance with the terms and conditions of the credit, on or before the expiry date. An irrevocable, confirmed letter of credit "gives the beneficiary a double assurance of payment, since it represents both the undertaking of the issuing bank and the undertaking of the confirming bank". A vendor of goods selling against a confirmed letter of credit is selling under the assurance that nothing will prevent him from receiving the price."

A confirmed letter of credit usually includes the following – or similar - text: *"As requested by the Issuing Bank, we hereby add our confirmation to the Credit in accordance with the stipulations under UCP 600 Article 9.* The confirmation of the confirming bank may be "silent" or may be a so called "seller's confirmation". A silent confirmation[7] is the undertaking of the confirming bank without the express authorization of the issuing bank. This undertaking does not represent a "confirmation" within the meaning of the UCP, it is rather a separate agreement between the beneficiary and the "confirming" bank under which the said bank is obliged to purchase or discount the draft. "The confirming bank will have no rights against the issuing bank arising from its [silent] confirmation. Thus, unless it is entitled to be reimbursed because it is nominated by the credit as the paying bank, if its confirmation leads it to have to pay on the credit, it will not have a right of reimbursement."

In case of a "seller's confirmation" the seller requests the confirmation of the credit in order to obtain an additional security that it will receive payment. Although this issue is not covered by the UCP 500 it seems to be a common practice. Since the confirmation is not requested and authorized by the issuing bank the confirmer acts at its own risk.

[7]A silent confirmation is an undertaking given by a bank (at the request of the beneficiary, without the request or authorization of the issuing bank) to add itsundertaking to a letter of credit to pay according to the terms of the credit,providing all documents are presented in order.

A letter of credit is unconfirmed, if the bank merely acts as an agent of the issuing bank without assuming any responsibility towards the beneficiary, thus acting as an advising bank. An advising bank does not confirm the credit; its obligation is to take reasonable care to check the apparent authenticity of the credit.

Special Types of L/Cs

4. Revolving Documentary Credits

Revolving credits are used in transactions where there is a continuous relationship between the exporter and the importer and the amount is renewed periodically without renewing the terms and conditions of the credit(Jim & Jonathan , 2008).

According to Citigroup Inc.(2008)revolving documentary credit can be Cumulative or Non-cumulative.If the revolving credit is non-cumulative, then any amount not drawn in a specific period of time ceases to be available. The credit may be revolving not only in relation to time, but in relation to value as well. This latter means, that the letter of credit is automatically reinstated when the value of the credit is exhausted. Although revolving credits are mentioned in all textbooks, in practice they appear to be rare.

3. Red Clause Documentary Credits

The Red Clause Documentary Credit received its name from a special condition inserted into the text of the credit, which was originally written by red ink. Under this special condition the confirming bank or any other nominated banks are authorized by the applicant to make advances to the beneficiary before presentation of document. The amount of the advances is specified in the credit. Harfield explains it as follows: "The Red Clause is a device which originated in the China trade, where the seller was most frequently an agent of the buyer…In the fur trade, for example, the persons in China who dealt with American buyers were, in the main, either buyers' representatives or traders who went into the hinterland and bought raw furs, a little here and a little there, assembled them…They dealt, too, with persons who wanted cash on the barrelhead before they parted with the furs. Accordingly, opening banks began to practice of endorsing on their credits in red ink (whence the name) a clause authorizing the confirming or negotiating bank to pay the beneficiary against the drafts alone, coupled with his simple promise to provide the documents in the future."

Thus, the Red Clause Documentary Credit is used where the buyer is willing to finance the transaction before the actual shipping of goods.

6. Transferable Documentary Credits

Letter of credits are usually opened in favour of the beneficiary named in the credit. It means that only the named person can tender the documents and can require payment from the bank. However, in today's complex business relationships it is not exceptional that the beneficiary seeks to transfer its rights under the credit to a third party. This can happen in to ways: by transfer and by assignment. Transfer of the credit often the seller is not the manufacturer of the goods being subject of the sales contract. He may only act as a middleman obtaining goods from a third party and selling them to the buyer at a higher price. In this case the seller may use a transferable credit to pay the third party (usually referred to as the Second Beneficiary) selling to him.

7. Back-to-Back Documentary Credits

A Back-to-Back Documentary Credit is used in transactions where a seller, who entered into a contract of sale of certain goods, has to purchase those goods from his supplier and no transferable credit is used in the transaction. In this case two separate documentary credits are involved: a documentary credit opened by the buyer in favour of the seller and another documentary credit opened by the seller in favour of the supplier on the security of the first credit. "The original credit, and the second opened in favour of the supplier, will be in identical terms apart from the price.

Summarizing special type L/Cs

Due to the limited foreign currency and exchange regulation of our country, we do not at present use some of the special types of L/Cs that are commonly used in other countries. They are: -

1. Revolving Letter of Credit
2. Red clause Letter of Credit
3. Installment Letter of Credit

We may use others with the following modifications:

i. Advance Payment Letter of Credit: - Before we open such L/C. we must require an unconditional and acceptable first class bank guarantee (see the chapter for Guarantee in this manual) for the advance payment portion by tested telex or authenticated SWIFT. The amount to be advanced against such L/C should be a certain percentage of the total L/C value (current practice require less than or equal to 20 %.)

ii.Transferable Letter of Credit: - Only when, the L/C text can authorize negotiation only against shipping documents prepared by the main beneficiary or at least bears the signature and stamp of the main beneficiary of the L/C (i.e. shipping documents prepared by the transferee of the L/C will not be acceptable).

iii.Back-to-Back Letter of Credit: - we need to inform the correspondent bank concerned that such an L/C can be treated as any other ordinary L/C without involving our bank into any additional commitment to any third party (second beneficiary).

iv. Standby Letter of Credit: we can accept such L/Cs in favour of our customer (or any legal person in Ethiopia) and advise the same as guarantee. Foreign beneficiaries will get from our side as bank guarantee rather than a Standby L/C.

6. International Guarantees

Guarantee means any signed undertaking, however named or described, providing for payment on presentation of a complying demand. Guarantee is an undertaking to answer for the payment or performance of another person's debt or obligation in the event of a default by the person primarily responsible for it.International guarantees may be defined as an irrevocable undertaking by a bank to pay a sum of money in the event of non-performance of a contract bya third party. The guarantee is a separate obligation independent of theprincipal debt or the contractual relationship between the beneficiary and theprincipal. Under the terms of the guarantee, the bank has to pay on firstdemand provided that the conditions contained in the guarantee are fulfilled.Guarantees are as a rule subject to the laws of the country of the issuing bank(Global International Trade & Business Finance, 2000).

The Role of Guarantee in International Trade

- It smooths business relation among the parties involved.
- It helps the seller to get an advance/credit from buyers in order to accomplish their commitment.
- Prohibits unfair business advantage by one of the parties involved in business transaction.
- Facilitates transactions between buyer and seller which operate at different geographical locations.

- Paves the way to make peaceful business between partners which does not know each other before.

2.1.7. Main documents used in international commodity trade

Documents are the key issue in a letter of credit transaction. Banks deal in documents, not in goods (Article 5 of UCP 600). They decide on the basis of documents alone whether payment, negotiation, or acceptance is to be effected. If proper documents are presented, banks will make payment whether or not the actual goods shipped comply with the sales contract (Frida , 1996).

Thus, special attention has to be given to the correct list of documents since a slight omission or discrepancy between required and actual documents may cause additional cost, delays and extra work for both buyer and seller and may prevent the merchandise from being exported. This can result in the exporter not getting paid or even in the appropriation of the exporter's goods by national or foreign government customs. Even before the letter of credit is issued the buyer and seller should clearly decide on the documents that are needed for the accomplishment of the sale transaction. The letter of credit should precisely state the documents required and their contents.

A. *Commercial Invoice*

The commercial invoice is an invoice/bill for the goods from the seller to the buyer. It is a document that gives a complete description of the trade transaction, i.e. invoice number, full listing of the goods, quantities, shipping date, mode of transport, address of the shipper and buyer and the delivery and payment terms. The buyer requires the invoice to certify ownership and to initiate payment. Some governments use the commercial invoice to determine the true value of the goods when assessing customs duties.

B. *Bill of lading (B/L)*

B/Ls are contracts between the owner of the goods (shipper/contractor) and the transportation company. It is considered to be a receipt for the goods shipped (given to the seller by the carrier), a contract for delivery (i.e. a contract to deliver the goods as freight to the consignee), and, most importantly, a document of title to the goods.

C. *Certificate of Origin*

Some countries (particularly those subject to lower tariffs and free trade treaties) may require, for entry purposes, a signed statement certifying the origin of the goods being traded. If the buyer requires this document, he should so stipulate in his letter of credit.

D. Packing List

A document that lists and itemizes the merchandise contained in each package (box, crate, drum, carton, or container), and indicates the type, dimensions, and weight of the container. The packing list is used by customs and transportation companies.

2.1.8. International Standards and Regulations for Documentary Credit and Collections

UCP 600

The USP is the work of ICC, a private international organization founded in 1919. Formulated entirely by experts in the private sector, it remains to date, the most successful private rules for trade ever developed. UCP 600 is the latest version of the Uniform Customs and Practice that govern the operation of letters of credit. UCP 600 comes into effect on 01 July 2007(Citigroup Inc. , 2008).

The 39 articles of UCP 600 are a comprehensive and practical working aid to bankers, lawyers, importers, and exporters, transport executives, educators, and everyone involved in letter of credit transactions worldwide (Citigroup Inc. , 2008)

ISBP 2006

In 1996 the US Council on International Banking published a paper titled “standard Banking Practice for the Examination of Letter of Credit Documents” which provided a checklist for banks on what must be considered when inspecting the documents. The goal was to try to reduce the number of presentations rejected by the banks by providing a standard for documentary checkers. The International Standard Banking practice for the Examination of documents under documentary letter of credit, commonly called ISBP, was approved by the commission at its meeting in Rome in October 2002(Zsuzsanna, 2006).

URR 525

The uniform Rules for bank-to-Bank reimbursement under documentary Credits (URR 525) come into effect on the 1st of July 1996. The seventeen articles of the URR 525 deal with the state of affairs covered by Article 19 of the UCP 500, where banks (an issuing bank, a claiming bank and a reimbursing bank) are involved. It does not alter the provisions of UCP but sets out a detailed code for the reimbursing process (Zsuzsanna, 2006).

2.2 Empirical Literature Review

2.2.1. International Experience

Studies by Demir (2014) examined the role of financial markets in facilitating international trade, especially in developing countries. In particular, the goal of these countries to diversify exports both in terms of products and destinations, i.e. towards developed country markets, calls for additional trade financing. Given their shallow financial markets, access to trade finance still remains a challenge for such countries. One possible remedy would be to extend short-term credit lines to exporters through EXIM banks, with a view to meeting their working capital needs. Another remedy would be to create new instruments linked, for instance, to LCs, which can be used by beneficiary exporters to obtain short-term financing in their home countries. Bankers' acceptance is one such instrument. However, these instruments are seldom used because of their complexity and inconvenience. John H.(2009) explained one of the difficulties in obtaining trade finance are more likely to affect small firms and new entrants that do not have established relationships with their banks and with their customers.

2.2.2. Ethiopia's Experience

There are few studies that specifically examine the challenges of international trade financing focusing on export pre-shipment finance. Moreover, the majority of these studies prefer to concentrate the challenges of pre-shipment export financing from the exporter's sides. For example, Damtew (2015) provides empirical evidence on challenges of Ethiopia commercial banks in export financing such as availability of finance for pre shipment, post shipment, term loans and foreign currency requests were not adequate as most of the respondents agreed nearly 50 percent of their request were granted. According to Damtew (2015), though bank experts agreed exporters were financed with less interest rate and charges as compared to other sector loans with due priority and attention given to them through clear procedure. On the contrary, exporters were not performing as expected by banks by diversion of funds and export proceeds from the intended.

According to Mengistu (2014) on the Challenges of Pre-Shipment Export Credit Financing In the Commercial Bank of Ethiopia findings depicted that non performing pre-shipment loans increased from 32 million birr in 2009 to 270million birr in 2013 and this showed the need for putting in place effective credit risk management system is very essential and almost all of the cases that are categorized as NPL and sent to the recovery are new for both the export sector (not having an established relationship with their customers) and for the bank and also their financial condition in terms of gearing was poor (highly indebted). This highlights the need for revisiting the eligibility criteria for pre-shipment credit financing.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter covers the methodological background of the study and the methods used. It therefore involves research design, data types & sources, data collection instruments, target population and sample design, reliability and validity of the instruments and data analysis procedure.

3.1. Research Approach and Design

The study employed mixed approach. A research design according to Nworgu (1991) is a plan which specifies how data relating to a given problem should be collected and analyzed. Blanche & Durrheim (1999) describe a research design as a bridge in the implementation of the research and the research questions. For this study a descriptive research design was applied in order to describe the information and answering the research questions related to practice and challenges of international trade finance in selected private commercial banks. Descriptive research is a research study which is concerned with describing the characteristics of a particular individual or group (Kothari, 2004). The researcher also adapted a cross sectional survey design. According to Zikmund (2000) a cross sectional survey design is the type of survey design in which necessary data is collected at one point in time from particular set of population. Therefore this research design was employed for the study because of recourse and time limitation to undertake longitudinal survey.

3.2. Data Types and Sources

The researcher used both qualitative and quantitative types of data that were collected from primary and secondary sources to achieve the stated objectives of the study. The reason behind using both types and sources of data is to keep and cross-check the validity and reliability of the finding from close-ended questionnaires, interviews and document reviews.

Primary data: The primary data was gathered through structured questioner and interview from concerned staff members. The staff members include international banking officers and/or branch managers, and import-export division managers. Besides semi-structured interview were prepared and offered to the six banks IB managers.

The purpose of semi structured interviews is to allow flexibility for new questions that may emerge during the interview.

Secondary data: Secondary data was obtained from National bank of Ethiopia data base and annual reports of the selected private banks.

3.3. Measurement/Instrument Design

The study used primary data collection instruments, namely, questionnaire and structured interview. A well designed questionnaire with two sections which have general information and international trade finance practice and challenges related questions were distributed to target respondents, and interview was conducted in order to realize the objective. Some of the questionnaire section consists of a set of questions that intends to determine the level of frequency using a categorical scale. The categorical rating scale asks the respondent how often she or he implemented the actions under the category with a five-point rating scale. Possible rating of responses should be presented in a straight line as this is how respondents are more likely to answer the questions readily (Nworgu, B.N., 1991). The sources for secondary data were gathered from procedures, directives, annual reports of the commercial banks, internet and National bank of Ethiopia.

3.4. Target population and Sample Design

The target population for the study is all international banking managers and trade service officers who are working in Awash International Bank S.C, Dashen Bank, Bank of Abyssinia, Wegagen Bank, United Bank and NIB International Bank. These banks were selected systematically based on amount of profit generated from international trade services, their paid up capital and their experience in their bank service. These banks have more experience and exposure on trade service practice than other private commercial banks in Ethiopia.

The sample respondents were selected from these six banks by non-probability sampling, specifically purposive or judgmental sampling techniques, since they have more know how about foreign currency generation, foreign exchange policies and procedures, foreign permit, approval of foreign currency and settlement of approved permit than other employees (which means respondents are selected purposefully to meet the objectives of the study). To make the study more manageable and more feasible in terms of time and cost, the outlaying branches of all selected private commercial banks are excluded from the study. The study only includes employees of Addis Ababa branches which handled trade services.

International banking department managers and officers of the banks are part of the survey of the study and twenty Addis Ababa branches which handle international trade services were selected from each the six selected PCBs randomly. As indicated by Singh (2006), in probability sampling each member or item of the population has an equal or known chance of being selected. It is usually possible to generalize findings from analysis of data collected from such a sample to the population overall. Each bank has two international banking managers and the study included these two managers in each bank with a total of 12 (twelve) international banking managers respondents and 120 (one hundred twenty) trade service officers and/or branch managers. These statistical data is obtained from their Human Resource Department.

Table 2 shows that the name of private commercial banks used in the survey with their planned sample and the total number of questionnaire distributed and used.

Table: 3.1 Distributed Questionnaire and Used questionnaire and interview conducted

S.No	Name of Banks	The Planned Interview made from each bank	Actual Interview conducted from each bank	The planned Questionnaire distributed to offices and branch managers	Collected & used Questionnaire From Officers
1	Awash International Bank	2	2	20	17
2	Dashen Bank	2	2	20	19
3	Bank of Abyssinia	2	2	20	18
4	Wegagen Bank	2	2	20	18
5	UnitedBank	2	2	20	18
6	NibInternational Bank	2	2	20	18
Total		12	12	120	108

Source: Own computation (2017)

3.5. Data Collection Methods

The research data have been collected from different sources using the various data collection tools. Both quantitative and qualitative data have been used so that the data combination would result in a relatively consistent and cross checked results.

For Primary data collection, different data collection methods were used. For international banking supervisors and foreign officers, unstructured survey questionnaire was used to identify the issues that relates to trade finance practice and challenges. The questionnaire were arranged in standardized categorical scale. In order to strengthen the quality of data; structured interview will be used for international banking managers. Secondary data will be collected from the NBE homepage, private commercial banks homepage and their externally audited annual report.

3.6. Method of Data Analysis

The researcher used editing for data clearing. The data collected were coded and recorded using computer. The quantitative data gathered by the researcher were analyzed by using descriptive statistics namely, mean and standard deviation for better understanding and interpret the data gathered through the questioners. The interview and close-ended questions were analyzed by using qualitative and quantitative data analysis. The analysis method used narrative analysis and the responses of the respondents were summarized. While doing so, statistical package for social science software (SPSS) and Microsoft excel were used to generate data analysis result.

In the process of data analysis, data in the category scale was processed by reducing it to the ordinal level. This was done by combining all “All of the Time”, “Most of the Time, “Sometimes”, “Rarely” and “Never” in turn within their categories. The assigned rating values ranging from 5 to 1 respectively as shown in Table 3.2:

Table 3.2: The Response Values

Response scale	Scale rating
All of the Time	5
Most of the Time	4
Sometimes	3
Rarely	2
Never	1

Source: (Blanche & Durrheim, 1999)

3.7. Reliability and Validity

In order to ensure validity and reliability, the questionnaire was composed of carefully constructed questions in an effort to answer all the research questions and avoid ambiguity. The questionnaire and interviews designed for the study were reviewed and commented by managers and officers working at private commercial banks alongside the suggestion of thesis advisor. These processes helped to ensure the content validity of the instrument.

As a next step, a sample test was conducted with 56 questionnaires during the development stage to ensure the internal consistency of the instrument. The result indicated that the internal consistency is rated as 0.813 as measured by Crombach‘s alpha coefficient which shows that the instrument is sufficiently consistent. Because the instrument proved to be valid by effectively addressing the issue under discussion, the same instrument is used for all respondents as it also meets the required consistency.

N:B Detail table of Crombach‘s alpha coefficient is found at the appendix

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

The previous chapter discussed the methodology used to conduct the study. In this chapter, the results of the findings are presented in sections according to the research questions, based on the data gathered from employees and managers of the selected private commercial banks.

4.1. General Profile of Respondents

The questionnaire sought to collect information concerning the respondents such as background information of the respondents and questions pertaining to international trade financing practices and its challenge. With regards to educational Status, above 79.4% of the respondents have university 1st degree while the balance 20.6% attained university 2nd degree and above.

In an attempt to uncover the level of banking experience, there was a question in the study and the study revealed that above 8.89% of the respondents have working experience in the bank above ten years. The study indicated that 40% of respondents have banking experience between 6 to 10 years while the remaining 51.11% of the respondents fall under the experience between 1 to 5 years.

Looking in to their extensive years of experience at foreign trade service accounted for 15% of the respondents had service years above 5, while 35% of the respondents had service years between 3 to 5 years. The remaining respondents 50% of them had worked in between 1-3 years at trade service department.

Table 4.1: ***General profile of the respondents***

Independent variable	n	%
Educational status		
College Diploma		
First Degree	115	95.8%
Second Degree and above	5	4.2%
Years of work experience in the bank		
Between 1-5 years		
Between 6-10 years	78	65%
Above 10 years	42	35%
Years of work experience at trade service		
Less than or equal to 3years	68	56.7%
Between 4-5 years	42	35%
Above 5 years	10	8.3%
Current Positions of the Respondent		
Managerial	15	12.5%
Foreign Officer/Supervisor	105	87.5%

Source: Questionnaire (2017)

Regarding the current position of the respondents, 87.5% of the respondents were Trade Service Officers/IB-Supervisors who are working for the banks at the international banking department and in different branches. And 12.5% of them are working at the banks as branch manager.

4.2. General Trade Service Issues

According to John (2014), banks facilitate international commerce through a variety of products which include managing their international payments, mitigating the risks, and providing working capital. Indeed, the term “Trade Finance” is used to signify bank products which are specially tailored to expedite international trade transactions i.e. exports and imports.

Table 4.2: ***General Trade Service Issues***

Issues	Mean	Std.
Requesting buyer to sign a sales contract	3.22	1.510
Advising customers on the risk and benefits	4.04	.995
Checking the delinquent list	4.70	.893
Creating awareness about obligation towards NBE	4.91	.278
Items imported/ exported consistent with license	4.39	1.008
Availability of knowledgeable staffs at the IBD especially with payment methods, URC, UCP, and NBE directive	3.70	.814
Consignment in final documents corresponds to PO	4.74	.527
Total Item Mean	**4.24**	

Source: Own Computation (2017)

The study conducted on the level of general trade service issues has the mean value of 4.24 which means the average response on the general trade service issues is practiced most of the time(above average of 3).There are variables whose scores fall below the mean. The variables which score below the item mean average are those that the bank requesting buyer to sign a sales contact, advising the customers on the risk and benefits of method of payments and availability of knowledgeable staffs at the IBD especially with payment methods, URC, UCP, and NBE directives with mean values of3.22,4.04 and 3.70 respectively. These low rates imply that the banks are giving service on trade finance by much less than the acceptable rate score, which is the mean. This is also assured by undertaking the interview to the international banking managers.

The study result displayed in table 6 clearly shows that 4.91(mean) scored for the question of creating awareness about obligation towards NBE. The result is the highest from all other score and the general back ground information of employees with high trade service experience also supports this result. This result is the highest score followed by consignment in final documents corresponding to LC/CAD and checking the delinquent list which have values of4.74 and 4.7 respectively. The Items imported/ exported consistent with license are relatively closer to the mean score result 4.39. This implies that banks are good in their employees' responsibility and accountability in the area of trade service compliance to the national bank directives. This response result was also verified while interviewing international banking department managers.

4.3. Import Letter of credit

A documentary letter of credit ensures that the exporter will be definitely paid for the value of goods shipped, provided that he fulfills the terms and conditions of the credit. In addition, under this payment method, the exporter can obtain payment from a bank at his locality by presenting the shipping documents to the bank immediately after the shipment of goods. Thus the letter of credit covers the major portion of the export and import business in the world (Cherunilam, 2006).

Table 4.3: ***Import Letter of credit***

Issues	Mean	Std.
Assessing the creditworthiness of importer before issuing L/C	3.87	1.146
Assessing the marketability of the consignment when granting margin	3.91	.826
Ascertaining that the pro forma is a recent one	3.52	1.173
Ascertaining that the pro forma indicates 2nd advising bank	3.26	1.251
Assisting the applicant to fill the LC application by herself Or himself	3.70	1.077
Restricting negotiation to a nominated bank	3.57	1.103
Making a timely examination of documents	4.39	.569
Total Item Mean	**3.75**	

Source: Own Computation (2017)

The mean scored by assessing the creditworthiness of the importer before issuing L/C was 3.87, which implies that it is above the average. But, in some instances bank in the normal course is not going to issue a letter of credit at the request of an insolvent buyer, because the bank depends upon the buyer for reimbursement of the funds paid out under the letter of credit. Thus, if such verification of the credit worthiness of the importer is not rigorous, it could result in the issuing bank failing to get reimbursement from the applicant after it has honored the seller's drafts and documents. The mean scored to make sure that the proforma invoice indicating a 2nd advising bank is the least of all scores, that is 3.26.It implies that banks may use their own correspondent bank if the first advising bank fails to have bilateral key.

Ascertaining that the pro-forma invoice is a recent/ a fresh one becomes the next least response result and it scores 3.52. The results are verified by interview. The response obtained from the interview ascertains this result and it happens due to the fact that banks give more attention to the validity date of the proforma invoice rather than the issue date. And the other two variables assessing the credit worthiness of importer before issuing L/C and the marketability of the consignment when granting margin have closely scored the same value above the mean 3.87 and 3.91 respectively. This means the banks normally use the risk mitigation method to manage the possibility of customers' failure to accept and pay the documentary value of the goods. The highest mean value scored among the issues is making a timely examination of shipping documents, whose value is 4.39. This implies banks are more prudent about the international standards issued by ICC which requires notification of discrepant documents within five working days by electronic mail (SWIFT) if not acceptable.

4.4. International Standard Banking Practice (ISBP)

International standard banking practice for examination of documents under documentary credits (ISBP), ICC Publication 645 evolved into a necessary companion to the UCP for determining compliance of documents with terms of letter of credit. It explains how the practices articulated in UCP 600 are applied by documentary practitioners (ICC, 2006).

Table 4.4: ***International Standard Banking Practice (ISBP)***

Issues	Mean	Std.
Taking into account the ISBP guidelines when examining documents.	4.39	.760

Source: Own Computation (2017)

The above table indicates that the study conducted on the extent of taking into account the ISBP guidelines when examining documents reveals that the mean value for the category on average is 4.39. This implies that the ISBP guidelines when examining documents was well practiced.

4.5. Import Documentary Collection Practices

Niepmann (2014) discuss that in documentary collection method of payment, banks handle shipping documents based on the instructions of the seller, and the buyer can get hold of the documents only after effecting payment for the document value without which s/he cannot receive the goods from the customs; thus a documentary collection provides better reliability of payment as compared to an open account basis.

Table 4.5: ***Import Documentary Collection Practices***

Issues	Mean	Std.
Collection documents evidencing shipment of goods prior to PO	3.13	1.506
Collection documents presented outside the banking channel	2.23	1.226
Revised collection documents presented outside banking channel	2.35	1.241
Action taken on collection documents based on collection instruction	3.78	1.156
Promptly advise customers of the arrival of shipping documents solely based on the instruction of the remitting bank	4.27	.886
Promptly advising customers of the arrival of shipping documents	4.39	1.040
Reminders to taken up documents as early as possible	4.35	.993
Advising the remitting bank of the fate of documents by SWIFT	4.40	.771
Effecting payment automatically once buyer takes up documents	4.53	.648
Sending advice of payments or non-acceptance with reasons to the remitting bank	4.12	.688
Total Item Mean of means	**3.78**	

Source: Own Computation (2016)

Under import documentary collection practices category, a mean score 3.78 is attained which is above average. The variables which score below average under Import Documentary Collection Practices were collection documents presented outside the banking channel and revised collection documents presented outside banking channel with the mean score of 2.22 and 2.30 respectively. This implies that the banks are giving more attention for international standards issued by ICC for documentary collection, keeping good name internationally for their trust. The interview analysis in this aspect elaborates, as one of the major issues which are strictly followed among international banks, bilateral communications and respecting international standards for documentary collection besides the NBE directive towards those issues. Apart from these variables, however, all other import documentary collection practices get above mean score. Among the indicator variables, collection documents evidencing shipment of goods prior to PO, gets above mean score of 3.13. This result could be associated to the experience that commercial banks may accept the maximum 10 days' time for goods shipped prior to PO approval with final warning, if not intentionally done.

Action taken on collection documents based on collection instruction of the remitting bank scored mean of 3.78 which is above average. Many of the respondents have reflected this idea saying that with the NBE directives put in place, it is almost impossible to pay any correspondent bank charges outside Ethiopia; except this, they strictly follow the remitting bank instruction. Similarly, the banks promptly advise customers of the arrival of shipping documents solely based on the instruction of the remitting bank has a more than average mean score of 4.26.

The variables of generally advising customers of the arrival of shipping documents, giving reminders to take up documents as early as possible, advising the remitting bank of the fate of documents by SWIFT and effecting payment automatically once buyer takes up documents, have received the higher rate with mean score of 4.39, 4.35, 4.39 and 4.52 respectively. These results showed that most of the time the banks promptly advice the customers the arrival of shipping documents with all its content and discrepancy, if any, for further action to be taken. Interview analysis further reveals that in some circumstances the drawee may be late for the settlement of documents in which case reminders will be sent; the banks will alongside let the remitting bank know the fate of the documents by SWIFT message. For those collection documents that have got acceptance by the drawee and being settled the banks will immediately effect payment as per the instruction of the remitting bank on the covering letter of the documents.

Sending advice of payments or non-acceptance with reasons and returning collection documents 60 days of advice of non-payment to the remitting bank have the next higher mean scores 4.13 and 4.09 respectively. These indicate the banks are following the international documentary collection standards responsibly to effect payment immediately for documents that has got acceptance by and delivered to the drawee against cash collection. But incases that the drawee fails to do so, the banks will explain the reason for non-acceptance by SWIFT message and return the documents after 60 days.

4.6. Import cash in advance practices

The most beneficial payment terms for the seller, according to Cherunilam (2006), is when payment is received in advance of the shipment of goods, i.e. the cash in advance payment term. It is not common for an importer to be willing to make advance payments. However when the goods are to be manufactured to the order of and according to the specifications outlined by the importer, advance payment is usually required by the seller.

Table 4.6: ***Import cash in advance Practices***

Import Cash-in-Advance aspect	Mean	Std.
Ascertain that the buyer and seller do have a long-standing business relationship.	3.17	1.347
Checking that proforma invoice states beneficiary's bank details.	4.52	.767
Letting an importer send multiple cash-in-advance payments to the same supplier and on same date	2.78	1.618
Requesting the importer to confirm that shipment has not been made prior to permit issuance.	3.91	1.455
Total items mean	**3.36**	

Source: Own Computation (2016)

The import Cash-in-Advance practice scored a mean scale of 3.36 which is above average. Excellent score has been given for checking that proforma invoice states beneficiary's bank details which is a mean score of 4.52. Apart from checking that pro forma invoice states beneficiary's bank details, requesting the importer to confirm that shipment has not been effected prior to permit issuance is rated as mean score of 3.91 which is a second high score from the category. The study reveals that ascertaining the buyer and seller do have a long-standing business relationship which has put some good efforts as explained by mean score of 3.17 being above the average score. Among the categories the least mean scored is 2.78 which applies for letting an importer send multiple cash-in-advance payments to the same supplier and on same date. This implies the banks at times oversight the NBE directives that states any advance payment shall not exceed USD 5,000.00 or its equivalent for the same supplier at a time.

4.7. Export Letter of Credit

Documentary credit is an essential part of the export process. It is a trade finance mechanism that was developed to add a measure of security to trade transactions, particularly between buyers and sellers from different countries, and to assert sufficient pressure in case of any violation or non-performance to the trade contract. The letter of credit calls for the participation of a third party, which is the bank. The bank provides additional security for both parties; it plays the role of an intermediary, by assuring the seller that he will be paid if he provides the bank with the required documents, and by assuring the buyer that his money will not be paid unless the shipping documents evidencing proper shipment of his goods are presented (Frida , 1996).

Table 4.7: ***Export Letter of Credit Practices***

Issues	Mean	Std.
Assessing the credibility of the issuing bank before advising the L/C to the beneficiary	3.43	1.206
Examining the terms and conditions of the L/C and checking if the exporter can comply	4.13	.798
Comparing the conditions of the L/C	3.74	1.079
Urging exporters to make presentation immediately after effecting shipment	3.65	1.037
Effecting payment for exporters against discrepant documents	3.04	1.133
Letting the exporter sign a personal guarantee when negotiating discrepant documents	3.61	1.177
The practice of assessing the creditworthiness of the exporter	3.96	1.136
Total Item Mean	**3.65**	

Source: Own Computation (2016)

Under export letter of credit category a total mean 3.65 has been scored. To the question of whether or not they assess the credibility of the issuing bank before advising the L/C to the beneficiary, a mean value of 3.43 has been scored which is above average. This implies that the banks are somewhat giving to attention about the creditability of the issuing bank. The highest mean scored in this category is 4.13 which is the practice of examining the terms and conditions of the L/C before advising the L/C to the exporter. This implies the terms and conditions of the letter of credit are not in contravention of the NBE directives. If so they simply advise the L/C to the respective exporters.

On the other hand, according to the survey responses, a mean value of 3.65 has been scored for the urging exporters to make presentation immediately after effecting shipment. Above average, the respondents reported that they do urge exporters to make presentation immediately after effecting shipment as long as the documents has fulfilled the terms and conditions of the L/C. In addition, the results are verified by interview. Banks do usually make such a follow up and simply do not wait until documents are presented to check whether the latest shipment date stipulated in the L/C has been met or not.

The survey also indicated that in the majority of the cases banks effect payment for exporters to make negotiations against discrepant documents, a mean value of 3.04 scored. Requesting the exporter to sign a personal guarantee agreement when negotiating documents bearing discrepancies scored 3.61 mean values. On similar issue, 3.96mean value of the respondents reported that they, consistently and all the time, assess the credit worthiness of the exporter before negotiating discrepant documents.

Interviews on the same issue revealed that mostly banks do not have clear procedures on negotiating discrepant documents. Instead they make decisions based on their past experience.

4.7. Issues related to export documentary collection

Export documentary collection method of payment is more risky than documentary credit for the exporter, since acceptance of the document determined by the will of the importer. The mutual trusts between the two parties depend on their long time business relationship.

Table 4.8: ***Export Documentary Collection Practices***

Export documentary credit	Mean	Std.
Ascertaining that the buyer and seller have a long-standing business relationship to justify a sale on collection basis	3.48	1.130
Sending a follow up SWIFT to the collecting bank after sending the documents.	4.17	1.115
Making a follow up of exports on D/C to see that the proceeds of previous shipments are received before granting subsequent export permits.	3.91	1.016
Total items mean	**3.86**	

Source: Own Computation (2016)

Under export documentary credit category, a mean score 3.86 is attained which is above average. Ascertaining the buyer and seller do have a longstanding business relationship that justifies a sale on documentary collection is scored a mean value of3.48.This implies the banks endeavor to know the relationship between the buyer and the seller in order to minimize the risk of non-payment by the buyer. Respondents were also asked whether or not they send a follow up SWIFT message to the collecting or presenting bank after sending the documents. A mean score 4.17 is attained. On the other hand, above the average of the respondents which has a mean value of 3.91 admitted that they would grant subsequent export permits by evaluating whether the proceeds of previous shipments have been received or not.

Indeed, feedbacks from interviews also confirmed that the responsibility of making a follow up of repatriation of export proceeds is left for the NBE which puts the exporter on the monthly delinquent list if the export proceeds are not received in 90 days' period.

4.8. Issues related to export on Cash-in-Advance

Table 4.9: ***Export on Cash-in-Advance Practices***

Export Cash-in-Advance	Mean	Std.
Reminding exporters to effect shipment of goods on time once they have received the advance payment.	3.70	1.109
Making sure that the purpose of payment of the advance payment is stated and matches item to be exported	4.22	1.007
Total items mean	**3.96**	

Source: Own Computation (2016)

On the questions of whether they remind exporters to effect shipment of goods on time after receiving the advance payment has scored mean of 3.70 which means that majority of the respondents timely remind the exporters to do so.

On related issues, the survey result show that in most of the case (mean of 4.22) the banks, in line with the NBE directives, make sure that the purpose of payment of the advance payment stated in the SWIFT message or cash receipt matches with the items to be exported.

4.10. Issues related to Challenges in Trade Financing Service Delivery

Table 4.10: ***Challenges in Trade Financing Service Delivery***

Challenges in Trade Financing Service Delivery	Mean	Std.
The extent of shortage of foreign currency on effective functioning of trade financing services.	4.52	.766
The influence of exporters on the international standards and NBE directives during document negotiation.	3.70	1.286
The negative impact of foreign currency exchanges in the black market on trade financing.	4.39	.971
Total items mean	**4.20**	

As shown in table 4.10, the study reveals that challenges in trade financing service delivery has been rated significantly above the average with the mean score of 4.20.Under this category the most challenging variable (mean of 4.52) was the shortage of foreign currency that hinders the banks' effective functioning of trade financing services which also indirectly affects the other banking services such as deposit and credit. Because of their inefficiency in retaining and attracting potential depositors who demand provision of foreign currency for their import business, the amount of total deposit will decline. Consequentially, their capacity of providing loanable funds to their existing and potential borrowers is highly limited.

The influence of exporters on the international standards and NBE directives during document negotiation scored mean of 3.70 which is above the average. This result implies, given the existing situation of the rivalry for getting the scarce hard currency, banks have been showing some indulgence during export documentary negotiation. On one side they are coerced by the exporters to buy the discrepant document in advance without fulfilling the terms and conditions of the export letter of credit mentioned on SWIFT message. On the other side the exporters may also influence to use their export proceeds to import goods unrelated to their export or to transfer to third party contrary to the NBE directives. The risk of such activities may personally make the foreign officer and/or the manager accountable to the extent of criminal indictment by court which might end up with jail. Besides, the bank itself may also be penalized by NBE.

In addition, interviewees also reported that, due to the stiff competition between banks for foreign exchange, most banks do not follow stringent or rigorous precautionary procedures like assessing the compliance of the documents, while negotiating export documents. In a bid to retain the exporting customer, banks are keen to do the will of the exporter, even at any cost at times.

From this category the last but not the least variable is the negative impact of foreign currency exchanges in the black market on trade financing which scored a mean value 4.39.This may shift the market from the formal to the informal system as explained by the variable. It is interrelated with the previous two variables, since they have close mean scores.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary of the Major Findings

The major findings and recommendations of the study are summarized below.

- About 79.4% of the respondents have bachelor degree and above.
- More than 48.89% of the respondents have a work experience of greater than six years and the rest are below five years of experience.
- Of the respondents 87.5% of them are officers and 12.5% are managers.
- Banks have well practiced in general trade service provision.
- In some instances banks in the normal course is not going to issue a letter of credit at the request of an insolvent buyer.
- ISBP guidelines when examining documents was well practiced.
- Banks are giving more attention for international standards issued by ICC for documentary collection, keeping good name internationally for their trust.
- Letting an importer send multiple cash-in-advance payments to the same supplier and on same date by oversight the NBE directives.
- Shortage of foreign currency that hinders the banks' effective functioning of trade financing services which also indirectly affects the other banking services such as deposit and credit.
- The influence of exporters on the international standards and NBE directives during document negotiation scored mean of 3.70 which is above the average
- Exporters may also influence to use their export proceeds to import goods unrelated to their export or to transfer to third party contrary to the NBE directives.
- Exporters coerced banks to buy the discrepant document in advance without fulfilling the terms and conditions of the export letter of credit contract.
- The negative impact of foreign currency exchanges in the black market hinders the effective functioning of banks on trade service delivery.

5.2. Conclusion

This research was conducted with the objective of assessing the practice and challenges of international trade financing by collecting and analyzing data collected via questioner from employees and managers of the selected private commercial banks. The following conclusions are drawn from the major findings of the study.

From the research findings on the general trade service activities, it can be readily seen that banks are generally performing well on the issue of creating awareness, verifying consignment, checking delinquent list, most of the time. That needs to be maintained and strengthened. It also observed that the lack of clarity on the categories of items listed on the back of trade licenses stated by ministry of trade has made banks unable to perform well above average on checking imported items against the categories. Furthermore, exhaustive list of imported items are not available in some bank branches for reference in case of doubt which makes the work more difficult. From the research that has been carried out, due to a relatively high staff turnover among the bank staff and inefficiency or in some cases the lack of periodic training, the level of the job knowledge is not well developed. More than sufficient job knowledge among staff is required in order for the bank to avoid violation of local and international standards and regulations.

Generally, based on the findings of import L/C issues banks are performing relatively well on checking the creditworthiness of the importer. By that it is meant that a bank is in a strong position to obtain financial and reputational information about the buyer, and to evaluate buyer's creditworthiness and integrity. Parallel to that, it is also appreciable that in majority of the cases, banks do the practice of assessing marketability of the imported item when granting margin facility. Still, banks rarely resort to foreclosure of the consignment, in case of the importers' failure to settle the remaining margin and take up the documents. Besides, banks have strong practice in restricting negotiating to a nominated bank as well as examining shipping documents timely.

From the findings regarding documentary collection practice it can be concluded from the below average scores that banks are mostly prudent in following international channel for documentary collections. Furthermore, banks' advising and following up of the shipping documents till finalization is being well performed as illustrated by the high scores on the findings. However, regarding import advance payment some weakness is observed on letting an importer send multiple cash-in-advance payments to the same supplier and on same date which needs to be improved. In addition, banks are not dependably evaluating the strength of business relationship between the buyer and seller to safeguard the importer from the exporters default by creating awareness about the transaction process.

Usually banks assess the creditworthiness of the issuing bank before advising the L/C to the exporter which still requires further improvement. Besides, their level of assessment on creditworthiness of the exporter to protecting themselves from risk of default is not very encouraging especially in signing a personal guarantee.

On the other banking practice of export documentary collection, most of the time ascertaining the long business relationship between the parties and following up payments by continual SWIFT message and evaluating the trend analysis of previous shipment have been done prudently. Similarly, on the issue of export on cash-in-advance banks constantly remind exporters on timely shipment of goods and make sure the matching of the exported item with the purpose of advance payment.

Regarding challenges in trade financing service delivery the findings have by and large shown that the foreign currency shortage in the country nowadays is seriously affecting their trade financing activities which also indirectly affects the other banking services such as deposit and credit. As a result of that, banks competing unfairly on those meager foreign currency resources, especially during export document negotiation, may expose themselves for highly risky activities.

The other challenge faced by the banks as per the findings was the underground foreign currency transaction in the black market significantly influencing the banks effective trade financing service. Since the exchange rate in the black market is higher than the rate at banks, the potential customers may prefer to exchange it in the informal market. Most of the country’s foreign currency inflow comes from remittance; however, as the greater amount of this resource flows into the informal market, banks face serious challenges to get their hands on the scarce foreign currency.

5.3. Recommendations

Based on the findings and conclusions, the following recommendations are forwarded to alleviate or at least minimize the operational problems, avoid instances of non-compliance with standards and regulations, mitigate some of the risks and fill the knowledge gaps. These recommendations are believed to provide feasible solutions for the trade service.

- The ministry of trade should furnish banks with sufficiently detailed listing of imported items and their respective categories that appear at the back of trade licenses. The detailed listing could ease the difficulties that banks are facing in deciding whether or not the item to be imported falls under the category of goods indicated on the trade licenses.
- In order to minimize staff turnover, improve the level of knowledge of the foreign officers, and maintain uniformity over different branches, banks should be beneficially competitive to their staffs in retaining them, provide regular training and gradually centralize the unit activities.
- Banks should totally avoid the practice of multiple advance payment to the same supplier at a time by complying with NBE directives in order to properly manage the country's scarce foreign currency.
- On export document negotiation, in order to minimize the default risk of export proceeds not being paid back on purchased document, banks should seriously and consistently have the exporter sign a personal guarantee.
- With the objective of alleviating the foreign currency shortage banks are recommended to do the following :
    - Widen the resource base by extending the remittance network worldwide.
    - Provide professional advice to exporters that promote their export activities like surfing information on additional export destinations.
    - Deliver more facilitated and hospitable international trade service and attract potential exporters.
- Banks should focus on service excellence in competing for the scarce foreign currency resource rather than engage in unfair trade finance practice that violates international standards and NBE directives.

- To minimize the underground market of foreign currency banks should, in an organized manner or through their association, push government to take serious measures on these illegal actors.

Reference

(ICC), I. C. (2014). *ICC Global Trade and Finance Survey : Rethinking Trade and Finance.* Paris: ICC Banking Commission.

Agbonika, J. A. (2015, March). Methods of International Trade and Payments: The NigerianPerspective. *Global Journal of Politics and Law Research, Vol.3* (No.1), pp.21-60.

Asiedu-Appiah, E. (2005). Trade Finance an Instrument for Effective Trade Delivery. *CEPA*, (pp. 1-2).

Bankenverband. (2015). *Financing Foreign Trade.* Berlin: Bundesverband deutscher Banken e. V.

Bessis, J. (2002). *Risk Management in Banking.* Baffins Lane, Chichester, West Sussex, PO19 1UD, England: John Wiley & Sons Ltd.

Blanche, T., & Durrheim, K. (1999). *Research in Practice, Applied Methods for Social sciences.* Cape Town: University of Cape Town Press.

Cherunilam, F. (2006). *International Business* (3rd ed.). New Dehli: Printice Hall of India.

CITIGROUP. (2004). *An Introduction to Letter of Credit.* New York: Citibank.

Citigroup. (2006). *Introduction to Trade Products.* Global Transaction Services. New York: Citibank N.A.

Citigroup Inc. . (2008). *Over View of UCP 600.* New York: Citibank N.A.

DanskeBank. (2008). *Corporate/Transaction-Banking/trade-finance*. Retrieved 11 10, 2016, from DanskeBank: https://www.danskebank.ie/en-ie

Demir, B. (2014, September). Trade Financing:Challenges for Developing Country Exporters. *Focus*, 34-38.

EITEMAN, D. K. (2004). International Trade Finance. In *Multinational Business Finance.* Pearson Addison-Wesley.

Erin Bryla, J. D. (n.d.). Risk Management: Pricing, Insurance, Guarantees; The Use of Price and Weather Risk Management. *Paving the Way Forward for Rural Finance*, (pp. 1-18).

Frida , Y. (1996). Documentary Risk in Commodity Trade. In T. M. David (Ed.). UNCTAD.

GITBF-NABL. (2000). *Finance of International Trade* (9 ed.). Australia: The Craftsman Press Pty Ltd.

ICC. (2010). *ICC rules for the use of domestic and international trade terms.* New York: Citi.

Ivan, A. (2014). *Organisation of Structured Export Financing by Commercial Banks of Russian Federation.* In partial fulfillment of Bachelor Thesis in Business Administration.

Jim , S., & Jonathan , R. (2008). *A Hand Book of International Trade: A Guide to the Principles and Practice of Export.* (2nd edition ed.). London, UK: GMB Publishing Ltd.

John, H. (2009, April 28). Trade financing: Is it a barrier to Africa's exports? *vox Research-based policy analysis and commentary from leading economists*, 1-3.

John, J. C. (2014). *Trade finance: developments and issues.* Bank for International Settlements, Committee on the Global Financial System. New York: Bank for International Settlements.

Jonathan, B., & Sarah, B. (1999). Trade Finance and Economic Development Sub-Saharan Africa. *The Journal of Business in Developing Nations, 3*, 1-23.

Marcel , T. (2008). *The Risks of Financial Risk Management.* Master-Thesis, Zeppelin University, Corporate Management & Economics.

Mengistu, S. (2014). *Challenges of Pre-Shipment Export Credit Financing In the Commercial Bank of Ethiopia.* Addis Ababa University, Management. Addis Ababa: Unpublished.

NEGA, M. (2013). *WHAT DETERMINES THE EXPORT PERFORMANCE OF ETHIOPIA: A TIME SERIES ANALYSIS.* Addis Ababa University, Economics. Addis Ababa: Unpublished.

Negaret Gazeta. (1960, May 5). Comercial Code of the Empire of Ethiopia. *proclamation No.166 of 1960, 1st*. Addis Ababa, Ethiopia: Berehanena Selam Printing Press of H.I.M. Haile Selassie I.

Niepmann, F., & Schmidt-Eisenlohr, T. (2013). *International Trade, Risk, and the Role of Banks.* Federal Reserve Bank of New York, New York.

Nworgu, B.N. (1991). *Educational Research: Basic Issues and Methodology.* Ibadan: Wisdom Publishers.

UNCTAD. (2012). *Trade Financing and Regional Financial Institutions from South-South Perspective.* Geneva.

WTO. (2014). *Trade and Development: Recent Trends and the Role of WTO.* Geneva: WTO Publications.

WTO. (2016). *Trade Finace and SMEs.* Geneva: WTO Secretariat.

Zsuzsanna, T. D. (2006). *Documentary Credits in International Commercial Transactions with Special Focus on the Fraud Rule.* PhD Thesis, PÁZMÁNY PÉTER CATHOLIC UNIVERSITY, DOCTORAL DEGREE PROGRAM OF THE FACULTY OF LAW- AND POLITICAL SCIENCES, Athens.

http://www.nbe.gov.et/ accessed on December 10, 2016

http://www.bankofabyssinia.com accessed on December 10, 2016

http://www.wegaganbanksc.com accessed on December 10, 2016

http://www.awashbank.com accessed on December 10, 2016

http://www.unitedbank.com.et accessed on December 10, 2016

http://www.nibbank-et.com accessed on December 10, 2016

http://www.dashenbanksc.com accessed on December 10, 2016

APPENDIX

APPENDIX I: QUESTIONNAIRE

Saint Mary's University
School of Graduate Studies
Department of Business Administration

Dear respondent,

The objective of this questionnaire is to gather firsthand information that will help to assess the practice and challenges of International Trade Finance in selected private commercial banks in Ethiopia. This study is undertaken as a partial requirement for the completion of Masters of Business Administration.

All data and information that will be gathered through this questionnaire will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge. There is no need to write your name on the questionnaire.

Thank you in advance for your time and kind cooperation.

Name of the Bank____

Section I. General Profile *(Please use the blank space for question requiring your exact answer and for the rest of questions put √ or **X** that best represent you in the selected box)*

1. Educational Status

☐ College Diploma ☐ University First Degree

☐ University Second Degree ☐ Other______________

2. Your Work Experience in the bank

☐ Less than or equal to 5 Years ☐ 10 Years and above

☐ Between 5-10 years

3. Your Work Experience in the International Banking Department (Trade Service)

☐ Less than or equal to 5 Years ☐ 10 Years and above

☐ Between 5-10 years

4. Your current position in the bank

☐ Branch Manager

☐ Foreign Officer/IB Supervisor

Section II. Regarding International Trade Finance Operational Activities

Please indicate your degree of agreement or disagreement with the following questions by *put √ or **X** that best represent you in the selected box* (1- Never; 2- Rarely; 3- Sometimes; 4- Most of the Time; 5- All of the Time).

Key: N= 1;R= 2;S= 3;MT=4; AT= 5

No.	**Variables**	**1**	**2**	**3**	**4**	**5**
	2.General Trade Service Delivery					
5	Do you request the buyer to sign to sales contract with seller before proceeding with any method of payment?					
6	Do you advice your customer on the risks and benefits of the intended trade payment method before proceeding with transaction?					
7	Do you consistently and rigorously check the customers' delinquent status with NBE?					
8	Do you check that items to be imported or exported are consistent with those listed of back of the trade license?					
9	Do you create awareness among importing customers that they have an obligation to submit proof of entry of goods into the country to the NBE or otherwise arrange for the repatriation of the foreign currency?					
10	How do u assess the level of job knowledge of employees at the international banking department 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					
11	Do you check that the consignment covered by the final documents are in line with those stipulated in the import permit(for L/C) or the purchase order(for CAD)					
	3.Import Letter of Credit(L/C)	**1**	**2**	**3**	**4**	**5**
12	Does the concerned department of the bank assess the credit worthiness of the importer before issuing an L/C					
13	Does the concerned department assess the marketability of the consignment when granting margin facility					
14	Do you ascertain that the proforma invoice is a recent/ a fresh one?					
15	Do you make sure that the proforma invoice does indicate a 2nd advising bank.					
16	Do you assist the applicant in properly filling out the L/C application himself/herself?					
17	Do you restrict negotiation to a nominated bank whenever possible					

No.	Variables	1	2	3	4	5
18	Do you make a timely examination of documents and notify the presenting bank of any discrepancies within 5 banking days					
4.International Standard Banking Practice for Examination of Documents(ISBP)		**1**	**2**	**3**	**4**	**5**
19	Do you take into account the ISBP guidelines when examining all the necessary documents and determining whether the documents have discrepancy or not?					
5.Import Documentary Collection		**1**	**2**	**3**	**4**	**5**
20	Do you accept and handle collection documents evidencing that shipment of goods were effected prior to purchase order approval?					
21	Do you accept and handle collection documents presented to your bank outside the banking channel?					
22	Do you accept and handle revised collection documents presented to your bank outside the banking channel in replacement of previously sent documents?					
23	Are all your actions taken on collection documents solely based on the instruction of the remitting bank?					
24	Do you promptly advise customers of the arrival of shipping documents solely based on the instruction of the remitting bank?					
25	Do you promptly advise customers of arrival of shipping documents					
26	Do you urge customers (by way of 1st, 2nd, 3rd letter reminders) to take up documents as early as possible?					
27	Do you advise the remitting bank of the fate of the documents by SWIFT?					
28	Do you automatically effect payment to the Remitting bank once the buyer takes up the collection documents?					
29	Do you send advice of payments or non-acceptance with reasons to the remitting bank without delay in the case where drawee fails to take up the documents?					
30	Do you return the collection documents to the remitting bank 60 days after advice of non-payment whenever drawee fails to take them up?					
6.Import Cash in Advance		**1**	**2**	**3**	**4**	**5**
31	Do you ascertain that the buyer and seller do have a long-standing business relationship to justify a sale on cash-in-advance basis?					
32	Do you check the proforma invoice clearly states beneficiary’s bank details?					
33	Do you let an importer send multiple cash-in-advance payments each not exceeding USD 5,000.00 to the same supplier and on the same date?					
34	Do you request the importer to confirm that shipment has not been effected prior to the issuance of import permit?					

No.	Variables	1	2	3	4	5
7.Export Letter of Credit						
35	Do you assess the credibility of the issuing bank before advising the L/C to the beneficiary?					
36	Do you examine the terms and conditions of the L/C and discuss with the exporter to check if he/she can make a complying presentation?					
37	Do you compare the conditions of L/C against conditions specified in the sales contract in order to help exporter meet the conditions?					
38	Do you urge exporters to make presentation immediately after effecting shipment?					
39	Do you effect payment to exporters (make negotiation) against discrepant documents?					
40	Do you let the exporter sign a personal guarantee when negotiating discrepant documents(skip this question if your answertoQ53 is never)					
41	Do you have the practice of assessing the credit worthiness of the exporter before negotiating a discrepant document?					
No.	**Variables**	**1**	**2**	**3**	**4**	**5**
8.Export Documentary Collection						
42	Do you ascertain that the buyer and seller do have a long-standing business relationship to justify a sale on documentary collection basis?					
43	Do you send a follow up SWIFT message to the collecting/ presenting bank after sending the documents?					
44	Do you 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?					
No.	**Variables**	**1**	**2**	**3**	**4**	**5**
9.Export on Cash-in-Advance						
45	Do you remind exporters to effect shipment of goods on time once they have received the advance payment?					
46	Do you make sure that the purpose of payment of the advance payment is stated in the Mt 103 or cash receipt and that it matches					

No.	Variables	1	2	3	4	5
	with the items to be exported?					

Section III. Regarding International Trade FinancingService Challenges

Please indicate your degree of agreement or disagreement with the following questions by *put √ or* ***X*** *that best represent you in the selected box* (1- Never; 2- Rarely; 3- Sometimes; 4- Most of the Time; 5- All of the Time).

Key: N= 1; R= 2; S= 3; MT=4; AT= 5

No.	Variables	1	2	3	4	5
10.Challenges in Trade FinancingService Delivery						
47	To what extent shortage of foreign currency challenges your effective functioning of trade financing services?					
48	Do the exporters influence the international standards and NBE directives during document negotiation?					
49	Do the foreign currency exchanges in the black market affects trade financing?					

INTERVIEW QUESTIONS

Saint Mary University

School Graduate Studies

Masters of Business Administration

Check List for in-depth Interview Questions for IB managers from Import aspect

1. Do you advise your customers on the risks associated with the method of payment that they are intending to make use of?
2. Do you encourage importers to enter into a formal sales contract with seller first before proceeding with the issuance of an L/C or other payment methods?
3. Does the concerned department of the bank have the practice of assessing the credit worthiness of the importer and marketability of consignment when issuing import L/C especially against less than 100% margin? What precautionary measures do you take before L/C issuance to make sure that your bank gets reimbursed in full by the applicant
4. Is your examination of L/C documents based on International Standards Banking Practice (ISBP) for examination of Documents?
5. Do you advise importers of the arrival of documents, without delay, and urge them by way of telephone calls and letter reminders to take up L/C or CAD documents in a timely manner?
6. Do you consistently send Advice of refusal to the presenting bank within 5 banking days in cases where the documents have discrepancy?
7. Do you keep the presenting/ remitting bank on board by way of SWIFT correspondences with regards to the fate of L/C or CAD documents by SWIFT?
8. Do you consistently effect immediate reimbursement to negotiating bank in the case of L/C and payment to the remitting bank in the case of CAD once the documents taken up by the buyer?
9. What mechanism do you employ to see that the total outstanding purchase orders approved are within manageable limit in order to secure the bank’s liquidity in foreign currency?
10. What challenges, problems, malpractices and instances of non-compliance with international standard practice do you observe with regards the handling of import transactions?
11. What possible remedial solutions do you propose in order to meet these challenges, solve the problems, and correct the malpractices?

Saint Mary University

School Graduate Studies

Masters of Business Administration

Check List for in-depth Interview Questions for IB-Managers from Export aspect

1. Do you ascertain that the buyer and seller do have a long-standing business relationship when engaging in exports on CAD or Consignment?
2. Do you have the practice of checking the terms and conditions of an incoming letter of credit compare with the conditions stipulated in the sales contract and discuss with the exporter to see if he/she can later make a complying presentation?
3. Do you urge exporters to make timely presentation of the shipping documents once they have effected shipment?
4. What precautionary measures or procedures do you have in place with regards the negotiation of discrepant export documents?
5. Do you make a close follow up on exports on CAD and consignment basis to see that proceeds of previous similar shipments have been received before granting yet another export permits on such methods of payment?
6. What challenges, problems, malpractices and instances of non-compliance with international standard practice do you observe with regards the handling of export transactions?
7. What possible remedial solutions do you propose in order to meet these challenges, solve the problems, and correct the malpractices?

Processed Data Outcome for Reliability Taste

Item-Total Statistics	Cronbach's Alpha if Item Deleted
Educational Status	.804
work experience in the Bank	.805
work experience at IBD	.808
Current Position	.806
Requesting buyer to sign a sales contract	.818
Advising customers on the risk and benefits of the intended trade payment method	.812
Checking the delinquent list	.808
Items imported/ exported consistent with license	.802
Creating awareness about obligation towards NBE	.793
Level of knowledge gap of staffs at the IBD especially with payment methods, URC, UCP, and NBE directive	.800
Consignment in final documents corresponds to L/C or PO	.801
Assessing the creditworthiness of importer before issuing L/C	.796
Assessing the marketability of the consignment when granting margin	.798
Ascertaining that the proforma is a recent one	.812
Making sure that the proforma invoice indicates 2nd advising bank	.805
Assisting the applicant to fill the LC application by herself or himself	.799
Restricting negotiation to a nominated bank	.811
Making a timely examination of documents	.801
Taking into account the ISBP guidelines when examining documents and determining discrepant or not.	.797
Collection documents evidencing shipment of goods prior to PO	.806
Collection documents presented outside the banking channel	.812
Revised collection documents presented outside banking channel	.813
Action taken on collection documents based on collection instruction	.803
Promptly advise customers of the arrival of shipping documents solely	.800

based on the instruction of the remitting bank	
Promptly advising customers of the arrival of shipping documents	.791
Reminders to taken up documents as early as possible	.791
Advising the remitting bank of the fate of documents by SWIFT	.792
Effecting payment automatically once buyer takes up documents	.799
Sending advice of payments or non-acceptance with reasons to the remitting bank	.805
Returning collection documents 60 days of advice of non-payment.	.800
Ascertain that the buyer and seller do have a long-standing business relationship.	.809
Checking that proforma invoice states beneficiary’s bank details.	.795
Letting an importer send multiple cash-in-advance payments to the same supplier and on same date>USD5000	.819
Requesting the importer to confirm that shipment has not been effected prior to permit issuance.	.792
Assessing the credibility of the issuing bank before advising the L/C to the beneficiary	.797
Examining the terms and conditions of the L/C and checking if the exporter can comply	.795
Comparing the conditions of the L/C	.783
Urging exporters to make presentation immediately after effecting shipment	.800
Effecting payment to exporters against discrepant documents	.803
Letting the exporter sign a personal guarantee when negotiating discrepant documents	.797
Assessing the creditworthiness of the exporter	.797
Ascertaining that the buyer and seller have a long-standing business relationship	.790
Sending a follow up SWIFT to the collecting bank after sending the documents	.795
Making a follow up of exports on D/C to see that the proceeds of previous	.798

shipments are received before granting subsequent export permits	
Reminding exporters to effect shipment of goods on time once they have received the advance payment	.791
Make sure that the purpose of payment on advance payment is stated and matches with the item to be exported	.810
The extent of shortage of foreign currency challenges on your effective functioning of trade financing services.	.800
The exporters influence the international standards and NBE directives during document negotiation.	.811

Source: Own Computation (2017)

DECLARATION

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

____________________________ _________________________

Name Signature

St. Mary's University, Addis Ababa **May, 2017**

ENDORSEMENT

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

____________________________ __________________________

Advisor Signature

St. Mary's University, Addis Ababa May, 2017