St.Mary's University
School of Graduate Studies

The Assessment of Foreign Currency Mobilization on the Performance of Private Commercial Banks

By
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Enrollment No.: SGS/0158/2009A

July, 2018
Addis Ababa, Ethiopia

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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

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Declaration

I, Yonatan Tadesse declare that this thesis is a result of my independent research work on the topic entitled "The Assessment of Foreign Currency Mobilization on the Performance of Private Commercial Banks" in partial fulfillment of the requirements for the Degree of Masters of Art in MBA in General Management at St.Mary's University. This work has not been submitted for a degree to any other university. All the references are also duly acknowledged.

Yonatan Tadesse

Signature_____________________

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Confirmation

This is to certify that Yonatan Tadesse carried out this thesis on the topic entitled “The Assessment of Foreign Currency Mobilization on the Performance of Private Commercial Banks” under my supervision. This work is original in nature and has not been presented for a degree in any University and it can be submitted for the partial fulfillment of the requirements for the award of the degree of Masters of Art in MBA in General Management.

Teshale Getu (Asst. Professor)

Signature___________________

Date ______________________

Acknowledgement

First and foremost, I want to extend unreserved thanks and praise to the Almighty God. This thesis would not have been possible without the help, support and patience of my advisor and supervisor, Teshale Getu (Asst. Professor).

I would like to express my deepest gratitude to the employees and management of Awash Bank S.C (AB), Dashen Bank S.C (DB), United Bank S.C (UB), Lion International Bank S.C (LIB) and Berhan International Bank (BrIB) for their support and cooperation in providing me with the necessary information. I am most grateful to the Directors of the above five Banks under study, for their attention, support and patience and in providing concrete data and the overall image of foreign currency within their respective Banks.

Last, but by no means least, I thank my family and friends for their unreserved advice and support and all my colleagues for their support and encouragement throughout the course.

For any errors or inadequacies that may remain in this work, of course, the responsibility is entirely my own.

Acronyms

AB	Awash Bank
BOD	Board of Directors
BrIB	Berhan International Bank
CAMEL	Capital adequacy, Asset quality, Management Efficiency, Earnings Ability and Liquidity
CAR	Capital Adequacy Ratio
CBE	Commercial Bank of Ethiopia
DB	Dashen Bank
DBE	Development Bank of Ethiopia
DMB	Deposit Money Banks
FCM	Foreign Currency Mobilization
FCY	Foreign Currency
FOREX	Foreign Exchange
GDP	Gross Domestic Product
GOE	Government of Ethiopia
IMF	International Monetary Fund
LIB	Lion International Bank
NBE	National Bank of Ethiopia
SDR	Special Drawing Rights
UB	United Bank
UNCTAD	United Nations Conference on Trade and Development

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Abstract

The purpose of this study is to assess foreign currency mobilization on the performance of private commercial Banks with the intention of spotting, analyzing and exposing factors that hinder private commercial banks in mobilization of foreign currency by putting five privately owned Banks under study which are Awash Bank S.C. (AB), Dashen Bank S.C. (DB), United Bank S.C. (UB), Lion International Bank S.C. (LIB), Berhan International Bank S.C. (BRiB)). In order to realize the objectives of the study the researcher has utilized descriptive type of research approach gauged by qualitative analysis techniques, while purposive type of sampling was used in which the researcher contacted only most relevant respondents. The major problems contributing to the decline of foreign currency mobilization are the increasing bargaining power of exporters from time to time, the price decline of export items in international market forcing exporters to keep their products in store rather than sell it out, for various reasons notable numbers of exporters not keeping their export commitments, lack of sufficient number of genuine exporters, limited exportable items within the country, lack of unreserved support and feedback from the government on the export sector, export fund diversions, the existence of informal and parallel markets, heavy domination of few primary agricultural export commodities, private Bank's failure to maintain good relationships with foreign correspondent Banks, ambitious mega projects of the country consuming excessive amounts of foreign currency. And as a recommendation the study has stipulated the following mechanisms that needs to be taken by private Banks which are giving much more emphasis to export sector, working with multiple number of remitting agencies, shaping their internal policies and procedures in line with the rules and regulations of the governing body.

Key words*: Challenges, Commercial Banks, Export financing, Foreign Currency Mobilization*

CHAPTER - I

INTRODUCTION

A currency (from Middle English: curraunt, "in circulation", from Latin: currens,-entis), in the most specific use of the word, refers to money in any form when in actual use or circulation as a medium of exchange, especially circulating banknotes and coins. A more general definition is that a currency is a system of money (monetary units) in common use, especially in a nation. Under this definition, US dollars, British pounds, Australian dollars, and European Euros are examples of currency. These various currencies are recognized stores of value and are traded between nations in foreign exchange markets, which determine the relative values of the different currencies. Currencies in this sense are defined by governments, and each type has limited boundaries of acceptance (Business Dictionary, 2015).

Other definitions of the term "currency" are discussed in their respective synonymous articles banknote, coin, and money. The latter definition, pertaining to the currency systems of nations, is the topic of this article. Currencies can be classified into two monetary systems: fiat money and commodity money, depending on what guarantees the value (the economy at large vs. the government's physical metal reserves). Some currencies are legal tender in certain political jurisdictions, which means they cannot be refused as payment for debt. Others are simply traded for their economic value. Digital currency has arisen with the popularity of computers and the Internet (Business Dictionary, 2015).

As per the National Bank of Ethiopia (NBE) directive number FXD/46/2017 foreign currency means any currency other than Ethiopian legal tender which is legal tender in any country outside Ethiopia as to which the National Bank of Ethiopia has declared to be acceptable for payment in Ethiopia. Foreign exchange also means any foreign currency, cheques, bills of exchanges, promissory notes, drafts, securities and other negotiable instruments expressed in foreign currency as well as bank balances in account held in foreign currency or asset in the form of foreign account crediting or set off arrangements, expressed or payable in foreign currencies provided they are acceptable by the National Bank.

In economics, a local currency is a currency not backed by a national government, and intended to trade only in a small area. Advocates such as Jane Jacobs argue that this enables an economically depressed region to pull itself up, by giving the people living there a medium of exchange that they can use to exchange services and locally produced goods (in a broader sense, this is the original purpose of all money). Opponents of this concept argue that local currency creates a barrier which can interfere with economies of scale and comparative advantage, and that in some cases they can serve as a means of tax evasion.

In most cases, a central bank has a monopoly right to issue of coins and banknotes (fiat money) for its own area of circulation (a country or group of countries); it regulates the production of currency by banks (credit) through monetary policy. An exchange rate is the price at which two currencies can be exchanged against each other. This is used for trade between the two currency zones. Exchange rates can be classified as either floating or fixed. In the former, day-to-day movements in exchange rates are determined by the market; in the latter, governments intervene in the market to buy or sell their currency to balance supply and demand at a fixed exchange rate.

In cases where a country has control of its own currency, that control is exercised either by a central bank or by a Ministry of Finance. The institution that has control of monetary policy is referred to as the monetary authority. Monetary authorities have varying degrees of autonomy from the governments that create them. In the United States, the Federal Reserve System operates without direct oversight by the legislative or executive branches. A monetary authority is created and supported by its sponsoring government, so independence can be reduced by the legislative or executive authority that creates it.

1.1. Background of the Study

Both state and private banks in Ethiopia do not have enough foreign currency deposit to meet the rising demand for imports. Private Banks used to purchase hard currency through auctions from the National Bank of Ethiopia (NBE), but the practice has been suspended by the central bank due to country wide scarcity of foreign currency reserve and the liquidity risk of private banks. Therefore all banks have to compete to gain foreign currency from the existing limited market sources. Sources of foreign currency are areas in which economic and financial transactions between countries affect exchange rate level (Nicholas, 2014). Major sources of foreign currency can differ from country to country, but the common ones are: Export, foreign direct investment, tourism and remittances.

According to central bank's guidelines export and foreign investments are categorized among the main motors of a country's economy. The rationale underlying international trade also suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced indigenously (Coutts and Godley, 1992). As the definition of foreign currency implies, mobilization of foreign currency can only be effected as a result of trade interaction between nations which is called international trade operation.

International trade issues in general terms also pose three types of questions for economists. The first is based on explanations of trade flows between at least two nations. The second refers to the nature and extent of gains or losses to an economy. Finally, the third issue concerns the effects of trade policies on an economy (McCombie, 1992). Most theories of international trade are dedicated to the first question, and attention will now turn to theoretical responses to such an issue.

The Ethiopian economy is highly dependent on the import of goods which shall be backed up by fare generation of foreign currency by the country's own means. Periodic foreign exchange shortages due to weak export performance and high demand for foreign currency continued to present significant market challenges (Marin, 1992).

1.2. Background of the Banks Under Study

Awash International Bank S.C. (here after referred to as AB) was established in November 1994 as the 1st private commercial bank in Ethiopia after deregulation. It started operation in February 1995. AB is one of the biggest private commercial banks in Ethiopia in terms. Vision: AB's vision is "To Be Most Preferred Bank of the Public" Mission: AB's Mission is "To Provide efficient, competitive, diversified and profitable banking services to a continuously growing number of customers in a socially responsible manner supported by appropriate modern banking".

Dashen Bank (here after referred to as DB) was established as per the intent of the new policy and the Ethiopian investment code. It came into existence on September 20, 1995 according to the commercial code of Ethiopia, 1960, and the licensing and supervision of banking business proclamation No. 84/1994. The first founding members were 11 businessmen and professional that agreed to combine their financial resources and expertise to form this new private bank.

United Bank (here after referred to as UB) was incorporated as a Share Company on September 10, 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank obtained a banking services license from the National Bank of Ethiopia and is registered with the Trade, Industry and Tourism Bureau of the Addis Ababa City Administration.

Lion International Bank S.C. (here after referred to as LIB) is a privately owned share company, established on October 2, 2006 in accordance with Proclamation 84/94 and the Commercial Code of Ethiopia; officially inaugurated for public services on January 6, 2007. LIB is led by eleven Board of Directors (BOD) elected by the General Assembly. (LIB newsletter).

Berhan International Bank S.C (here after referred to as BrIB) was formed in accordance with Article 304 of the Commercial Code of Ethiopia with the objective of operating in the banking industry. This objective has been ensured in Article 3 of the Memorandum of Association of the Company. The Bank was registered and licensed by the National Bank of Ethiopia on 27 June 2009 with an authorized capital of 300,000,000 and subscribed capital of Birr 154,736,000 divided into shares of 1000 Birr par value each.

1.3. Statement of the Problem

Ethiopia’s foreign currency supply available for importers and travelers alike is increasingly facing chronic shortages. The forex shortage is so critical that opening a Letter of Credit (LC) takes as long as one year or even more, and even then, there is no guarantee that the requested amount of foreign currency will be availed; which highly shadows over the performance of commercial Banks in meeting customer demands and requests (Addisbiz, 2016). Senior executives of private banks and economists posited three basic factors: global economic slowdown, Ethiopia’s mega projects consuming huge loads of hard currency and the country’s widening trade balance, as the genesis of the shortage. Ethiopia’s mega projects in hydroelectric generation, sugar production, and rail transport, continue to drain the country’s hard currency reserves, with high demand for public investment. In addition, import of capital goods and construction-related services increased sharply in Ethiopia according to a June 2015 IMF report, utilizing large sums of hard currency. This in particular leaves commercial Banks in a position to battle amongst each other for the remainder minimal amount of foreign currency, disabling them from meeting plans/budgets projected with the hope of realizing satisfactory profit to stay competent in this volatile Banking industry. Though Ethiopia's exports have registered growth over the past years, the growth rate of its imports has been at a much faster pace, resulting in an ever widening gap in the overall trade balance of the country (Addisbiz, 2016).

Reports by National Bank of Ethiopia (NBE) indicate that the country's export trade has been registering steady decline in the recent past, with exports worth roughly 3.25 billion dollars in 2013/14, decreased to 2.83 billion dollars in 2015/16 (NBE's Annual Report 2015/16), while the country's imports have skyrocketed at an alarming rate. NBE's data show that Ethiopia's imports have maintained a robust course of growth over the years as the country imported goods worth roughly 13.71 billion dollars in 2013/14, increased to 16.72billion dollars in 2015/16 (NBE's Annual Report 2015/16). This highlights the magnitude of the burden on private commercial Banks to allocate foreign currency to sustain the ever growing demands of foreign currency by importers.

The NBE's data also highlight the distressingly widening trade imbalance which continues to haunt Ethiopia's balance of trade. As such, the trade deficit is exhibited to be 96.9 million in 2013/14 which showed a tremendous increase of exhibiting 830.9 million in 2015/16. This imbalance has partly been caused as a result of slow-evolving export growth rates with falling commodity prices and lack of diversification in exports, loopholes underscored by the International Monetary Fund's (IMF) report. This significantly alarms the attention of private commercial Banks to be export oriented and switch their financings to export related businesses in order to get their hands on export proceeds and outweigh their lack of foreign exchanges at the same time.

The other scenario which aggravates the scarcity of foreign currency is the launching of various projects as component of the development strategy by GoE. The projects are highly capital intensive and the government went through huge foreign loan contracts to finance these projects which threaten the country's future paying capability given that most of the projects do not help generate foreign currency.

In general, the problem of foreign currency scarcity is a more recent popular phenomenon in view of the fact that the country is highly dependent on imported goods. Several economists ascertain that the probable consequence of foreign currency reserve shortage is a major economic crisis (Yewondwosen, 2013).

1.4. Research Questions

After completion of the study the following questions are deemed to be answered as per the obtained findings or results of the study, and the research questions are:

- What are the capabilities nurturing private commercial banks in sustaining their foreign currency mobilization?
- What are the challenges faced by private commercial banks in their continuous foreign currency mobilization?
- What are the major sources of foreign currency for private commercial banks and how do private commercial banks overcome foreign currency scarcity?
- What are the effects of foreign currency shortages on private commercial banks' reputation in facilitating foreign currency requests of their customers engaged in import businesses?

1.5. Objectives of the Study

1.5.1. Primary Objectives

This study is carried out with the intention of spotting, recognizing, analyzing and exposing factors hindering private commercial banks from mobilizing foreign currency as per plan, which is the baseline of their performance contributing or making up a substantial portion of their profit; and after deliberately interpreting and outlining the findings the study will come up with resolution based amicable suggestions and recommendations that can enhance foreign currency mobilization mechanisms of private commercial banks on a sustainable basis.

1.5.2. Specific Objectives

Specific objectives of the study are as follows:

- To assess the capabilities nurturing private commercial banks in their sustainable foreign currency mobilization;
- To explore the challenges associated with foreign currency mobilization strategy of private commercial banks;

- To investigate major sources of foreign currency for private commercial banks and reliability of the source to finance the Banking industry;
- To analyze the effects foreign currency shortages have on private commercial banks' reputation in facilitating foreign currency requests of customers engaged in import businesses;

1.6. Significance of the Study

This study provides an in depth analysis and resolutions on how private commercial banks mobilizes foreign currency and the challenges or bottlenecks associated with it respectively, since it is a dominant tool of performance appraisal that result in the attainment of remarkable profits. In general, the benefits that can be obtained as an outcome of this study are:

- The study disseminates essential data on the causes of the current severe foreign currency shortage prevailing in the country, foreign currency mobilization strategies of the private commercial Banks under study and resolution mechanisms needed to be taken by private commercial Banks in sustaining adequate foreign currency reverse and overcome foreign currency shortages.
- Since foreign currency mobilization makes up or contributes substantial portion of commercial Bank's profits, the study enables shareholders and stakeholders of private commercial banks to have a rooted understanding of foreign currency mobilization as a foundation of survival and competitive advantage in the prevailing volatile Banking Industry of Ethiopia;
- It helps shareholders and stakeholders to better understand the challenges as well as advantages of private commercial banks' foreign currency mobilization efforts and become developmental partners towards the achievement the Banks' goals. Policymakers can also be benefited on their decision making towards efficient and proper utilization of the scarce foreign currency;
- Other researchers can access this research paper as a reference for further study on this specific issue.

1.7. Scope of the Study

The research as a primary target focuses on the Head Offices and selected senior city branches of the five private commercial banks under study, the studied samples comprise promising areas of the Banks where all particularly relevant issues related to planning up to execution of foreign currency mobilization takes place.

1.8. Organization of the Study

The study is detailed in five chapters. Chapter one is the introductory chapter and gives the background to the study, states the research problem, objectives of the study, research questions, significance of the study, scope of the study, limitations of the study and organization of the study. Chapter Two reviews the existing literature on the subject, including; articles, books, journals and publications. Light is shed on current literature relevant to the study and the conceptual framework by renowned scholars such as Michael Porter and other researchers in the field of strategic competitive advantage. Chapter Three offers useful insights into the methodology techniques applied in developing the research questions. It covers the methodology, specifically, the study type, sampling technique, sample sizes, tools and procedures used to collect data needed to address the research problems. Chapter Four is dedicated to the analysis and discussion of research findings and finally chapter five captures the summary of findings, conclusions and recommendations arising out of the study.

CHAPTER II

LITERATURE REVIEW

2.1. Introduction

According to IMF (2009), Foreign exchange reserves are foreign currency deposits of central banks or other monetary authorities. They are assets of central banks held in different reserves currencies such as the dollar, pound sterling, euro, yen etc. These reserves currencies are used to back central bank's liabilities, such as the local currency issued, the reserves deposits of various deposit money banks (DMBs), government or other financial institutions.

Foreign reserves are used to support monetary and foreign exchange policies, in order to meet the objectives of safeguarding currency stability and the normal functions of domestic and external payment systems. From the onset, foreign reserves were held in gold, but with the advent of the Bretton Wood system, the US dollar was pegged to gold and the gold standard was abandoned. Hence, the dollar, appearing as good as gold, became the fiat and most significant reserves currency (IMF, 2009).

In today's world, a large foreign reserve partly symbolizes the country's strength, as it indicates the strong backing the currency of the country has. Hence, it attracts confidence of the international community in the country, while low a foreign reserve signals the opposite. The central bank has the statutory responsibility of managing a country's foreign reserves. This responsibility is either enshrined in the country's constitution or an act of law (ECB, 2006a). In Nigeria for example, the CBN Act of 2007 constituted the legal framework within which the CBN carries out its mandate of, among others, the responsibility to manage the country's foreign reserves.

Approaches to the management of reserves vary from country to country depending on the objectives at hand. In the context of fixed or managed exchange rate regimes, the traditional objectives have mostly been formulated with respect to monetary policy and exchange rate management (Carlos et al, 2004). In this case, foreign reserves acts as a buffer against capital outflows in excess of the trade balance. This makes foreign reserves management secondary to macroeconomic objectives, as liquidity is always the target. This also enables the monetary authority intervene in the foreign exchange market at any given time.

Holding foreign reserves under both fixed and floating exchange rate regimes also acts as a "shock absorber" in terms of fluctuations in international transactions, such as variations in imports resulting from trade shocks, or in the capital account due to financial shocks. According to ECB (2006b), the holding of foreign reserves as self-insurance against currency crisis is especially important if a currency is overvalued. Mexico, Korea and Russia, for example, all share relatively recent experiences with destabilizing runs on their currency during a financial crisis.

2.2. Concepts of International Reserves and Foreign Currency Liquidity

2.2.1. International Reserves (Reserve Assets)

The fifth edition of the IMF Balance of Payments Manual5 (BPM5) sets forth the underlying concept of international reserves. A country's international reserves refer to "those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes." (BPM5,424). As defined, the concept of international reserves is based on the balance-sheet framework, with "reserve assets" being a gross concept. It does not include external liabilities of the monetary authorities.

Underlying the concept of international reserves is the distinction between residents and nonresidents, with reserve assets representing the monetary authorities' claims on nonresidents. Also integral to the concept of international reserves are the provisos "readily available to" and "controlled by" the monetary authorities. That is, only assets that meet these criteria can be considered reserve assets. Types of reserve assets cover foreign exchange assets (consisting of foreign currencies and foreign currency deposits and securities), gold, special drawing rights (SDRs), reserve position in the IMF, and other claims.

2.2.2. Foreign Currency Liquidity

Foreign currency liquidity is a broader concept than that of international reserves. In the data template, foreign currency liquidity has two dimensions. It refers to (1) the foreign currency resources (including both official reserve assets and other foreign currency assets) at the disposal of the authorities that readily can be mobilized to meet demand for foreign exchange and (2) both predetermined (known, or scheduled) and contingent (potential) demands (referred to hereafter as "net drains") on foreign currency resources resulting from the short-term foreign currency liabilities and off-balance-sheet activities of the authorities. That is, the authorities' foreign currency liquidity position refers to the amount of foreign exchange resources that is readily available, taking into account both predetermined and potential net drains on such resources. Underlying the liquidity concept is the notion that prudent management of this position requires managing foreign currency assets along with foreign currency obligations to minimize the vulnerability to external shocks.

The concept of foreign currency liquidity is broader than that of international reserves in at least three respects: (1) while reserve assets refer to external assets of the monetary authorities, foreign currency liquidity concerns foreign currency resources and drains on such resources of the monetary authorities and the central government, referred to hereafter in combination as "the authorities," as opposed to "monetary authorities" (2) while reserve assets represent the monetary authorities' claims on nonresidents, foreign currency liquidity relates to the authorities' foreign currency claims on and obligations to residents and nonresidents; and (3) while the concept of reserve assets is based on the balance-sheet framework, the concept of liquidity encompasses inflows and outflows of foreign currency that result from both on and off-balance-sheet activities of the authorities.

The concept of foreign currency liquidity is also broader than the notion of net international reserves. Net international reserves refer to reserve assets net of outstanding reserves-related liabilities at a point in time, with such assets and liabilities representing the monetary authorities' readily available claims on and short-term liabilities to nonresidents. Foreign currency liquidity takes account of foreign currency drains on existing foreign currency resources arising from the authorities' financial activities vis-à-vis residents and nonresidents in the coming 12-month period. Information on whether a country's short term foreign currency drains exceed its foreign currency resources could be used, among other data, to analyze the country's external vulnerability.

2.3. Determinants of foreign reserves

Most of the empirical studies on reserve holdings consistently conclude that there are variables proven to be significant when determining reserve holdings. The two most significant variables are: (A) a measure of economic openness and (B) the exchange rate volatility. Each variable will be discussed individually.

A. Economic Openness

An open economy is an economy which engages in trade of goods and services with the international community at large. Increased exposure in the international markets could affect the domestic currency, asset pricing, and even the stock market (Salvatore, 2001). Wanting to offset the effect an external imbalance could have on the domestic economy is a powerful motive to hold foreign currency reserves. For example, the Asian Financial Crisis of 1997 started in Indonesia, South Korea and Thailand. Hong Kong, Malaysia, Laos, the Philippines, and China were also affected by the crisis due to their economic ties to these countries. Another incentive to hold reserves are that countries with larger reserve holdings have faired better during financial and currency crises.

There are several measures of economic openness. The most widely used measure in the literature is the average propensity to import, first introduced by Frenkel (1974). This measure is often controversial. Frenkel predicted a positive relationship for the variables, while other researchers like Heller (1966) predict a negative relationship. Recent studies like Flood and Marion (2001) and Aizenman and Marion (2002) have concentrated on the role of the volatility of exports as a measure of international transactions' volatility. This paper uses both exports and imports scaled over GDP as a measure of economic openness. The former were more significant than the latter.

B. Exchange Rate Volatility

Foreign currency reserves are often held to influence the domestic exchange rate. Foreign reserves can be used to buy the domestic currency in the international markets and prevent large currency depreciations under a flexible exchange rate system. Under a fixed exchange rate system reserves become even more important, since they will help defend the pegged currency in the event the currency is attacked.

Aizenman and Marion (2002) suggest that exchange rate volatility should be used to measure the effect of the exchange rate on reserve holdings. Increased volatility of the nominal exchange rate is often associated with a flexible exchange rate regime. A flexible exchange rate regime allows the currency to absorb any macroeconomic shocks, which are then reflected as the exchange rate appreciates or depreciates without any need for intervention. If there is less need for intervention, it follows that increased volatility should lead to less reserves.

Conversely, less volatility of the nominal exchange rate suggests a fixed exchange rate regime. If the nominal exchange rate is fixed, macroeconomic shocks will not be absorbed through currency depreciations and appreciations. Although macroeconomic shocks will not be reflected in the nominal exchange rate, they will be reflected in the real exchange rate (nominal exchange rate adjusted for inflation differentials between countries). Changes in the real exchange rate put pressure on the peg, so in order to keep the peg, the government will need to intervene in the open markets and use reserves to counteract the effects of macroeconomic shocks on the real exchange rate. Hence, countries with fixed exchange rates should hold more reserves to defend the peg.

2.4. Relationship between Foreign Exchange Trading and Financial Performance

2.4.1. Positive relationship between profitability and interest rate risk

Deshmukh*et al*., (1983) carried out a study and established that there exists a positive relationship between profitability and interest rate risk. They argue that an increase in interest rate uncertainty is likely to encourage depository institutions in a bid to decrease their lending activities, which in the end entail interest rate risk. Thus if interest rate risk can be controlled through the use of derivatives, then it means that banks that make use of such derivatives are likely to experience less interest rate uncertainty and can increase their lending activities, this in turn would result in greater returns relative to the return on fixed fees for service activities. Thus their overall profitability would be higher compared to those banks that do not use derivatives to control for interest rate uncertainty.

The foreign exchange market is a global decentralized market for the trading of currencies. This includes all aspects of buying, selling and exchanging currencies at current or determined prices. In terms of volume of trading, it is by far the largest market in the world. The main participants in this market are the larger international banks. Financial centers around the world function as anchors of trading between a wide range of multiple types of buyers and sellers around the clock, with the exception of weekends. The foreign exchange market does not determine the relative values of different currencies, but sets the current market price of the value of one currency as demanded against another (Deshmukh*et al*., 1983).

The foreign exchange market works through financial institutions, and it operates on several levels. Behind the scenes banks turn to a smaller number of dealers, who are actively involved in large quantities of foreign exchange trading. Trades between foreign exchange dealers can be very large, involving hundreds of millions of dollars. Because of the sovereignty issue when involving two currencies, forex has little supervisory entity regulating its actions (Moffet and Karlsen, 1994).

Inflation is the rate at which prices increase in an economy, which is another factor that makes it risky to hold foreign currency. If inflation rises in one country it can make their currency value fall with respect to currencies in other countries that do not experience the same increase in inflation. Inflation is difficult to predict and based largely upon expectations and the monetary policy of the government. For instance, if a certain country decided to print a large amount of new currency to pay off debts, it would likely lead to inflation which could cause the value of the currency to decline rapidly. Interest rates can also influence currency values. If interest rates are high in a certain country, it tends to increase the demand for their currency and increase the currency's value. If the foreign nation decides to reduce interest rates, it can cause demand for the currency to fall resulting in a declining currency value (Moffet and Karlsen, 1994).

2.4.2. Trading derivatives for profit

Mongiello and Harris (2010) carried out a study and established that indeed, trading derivatives for profit is considered to be very risky and can therefore expose organizations to large losses. This means that there is a negative relationship between forex trading and financial performance. Pearce and Robinson (2007) on their part were able to establish that indeed there exists a negative correlation between risk and derivative usage when it comes to the savings and loan institutions. They were able to establish further that most banks which used derivatives experienced relatively greater growth in their fixed rate mortgage portfolios.

These results provide a clear indication that indeed, financial institutions make use of derivatives for hedging purposes, and that the use of derivatives help reduce foreign exchange risk. Another study conducted by Simmons (2009) established that banks having a weaker asset quality tend to use derivatives more intensely as compared to banks that have a better asset quality. However, the study provided no indication as to whether banks use derivatives to increase or reduce interest rate risk and whether use of derivatives increases profitability or not.

2.4.3. Volatility of foreign exchange rate

On a global level, the behavior of volatility of foreign exchange rate has been extensively studied. Adjasi and Biekpe (2005) investigated the relationship between stock prices and exchange rate movement in Ghana, South Africa, Egypt, Kenya, Mauritius and Nigeria. The study made use of a VAR model to examine the relationship between exchange rates and stock prices. Their study found no long-run stable relationship between the stock market prices and exchange rates for these countries.

2.4.4. Exchange rate variability

Another study was conducted by Todani and Munyama (2010) who employed the ARDL bounds testing procedure on quarterly data. This revealed that there was a significant relationship between exchange rate variability on aggregate South African exports to the rest of the world. Obadan (2009), while carrying out a study in Nigeria using the moving average standard deviation and GARCH (1,1) as a measure of variability established that the exchange rate plays a role in connecting the price system in different countries thus enabling traders to compare prices directly. He concluded that changes in exchange rate have a powerful effect on imports and exports of the countries concerned through its effect on the relative prices of goods. He considered the exchange rate to be an important conditioning variable for counter- inflationary policy. This stems from the basic make-up model of pricing and the view that nominal wages tend to adjust to price changes. Exchange rate under this condition conveys information about the fundamentals in the economy and how a fast-depreciating local currency may fuel inflationary expectations.

Adebiyi (2009) in his study on the Nigeria stock exchange, while using the vector error correction modeling technique, argued that a lasting solution to the problem of achieving a realistic exchange rate will only be found if we get to the root cause of the upward sloping demand curve and the almost vertical supply curve of foreign exchange. Pilinkus and Boguslauskas (2009) studied the short-run relationship between stock market prices and macroeconomic variables. In this study they used the impulse response function. The subsequent conclusion of their study was that exchange rates, unemployment rate, and short-term interest rates negatively influence stock market prices.

2.4.5. Stock prices and exchange rates

In another study, Muhammad and Rasheed (2000) considered the relationship between stock prices and exchange rates in four South Asian countries; India, Pakistan, Sri-Lanka and Bangladesh. The study employed co-integration, vector error correction modeling technique and standard Granger causality tests to examine the long-run and short-run association between stock prices and exchange rates. Results of the study showed no short-run association between the variables for all four countries. However there was a long-run relationship between stock prices and exchange rates for Bangladesh and Sri-Lanka. Sekmen (2011) examined the effects of exchange rate trading, using the squared residuals from the autoregressive moving average (ARMA) models, on stock returns for the U.S. for the period 1980 to 2008. The study found that exchange rate volatility negatively affected U.S. stock returns.

Olugbenga (2012) looked at the long-run and short-run effects of exchange rate on stock market development in Nigeria. In this study the Johansen co integration tests were used, In statistics, the Johansen test, named after Soren Johansen, is a procedure for testing co-integration of several, say k, I (1) time series. This test permits more than one co-integrating relationship so is more generally applicable than the Engle–Granger test which is based on the Dickey–Fuller (or the augmented) test for unit roots in the residuals from a single (estimated) co-integrating relationship. Results of the study revealed a significant positive stock market performance to exchange rate in the short-run and a significant negative stock market performance to exchange rate in the long-run (Johansen, 1991).

Irene (2011) carried out a study to examine the relationship that exists between foreign exchange risk and financial performance of airlines. The findings of the study revealed that there is a negative relationship between foreign exchange risk and financial performance. Currency fluctuations were found to impact on prices hence negatively impact on revenues and expenses denominated in foreign currency. Another study was carried out by Muriithi (2011) who sought to examine the relationship between foreign exchange rate and market performance for manufacturing companies. The study made use of a descriptive research design and revealed that exchange rates had a positive influence on market performance.

Mongeri (2011) further carried out a study to examine the impact of foreign exchange rates and foreign exchange reserves on the performance of NSE share index. The study adopted a longitudinal study design. Results from this study revealed that there was a positive relationship between forex rates and stock market performance. Onyancha (2011) conducted a study on the impact of foreign exchange gains and losses on the financial performance of international non-governmental organizations. The study made use of a survey research design and revealed that exchange rate risk can reduce project quality.

2.5. Determinants of Financial Performance of Commercial Banks

The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company and affect the profitability of banks. The overall financial performance of banks in Kenya in the last two decade has been improving. Studies have shown that bank specific and macroeconomic factors affect the performance of commercial banks (Flamini et al. 2009).

2.5.1. Bank Specific Factors/Internal Factors

The internal factors are bank specific variables which influence the profitability of specific bank. These factors are within the scope of the bank to manipulate them and that they differ from bank to bank. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labor productivity, and state of information technology, risk level, management quality, bank size, ownership and the like. CAMEL framework often used by scholars to proxy the bank specific factors (Dang, 2011). CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity. Each of these indicators is further discussed below.

2.5.1.1. Capital Adequacy

Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou et al. 2005). Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank capital reduces the chance of distress (Diamond, 2000). However, it is not without drawbacks that it induce weak demand for liability, the cheapest sources of fund Capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the bank's debtors. According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations. It has also a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas (Sangmi and Nazir, 2010).

2.5.1.2. Asset Quality

The bank's asset is another bank specific variable that affects the profitability of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments. Often a growing asset (size) related to the age of the bank (Athanasoglou et al., 2005). More often than not the loan of a bank is the major asset that generates the major share of the banks income. Loan is the major asset of commercial banks from which they generate income. The quality of loan portfolio determines the profitability of banks. The loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the losses derived from delinquent loans (Dang, 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. Different types of financial ratios used to study the performances of banks by different scholars. It is the major concern of all commercial banks to keep the amount of nonperforming loans to low level. This is so because high nonperforming loan affects the profitability of the bank. Thus, low nonperforming loans to total loans shows that the good health of the portfolio a bank. The lower the ratio the better the bank performing (Sangmi and Nazir, 2010).

2.5.1.3. Management Efficiency

Management Efficiency is one of the key internal factors that determine the bank profitability. It is represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Yet, it is one of the complexes subject to capture with financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others. Yet, some financial ratios of the financial statements act as a proxy for management efficiency. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of this ratios used to measure management quality is operating profit to income ratio (Rahman et al. in Ilhomovich, 2009; Sangmi and Nazir, 2010). The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important ratio is that proxy management quality is expense to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al. 2005).

2.5.1.4. Liquidity Management

Liquidity is another factor that determines the level of bank performance. Liquidity refers to the ability of the bank to fulfill its obligations, mainly of depositors. According to Dang (2011) adequate level of liquidity is positively related with bank profitability. The most common financial ratios that reflect the liquidity position of a bank according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance Ilhomovich (2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia. However, the study conducted in China and Malaysia found that liquidity level of banks has no relationship with the performances of banks (Said and Tumin, 2011).

2.5.2. External Factors/ Macroeconomic Factors

The macroeconomic policy stability, Gross Domestic Product, Inflation, Interest Rate and Political instability are also other macroeconomic variables that affect the performances of banks. For instance, the trend of GDP affects the demand for banks asset. During the declining GDP growth the demand for credit falls which in turn negatively affect the profitability of banks. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for credit is high due to the nature of business cycle. During boom the demand for credit is high compared to recession (Athanasoglou et al., 2005). The same authors state in relation to the

Greek situation that the relationship between inflation level and banks profitability is remained to be debatable. The direction of the relationship is not clear (Vong and Chan, 2009).

2.6. Factors Affecting Export Performance

Allaro (2011) defines export performance as *"Export performance is the relative success or failure of the efforts of a firm or nation to sell domestically produced goods and services in other nations".* Export performance as many scholars stated were (i) the success or failure of the efforts of a nation to sell domestically produced goods and services in other nations markets (Zou and Stan, 1998) as cited by (Allaro, 2011) ; (ii) the export effectiveness, export efficiency and continuous engagement in exporting (Shoham, 1991); (iii) the composite outcome a nation's international sales (Shoham, 1996); and (iv) the three sub-dimensions which encompasses sales, profit and growth (Madsen, 1987). Various scholars have attempted to identify factors affecting export performance. The most critical factors are hereby listed below.

2.6.1. Economic Growth

Economic growth could increase exports. In a period of economic growth, firms have more money to invest. This investment could increase the long run productivity of the economy and therefore, could help boost exports. In a recession, firms will be more reluctant to invest and therefore, there will be a slower growth in exports. In theory it is also possible economic growth could harm exports. This is because high growth could cause inflationary pressures making exports less competitive. Also higher growth may lead to higher interest rates. Higher interest rates could cause an appreciation in the exchange rate which makes exports less competitive (UNICTAD, 2008; International Monetary Fund, 2014). Often countries may experience export led growth. For example, China's strong rate of growth is primarily caused by the strength of the Chinese manufacturing sector. In this case it is exports that are increasing economic growth, rather than the other way around.

2.6.2. Availability of Finance

The availability of finance and credit for the export sector has a positive impact on the performance of export. As exporters use the credit to purchase exportable commodities and facilitate the exports; its availability will have a positive impact on the performance. The availability of finance and credit to export sector will bridge short and long term financial gap of its participant and enhance the export performance of the nations (Mishkin, 2003).

2.6.3. Infrastructure Development

The availability and development of infrastructure have a positive impact on export performance. If the production areas were accessible to roads and power supply the products are easily shipped to foreign market. Internal transport infrastructure captured by the percentage of paved roads is an important Supply capacity element and is found to have a significant and positive impact in raising export performance (Fugazza, 2004).

2.6.4. Purchasing Power of the Nations or Citizens

The economic growth of the recipient (importer) nation's economy has a positive impact on the export performance of the exporter nation. The more the economic growth of the importer nation brings a rise in purchasing power of its citizens which in turn rise in demand of the products of imported goods (Mishkin 2003).

2.6.5. Geography

Geography may be expected to influence export performance in a number of ways. One way is through external geography; a country's location, in particular its proximity to rapidly growing export markets, and the consequent extent to which it is a recipient of international-demand linkages. Since most of the export were carried by ships through sea and sea ports; nations with close to sea and sea port have an advantage of reducing transportations costs and hence its commodities has relatively cheap prices as compared to nations distant to sea and sea ports. Hence, the closer the nation get to sea and sea ports it has a positive impact on export performance. For instance, as Venables (2004) noted that countries in Southeast Asia have been at the center of a fast growing region, which creates growing import demand. Given everything known about the importance of distance as a barrier to trade, the export opportunities created by these growing import demands are likely to be geographically concentrated, creating spillover effects between countries in the region.

2.6.6. Exchange Rate and Currency Devaluation

When countries devalue their currencies; the local currency price of a commodity at the export market increases by the full proportion of devaluation, if world price does not change. This makes the countries‟ commodities price competitive in the international market which enhances export performance of the countries. Exchange rate reforms induce export growth by providing the nations commodities competitive in international market (UNICTAD, 2008; Venables, 2004).

2.6.7. Product Quality and Diversity

The more quality products are readily available for export it has a positive impact on the export performance of a nation. On the other hand a Sub-standard quality hinders the price of exports and hence exports performance. This quality constraint is due to high transport, storage and handling costs and unsophisticated pre-production, production and post-production techniques (Venables, 2004).

2.6.8. Diversity of Product Exported

The more the nations export diversifies its export performance has increases. When Ones nation commodities for export diversifies the decline demand for one product might not affect the export performance of the nations (Fugazza, 2004).

2.6.9. Term and Tariffs

A tariff or duty (the words are used interchangeably) is a tax levied by governments on the value including freight and insurance of imported products. Different tariffs are applied on different products by different countries. National sales and local taxes, and in some instances customs fees, will often be charged in addition to the tariff. The tariff, along with the other assessments, is collected at the time of customs clearance in the foreign port. Tariffs and taxes increase the cost of product to the foreign buyer and affect competitiveness in the market. Some countries have very high duties and taxes; some have relatively low duties and taxes (UNICATD, 2008; International Monetary Fund, 2014).

2.6.10. Technological Development

Innovativeness and technological complexity and, at the same time, improve significantly their overall importance in world export. Such advancements in technological and export performance go along with a significant structural change in the economy. There are different specific ways in which technological activity can enhance or constrain export performance. In particular, technological specialization, national and international structural changes, foreign direct investments, skills, Research & Development, and productivity gains affect world shares in export markets (Montobbio, 2005).

2.7. Challenges of Export Financing

2.7.1. Challenges Faced by Financial Institution

According to Adedoyin and Sobodun (1991), as sited by Olokoyo (2011), "*lending is undoubtedly the heart of banking business therefore its administration requires considerable skill and dexterity on the part of the bank management*". While a bank is irrevocably committed to pay interest on deposits it mobilized from different sources, the ability to articulate loan able avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application.

The Size, profitability, capital efficiency, competition with the public owned banks and backed collateral were the most significant factors for the reason why private banks in Ethiopia neglected agriculture financing. Credit utilizing capability of the borrower is also a moderately significant factor. Since, agriculture is the largest lion share sector in contributing to GDP growth and priority sector in Ethiopia. Under developed crop and weather index insurance is also one of the major reasons not to finance the agricultural sector which is the major export items for the country (Kistana, Aregawi & Abraha, 2014). The following are considered as major challenges critical for financial institutions.

- Information of exporters were not adequately presented
- Physical collateral were not presented up on financing the exporters (sales contract and personal guarantee and or DBE guarantee were taken as a collateral)
- Exporters persuade banks to get the export proceed for their import business
- Credit rationing policy of the NBE directive makes banks not to adequately assign budget in this sector
- Banks has to finance the export sector with less or no charges and interest rate as compared to other products of the banks
- Little or tiny nature of the banks deposit mobilization scheme

2.7.2. Challenges Faced by Exporters

Gada (2005) and other scholars had observed and noted some of the critical challenges faced by exporters in Ethiopia.

- Exporters doing business in unfamiliar territory can expect higher risk, and those additional financial and political risks may require extra financing.

- Exporters were faced challenges in getting adequate financial support and the required technical assistance from financial institutions.
- The lengthy of the process in getting the financial assistance from the banks.
- The period required by financial institution (financing banks) to get the hard currency proceeds and the shipment period.
- High cost of products makes the exporters less competitive in international market.
- The quality of the products makes exporters less competitive in the international market
- Challenges in fulfilling Minimum criterion required by banks in order to get financial support.

CHAPTER III

RESEARCH DESIGN AND METHODOLOGY

There is no general agreement on research design and methodology. There is no single blueprint for planning research. Research design is governed by the notion of fitness for purpose. The purposes of the research determine the methodology and design (Cohen, Manion, and Morrison, 2000). This implies that researchers plan, design and approach a given research problem in different ways in order to achieve the research objective and answer the research question.

This section discusses the research design and methodology that will be used to achieve the objective of the study. Research design, sample size and sampling method, source and method of data collection, procedure of data collection and method of data analysis is presented.

3.1. Research Design

Research design defines the systematic and scientific procedures used to arrive at the results and findings for a study against which claims for knowledge are evaluated (Kotler P., 2002). To achieve the objectives stated under chapter one the researcher employed descriptive type of research design. The descriptive research design was gauged by qualitative research technique since it allows the collection of data through questionnaires as well as interviews on the bases of sample. The strategy employed is used to further investigate the relationship between two or more scenarios. It also helps in describing the challenges affecting different operational organs of the banks during the effort of mobilizing foreign currency.

3.2. Research Methods

3.2.1. Source of Data and Instruments of Data Collection

3.2.1.1. Source of Data

Both secondary and primary data was collected for the purpose of this research. For clarity, Saunders et al, (2007) define data as facts, opinions and statistics that have been collected together and recorded for reference or for analysis.

A. Primary Data

Primary data is data that is used for a specific purpose for which it was gathered. For this study, it was obtained by administering questionnaires and interviews to respondents, namely management and staffs of the private commercial banks under study.

B. Secondary Data

Secondary data refers to data that is used for a purpose other than for which it was originally obtained. It may be descriptive or explanatory (Saunders et al, 2007), raw (unprocessed) or summarized (Kervin, 1999). They can be categorized into documentary, multi-source or survey-based (Saunders et al, 2006). Secondary data for the research was collected by reviewing textbooks, journals, articles, financial magazines, publications, financial statements, industry reports, NBE directives and circulars, internal records of the five private commercial banks under study such as short term strategic plan, quarterly and annual reports, budgets, and the international banking operation procedure of the Banks.

3.2.1.2. Instruments of Data Collection

The data for the study was thus collected using questionnaires and interviews. The interview is important since it helped check the validity of the data that was collected through questionnaires. Questionnaire consisting of mainly structured or close–ended questions were used to collect the primary data for the study. Close-ended questions are known to provide control over the participant’s range of responses by providing specific response alternatives (Borden and Abbott; 2002). This makes it easier to summarize and analyze the responses.

3.2.2. Data Collection Methods

The research intends to use primary and secondary data collection methods in order to collect data with regard to the research subject. Under the primary data collection method, interview and questionnaire was applied in order to grasp first-hand information from a sample of respondents who are management and staffs of the five private commercial banks under study.

Collection of existing documents and key informants on the other hand are the secondary data collection methods to be employed for the research. Collection of existing documents is useful for determining value, interest, positions, political climate, public attitudes and etc. In addition it provides information on historical trends or sequences & hence good for study of trends over time. More or less document analysis is relatively unobtrusive (invisible), and requires minimal cooperation from persons within the setting being studied. On the other hand, key informants in this regard help the researcher(s) better understand the issue broader, as well as what the project participants say and do.

3.2.3. Population

The complete set of cases from which a sample is selected is called the population whether it describes human beings or not (Saunders et al, 2007). It is also a group of individuals or items that share one or more common characteristics from which data can be gathered or analyzed. In the Oxford Advanced Learners‟ Dictionary, population is defined as all the people who live in a particular city, country or area.

For purposes of this research, the population of study comprises management and staff of the five private commercial banks under study located at selected senior city Branches and Head offices of the Banks.

3.2.4. Sample and Sampling Techniques

Sampling is the process by which a relatively small number of individuals are selected and analyzed in order to find out something about the population (VanderStoep, 2009). So the method of sampling employed for this research is purposive type of sampling by which the researcher contacted only most relevant respondents for the questionnaire and interview.

In view of the available private commercial banks in Ethiopia, judgment, which is substantiated with the underlying fact, played a major role in selecting samples from the population. Hence, the following banks are believed to show the existing nature of foreign currency mobilization in private commercial banks of Ethiopia. The following table therefore shows the bank name along with the reason for consideration for sample.

Table 1: Basis for considering the five Banks as samples of the study

No	Name of the Bank	Reason of Selection
1.	**Awash Bank S.C (AB)**	a. It is the pioneer and longest serving privately owned bank in Ethiopia. b. As per experience and knowledge acquired over 22 years of business engagement, the Bank provides highly competitive business solutions and financial advisory services for various successful multi nationals and corporate organizations c. The Bank provides essential service offerings such as account

		management, international banking/trade services, fund transfer services, electronic banking services, payroll administration services, credit services, managing payment of per-diem and travel allowances, non-financial products and services. d. In terms of branch network, it is the largest private bank in Ethiopia exceeding above 340 branches across the country, alongside 270 ATMs and 500 POS terminal machines. e. In recent years the Bank has exhibited a remarkable lead in terms of profit
2.	**Dashen Bank S.C. (DB)**	a. It is the second privately owned bank. b. It reached the top of banking business in dynamic and competitive business environment symbolized the highest peak, while the unique and efficient services the bank caters for the public through state of the art computer technology and carefully selected and trained man power. c. It is a successful private bank in Ethiopia in terms of profitability trend by providing efficient and customer focused domestic and international banking services, overcoming the continuous challenges for excellence through the application of appropriate technology. d. It’s the most successful bank in terms of profitability trend.
3.	**United Bank S.C (UB)**	a. It is a privately owned bank. b. It is a progressive and modern banking institution, endowed with a strong financial structure and strong management, as well as a large and ever-increasing customers and correspondent base.

		c. It offers all commercial banking services that include retail banking, loans, trade finance, interest free banking, mobile and internet banking, card banking (ATM s, POS machines), agent banking and etc. it operates in all over Ethiopia with various channels that include branches and sub branches
4.	**Lion International Bank S.C (LIB)**	a. It is a privately owned bank. b. One of the youngest Banks who have contributed a lot to the growth of the industry by introducing the one window service to other private Banks. c. The bank has exhibited a steady growth in profit during the previous successive fiscal years d. It is the first bank to acquire the license for agent and mobile banking from NBE and it's also known as an ice breaker by expanding its branches to locations where no other private bank operated before.
5.	**Berhan International Bank S.C (BrIB)**	a. It is a privately owned bank. b. It is the fastest growing young bank established nine years ago with a steady capital growth from year to year. c. Its paid up capital has managed to reach Birr 1.1 Billion showing an increase of Birr 462.4 million as reported at June, 2017.

As per preliminary survey conducted on the five banks under study, the number of staffs whose occupation are related to foreign currency mobilization at head office and selected senior city branches ranges from 40 to 45 and the operation made by these employees were similar. Furthermore, based on the researchers' experience and experts 'advices, getting 70% to 75% opinion of employees were advisable in order to represent the banks' opinion. Thus, the researcher randomly took equal number of samples from each of selected commercial banks. Accordingly, thirty (34) questionnaires were distributed to each five banks under study which makes the total sample size one hundred seventy (170). Interview questions were also administered to the directors and/or managers of international banking departments of the five Banks under study.

3.2.5. Data Analysis Method

The research utilized qualitative data analysis technique. Under this qualitative analysis the research has intended to use content and Generalizing/theorizing analysis techniques: in which the former is used for the categorization of data from documents for purposes of classification, summarization and tabulation. And this can be done at the manifest (descriptive account of the data) and latent (interpretive analysis) level; whereas the latter is used for generating a general explanation (theory) of a process, action, or interaction shaped by the interpreted views of a large number of participants.

3.3. Reliability and Validity

In order to ensure validity and reliability, the questionnaire composed of carefully constructed questions classified in to clusters to avoid ambiguity and in order to answer all the research questions. The questionnaire and interviews designed for the study were reviewed and commented by credit experts working at the banks alongside with the suggestion of thesis advisor. These processes help to ensure the content validity of the instrument.

Reliability is generally understood to concern the replicability of research findings and whether or not they would be repeated if another study, using the same or similar methods, was undertaken (Ritchie and Lewis, 2003:270). The possibility of another researcher in the future obtaining similar findings could slightly be different as it depends more on the type of issues, time, purpose, changes and processes used. Similar or repeated findings or results arrived at by another researchers will be an argument because problems like the change of respondents' opinion on issues, the time lap between the researchers, new regulations of the local government, the response given by the government or other stakeholders to solve or bridge the problems or gaps found in the study may have influence on the result arrived at by other researchers.

3.4. Ethical Considerations

Before the research was conducted, the researcher informed the participants of the study about the objectives of the study, and was consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting the privacy, and protecting the anonymity of all respondents. A researcher must consider these points because the law of ethics on research condemns conducting a research without the consensus of the respondents for the above listed reasons.

Hence, in conducting the research, the researcher considered the following ethical considerations:

- All data for the study was collected by issuing official letter to the concerned bank.
- Respondents were informed fully about the purpose, methods and intended possible uses of the research, what their participation in the research entails and what risks, if any are involved.
- The confidentiality of information supplied and the anonymity of respondents is respected.

CHAPTER – IV

DATA ANALYSIS AND INTERPRETATION

The methodology which is applied in this study has been discussed in chapter three. The results obtained using this methodology is presented in this section according to the research questions, preceded by the background information.

4.1. General Profile of Respondents

The questionnaire sought to collect information concerning the respondents such as background information and questions pertaining to the assessment of foreign currency mobilization. Among the distributed one hundred seventy (170) questionnaires all of them were managed to be returned successfully. In an attempt to uncover the assessment of foreign currency mobilization on the performance of private commercial Banks, information was gathered from staffs and management of the Banks under study. Hence, general information regarding staffs and management of the banks has been gathered.

In general the study shows that, 73.6% of respondents are male while 26.4% of the respondents are female. Among the respondents 44.1% of the respondents fall between the age range of 21 up to 30, another 44.1% of the respondents fall between the age range of 31 up to 40 and 11.8% of the respondents on the other hand fall between the age ranges of 41 up to 50. When we take a look into the marital status of the respondents; 52.9% of them are found to be single, 44.1% of respondents are married while 3% of the respondents are found to be divorced.

When we come to the educational background of the respondents it is observed that 76.5% of the respondents have acquired their BA Degrees, whilst 23.5% of the respondents have managed to acquire their MA Degrees. Most of the respondents do have an experience above five years; 44.1% of the respondents have work experience between 1 up to five years, 47% of the respondents have work experience between 5 to 10 years while 5.9% % of them have experience of 11 to 15 years and the remaining 3% have more than 15 years of experience. Thus, it can be inferred that the respondents do have the required experience and eligibility to respond to the questionnaire.

Table 2: Response rate table

Gender	%	Age	%	Marital Status	%	Educational Background	%	Years of Service	%
Male	73.60%	21 - 30	44.10%	Married	44.10%	PHD	-	1 - 5	44.10%
Female	26.40%	31 - 40	44.10%	Single	52.90%	Masters	23.50%	6 - 10	47.00%
		41 – 50	11.80%	Divorced	3.00%	Degree	76.50%	11- 15	5.90%
		51 - 60	-			Diploma	-	Above 15	3.00%
Total	**100.00%**	**Total**	**100.00%**	**Total**	**100.00%**	**Total**	**100.00%**	**Total**	**100.00%**

In addition to the findings obtained from the sample of respondents through the distributed questionnaire, the researcher has also managed to obtain the required data through interviewing International Banking Department Directors/Managers of the five private commercial Banks under study. Responses of the interview questions have also been summarized, interpreted and analyzed under the primary data analysis section.

4.2. Primary Data Analysis

4.2.1. Internal (Bank specific) Factors of Foreign Currency Mobilization

4.2.1.1. Capabilities nurturing sustainability of foreign currency mobilization

As per the obtained data respondents have chosen the following capabilities which nurtures sustainability of foreign currency deposit mobilization, therefore: 37% of respondents agreed up on availing competitive service to exporters and remittance recipients, 23% of them agreed on working with multiple number of remitting agencies, 21% of them chose Diaspora’s opening of foreign currency accounts, 12% of them agreed on maintain and expanding correspondent relationships with international Banks and 7% of respondents chose rewarding of customers who exchange foreign currency notes. Thus, according to the response or finding it can be said that availing competitive service to exporters and remittance recipients and working with multiple number of remitting agencies is essential in order to nurture the sustainability of foreign currency deposit mobilization of private commercial Banks. Furthermore, the finding is tabulated on the table below:

Table 3: Capabilities nurturing sustainability of FCM

No.	Capabilities	Respondents	Percentage (%)
1.	Diaspora's opening of foreign currency accounts	36	21%
2.	Working with multiple number of remitting agencies	39	23%
3.	Rewarding customers who exchange foreign currency notes	12	7%
4.	Availing competitive services to exporters and remittance recipients	63	37%
5.	Maintaining and expanding correspondent r/ships with international Banks	20	12%
	Total	**170**	**100%**

Source: Questionnaire

4.2.1.2. Challenges faced by private commercial Banks in their continuous foreign currency mobilization

Among the challenges faced by private commercial banks, 28% of the respondents selected constraining policies and rules of the governing body, another 28% of the respondents have also pointed out the lack of sufficient number of genuine exporters as a challenge, where as 21% of the respondents have agreed up on exporters using their own export proceeds for their import businesses, another 21% of the respondents have also marked international market price fluctuations of exportable items as a challenge and 1% of the respondents have chosen selling of export proceeds in a black market price by exporters as the other challenge. As per the finding it is indicated that constraining policies and rules of the governing body and lack of sufficient number of genuine exporters are the major challenges facing private commercial Banks in their continuous foreign currency mobilization among many. Furthermore, the finding is tabulated on the table below:

Table 4: FCM challenges faced by private Banks

No.	Challenges	Respondents	Percentage (%)
1.	Exporters selling their export proceeds in a black market price	2	1%
2.	International market price fluctuations of export items	36	21%
3.	Exporters using their own export proceeds for their import businesses	36	21%
4.	Lack of sufficient number of genuine exporters	48	28%
5.	Constraining policies and rules of the governing body	48	28%
	Total	**170**	**100%**

Source: Questionnaire

4.2.1.3. Major sources of foreign currency for private commercial Banks

There are about five major sources of foreign currency which are the commonly used as inputs to mobilize foreign currency deposits across commercial Banks in Ethiopia. And amid the five common sources 48% of the respondents voted for export, 30% of them vote for remittance, 16% vote for foreign currency purchases, 5% of them resided with official transfers and the rest 2% of the respondents have chosen private transfers as one of the sources. As per the gathered finding we can easily understand that export, remittance and foreign currency purchase are the dominant sources of foreign currency for private commercial Banks. Furthermore, the finding is tabulated on the table below:

Table 5: Major sources of FCY for private banks

No.	Major Sources	Respondents	Percentage (%)
1.	Export	81	48%
2.	Remittance	51	30%
3.	Official transfers	8	5%
4.	FCY Purchases	27	16%
5.	Private transfers	3	2%
	Total	**170**	**100%**

Source: Questionnaire

4.2.1.4. Effects of foreign currency shortages on private commercial Bank's reputation in facilitating foreign currency requests

As per the interview administered to IBD Directors of the five Banks under study; whenever there is a short fall in foreign currency reserve of their Banks they tend to get disabled in meeting the foreign currency requirements and/or demands of their clients engaged in import businesses. In return this shadows the performance of their Banks in a whole lot of different level; the effects as responded by the directors are as follows:

a. It is well known that availability of foreign currency is becoming the major requirement following the engagement of large number of clients in to the importing business throughout the years. Thus, whenever foreign currency stock of the Banks under study gets lower customers tend to make other foreign currency provider Banks their first choice while leaving their former Banks regardless of loyalty.

b. On the other hand when importer clients flee their home Banks (banks under study) to other Banks in search of an immediate foreign currency approvals they also take or withdraw their retained deposits away from the home Bank, due to their needs to deposit 100% of the required foreign currency amount at the latter Bank as pr the NBE's International Banking Operation Directive entails. As the result, the Banks under study have experienced severe loss of local currency deposits on many occasions in connection to the issues stressed above.

4.2.1.5. Overcoming foreign currency scarcity of private commercial Banks

Private commercial banks might attempt to use multiple number of measures in order to overcome foreign currency scarcity and as per the data obtained from the five private banks under study it is acknowledged that 64% of the respondents overcome foreign currency scarcity of their Banks by giving special emphasis to exporters, 21% of the respondents overcome foreign currency scarcity of their Bank by making foreign currency purchases, while the rest 15% of the respondents have noted that holding up foreign currency reserves for their prominent customers is what they undertake so as to alleviate and/or overcome foreign currency scarcity at their bank. According to the finding above, it is been identified that giving special emphasis to exporters can be regarded as a promising tool in order to overcome foreign currency scarcity of private commercial Banks. Furthermore, the finding is tabulated on the table below:

Table 6: Means of overcoming FCY scarcity by private Banks

No.	Means of overcoming scarcity	Respondents	Percentage (%)
1.	By making foreign currency purchases	36	21%
2.	By giving special emphasis to exporters	108	64%
3.	By holding up the foreign exchange reserves of the Bank for prominent customers	26	15%
4.	Raising foreign currency through short term foreign loans from correspondent banks	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.1.6. Major exportable commodities channeled through private commercial Banks

There are multiple numbers of commodities exported or channeled through private Banks to various international destinations. By this token as per the primary data obtained from the sample of respondents it is understood that 46% of the respondents commonly export coffee through their Banks, 34% of the respondents have claimed that sesame seed is commonly exported through their Banks, 13% of them have replied that different types of spices are the commonly exported commodities channeled through their Banks, only 1% of the respondents claimed that leather is commonly exported through their Banks and 7% of them have pointed out that other exportable commodities (vegetable, fruit, honey, teff, wheat, meat, livestock, cotton, textiles, gemstones, chatt, beverages and etc.) outside those mentioned above are commonly exported through their Banks. As clearly stressed above, the finding reveals that coffee and sesame seed are the top leading exportable commodities commonly exported or channeled through private commercial Banks. Furthermore, the finding is tabulated on the table below:

Table 7: Major commodities exported through private Banks

No.	Major exportable commodities	Respondents	Percentage (%)
1.	Coffee	78	46%
2.	Sesame Seeds	57	34%
3.	Leather	1	1%
4.	Spices	22	13%
5.	Others	12	7%
	Total	**170**	**100%**

Source: Questionnaire

4.2.1.7. Banks' size as a determinant of performance of private commercial banks in mobilization of foreign currency deposits

Among the respondents 38% of them agree on the case that Bank's size determines the performance of private commercial Banks in mobilization of foreign currency deposits, 26% of the respondents have also strongly agreed on the determination of performance of private Banks in foreign currency mobilization by Bank's size, 21% of the respondents disagree on the case while the rest 15% of the respondents chose to stay neutral to the enquiry. Therefore, the finding reveals here that Bank's size determines the performance of private commercial Banks in mobilization of foreign currency deposits. In other words the finding also reveals the tendency of private Bank's foreign currency earnings can increase as they grew and become large in resources, capital, customer base, and branch expansion and so on.

4.2.1.8. Commonly adopted foreign currency deposit mobilization strategies of private commercial Banks

Likely, adopted foreign currency mobilization strategies of commercial Banks is not expected to be scattered and differentiated due to the dynamic source of foreign currency in which commercial Banks under study use for mobilization. Thus, the commonly adopted strategies of the Banks under study are listed as follows:

a. Working with multiple number of remitting agencies;

b. Encouraging the flow of remittances and foreign currency purchases by introducing an incentive mechanism that awards winners with a prize through the lottery system;
c. Availing competitive services to exporters and remittance recipients;
d. Giving special emphasis to exporters by engaging on enhancement of the export sector in full capacity.
e. Maintaining and expanding correspondent relationships with international Banks.

4.2.1.9. Technical assistances given by private commercial Banks to exporters

IBD directors of the banks under study have outlined that they give technical assistance to exporters other than the ordinary services in order to support the viability of the exporter's business. The following are among the much technical assistances given and commonly shared between the five banks under study:

a. Locating potential international markets for exporter's commodities
b. Advising proper utilization of pre-shipment loans
c. Advising on assurance of genuine export proceeds
d. Creating awareness on the probable business damages caused by export fund diversion
e. Advising exporters to fulfill their commitments with regard to foreign currency generation and to abstain from export proceed diversion.

4.2.1.10. The common available financings (credit products) of private commercial Banks for exporters

The commonly available financings for exporters as indicated by the private Banks under study are found to be quite uniform since every Bank cannot have separate credit products for each and every economic sector, which will be against NBE's rules and regulations. Thus credit products available for exporters are:

a. Export term loans /short, medium and long term/
b. Pre-shipment credit facility /tenure period of 3 months up to 1 year/
c. Revolving export credit facility /tenure period of 3 months up to 1 year/
d. Merchandise export credit facility /tenure period of 3 months up to 1 year/

4.2.1.11. The level of engagement of private commercial Banks in enhancing and improving remittance services

In overall it can be said that almost all the private Banks under study share common types of engagement in enhancing and improving their remittance services from time to time. As per concrete data obtained from the interview, the level of engagement comprise adding more international money transfer partners to the existing ones, introduction of international payment cards (VISA, Master Card and China Union Pay) and also introduction of an incentive mechanism that awards remittance recipients of both international money transfer agents and SWIFT with a prize through the lottery system.

4.2.2. External (Macro Level) factors of foreign currency mobilization

4.2.2.1. Factors contributing to the avoidance of export sector by merchants

Based on the gathered data it is found out that 31% of the respondents think that the limited exportable items within the country perpetuates the avoidance of the export sector by many merchants, another 31% of the respondents also think that lack of government's feedback and support on the export sector is a contributing factor to the avoidance of the sector, on the other hand 18% of the respondents believe that intense competition and rivalry of the international market is the reason for the avoidance of the export sector by merchants, while 16% of the respondents responded that volatility of foreign exchange rate is the means to the avoidance of the export sector and lastly 5% of the respondents believe that lack of sufficient financings from private commercial Banks is another factor contributing to the avoidance of the sector by investors. The finding here illustrates that limited exportable items within the country and lack of government's feedback and support on the sector along with the intense and competitive rivalry of the international market are the major contributing factors to the avoidance of the export sectors by many merchants. Furthermore, the finding is tabulated on the table below:

Table 8: Avoidance of export sector by merchants

No.	Contributing factors	Respondents	Percentage (%)
1.	Volatility of foreign exchange rate	28	16%
2.	Limited exportable items within the country	52	31%
3.	Lack of government's feedback and support on the sector	52	31%
4.	Intense competition and rivalry of the international market	30	18%
5.	Lack of sufficient financings from private commercial Banks	8	5%
	Total	**170**	**100%**

Source: Questionnaire

4.2.2.2. The adverse effects of exchange rate volatility in private commercial Banks

As learnt from the responses of the interviewees, foreign exchange rate volatility especially the recent unexpected boom in exchange rate of USD (in which the local currency has been devaluated by 15% percent in order to raise the exchange rate of USD) has proven to have an adverse effect on clients of their Banks engaged in both export and import sectors:

a. On the side of exporters; the devaluation is a promising opportunity because it encourages them to export intensively since the return or the profit gained will be much higher than the previous exchange rates. Accordingly the exporter will also gain access to generate a wider margin of foreign currency for the channeling (exporter) Bank.

b. But on the side of importers the devaluation becomes a bottle neck since acquiring foreign currency to import goods becomes expensive and/or worthwhile in direct connection to the increment made on the exchange rate. By this token the Banks under study still lacking sufficient number of genuine and prominent exporters will be put in a harsh position due to the hustle they face to avail foreign currency and fulfill the requirements of importers.

4.2.2.3. Influences (powers) of exporters over private commercial Banks

The gathered data shows that 49% of the respondents responded that exporters persuade private Banks to use their own proceeds for their other import businesses, 40% of the respondents on the other angle responded that there is existence of export fund diversion to other businesses by exporters, similarly 11% of the respondents have also pointed out the existence export proceed diversion to other Banks. Overall, the finding reveals that there is a great deal of influence on private commercial Banks by exporters which is mostly exercised by persuading private banks to use their own proceeds for their other import businesses and by diverting export funds (loans received from banks in a form of short, medium and long term loans) to other unrelated business owned by such exporters. Furthermore, the finding is tabulated on the table below:

Table 9: Influences of exporters over private Banks

No.	Influences of exporters	Respondents	Percentage (%)
1.	Exporters persuade banks to use export proceed for their import	28	49%
2.	Existence of export fund diversion to other business	52	40%
3.	Existence of diversion of export proceeds to another bank	52	11%
4.	Financed exporters perform as expected by the bank	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.2.4. Positive and significant effect between foreign exchange rate and financial Performance of commercial banks

It is observed that 47% of the respondents agree on the matter in which there is positive and significant effect between foreign exchange rate and financial Performance of private commercial banks, continually 32% of them also strongly agree on the positive and significant effect between foreign exchange rate and financial Performance of private commercial banks, on the other hand 15% of them seemed to disagree on the matter, while the rest 6% of the respondents chose to stay neutral to the matter or enquiry. Thus, as the finding clearly reveals it is easy to understand that there's positive and significant effect between foreign exchange rate and financial Performance of private commercial banks. Furthermore, the finding is tabulated on the table below:

Table 10: Foreign exchange rate and financial Performance of Private Banks

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	30	18%
2.	Agree	80	47%
3.	Neutral	40	24%
4.	Disagree	20	12%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.2.5. Foreign exchange policy of the Government regarded as tight and restrictive

As per the gathered data the researcher came across that, 47% of the respondents agree that the foreign exchange policy of the government is tight and restrictive, 32% of them also strongly agree to the restrictive and tightness of government's foreign exchange policy, on the other hand 15% of the respondents disagree to disclose the government's foreign exchange policy as tight and restrictive and lastly, the rest 6% of the respondents chose to stay neutral to the enquiry. Overall, the finding here reveals the tightness and restrictiveness of the government's foreign exchange policy. Furthermore, the finding is tabulated on the table below:

Table 11: Foreign exchange policy of the Government

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	55	32%
2.	Agree	80	47%
3.	Neutral	10	6%
4.	Disagree	25	15%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.2.6. The black market as an aggravating factor for the diminished foreign currency reserve

Based on the obtained data the researcher came across that, 44% of the respondents agree on the case in which the existence of black market within the economy is aggravating the worsening foreign currency reserve across private commercial banks, similarly 38% of the respondents also strongly agree to the existence of the black market as the cause to the eradicating foreign currency reverse across private commercial Banks, on the other hand 9% of the respondents seems to disagree on the existence of the black market as the means of the diminished foreign currency reserve, 6% of the respondents have found to be neutral to the enquiry and the rest 3% of the respondents strongly disagree on the case that the existence of black market as an aggravating factor for the diminishing foreign currency reserve across private commercial Banks. Accordingly, the finding shows that the existence of black market within the country's economy can be regarded as the major aggravating factor for the diminished foreign currency reserve across private commercial Banks. This is practically true due to the fact that when a foreign currency is exchanged within the black market it only flows within the hands of few individuals rather than circulating within the international trade system of the country through financial institutions. Furthermore, the finding is tabulated on the table below:

Table 12: The black market diminishing the FCY reserve

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	65	38%
2.	Agree	75	44%
3.	Neutral	10	6%
4.	Disagree	15	9%
5.	Strongly disagree	5	3%
	Total	**170**	**100%**

Source: Questionnaire

4.2.2.7. Heavy domination of few primary agricultural export commodities favoring for the minimal proceed generated through export

The gathered data illustrates that, 56% of the respondents agree to the heavy domination of few primary agricultural commodities favoring the minimal proceed generated through export, similarly29% of the respondents also strongly agree to the heavy domination of few agricultural products favoring the minimal proceeds generated through export, on the other side 18% of the respondents chose to stay neutral to the enquiry and the rest 6% of the respondents disagree with the heavy domination of few primary agricultural commodities favoring the minimal proceed generated through export. Accordingly, the finding reveals that only few primary agricultural export commodities (such as coffee, sesame seeds, spices) favors for the minimal proceed generated through export across private commercial Banks. This shows that many exporters resemble to heavily engage on the export of few agricultural products dominantly coffee and oil seeds rather than diversifying their exports to other multiple numbers of consumable and non-consumable products or commodities. Furthermore, the finding is tabulated on the table below:

Table 13: Domination of few primary agricultural export commodities

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	50	29%
2.	Agree	95	56%
3.	Neutral	15	9%
4.	Disagree	10	6%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.3. Export Processing Challenges of Private Commercial Banks

4.2.3.1. Export document negotiation process of private Banks

It is acknowledged that, 59% of the respondents agree that export document negotiation process of their Banks is in compliance with both international and local rules; similarly 18% of the respondents also strongly agree that export document negotiation process of their Banks is in compliance with both international and local rules; but on the other hand another 18% of the respondents chose to stay neutral to the enquiry and the rest 6% of the respondents seem to disagree on the fact that export document negotiation process of their Banks is in compliance with both international and local rules. According to the finding stressed above it can be well said that export document negotiation process of the Banks under study is in compliance with both international and local rules. Furthermore, the finding is tabulated on the table below:

Table 14: Export document negotiation process of private Banks

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	30	18%
2.	Agree	100	59%
3.	Neutral	30	18%
4.	Disagree	10	6%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.3.2. Maintaining relationships with foreign Banks to help the export process

It is observed that 38% of the respondents under study chose to stay neutral to the fact that their Banks have good relationships with foreign banks which helps the export process, 26% of the respondents strongly agree that their Banks maintain good relationships with foreign Banks in order to help devise the export process, similarly 21% of the respondents also agree that their respective Banks maintain good relationships with foreign Banks in order to help the export process, but on the other hand the rest of 15% of the respondents disagree to their Banks' having good relationship with foreign Banks in enhancing the export process. As per the obtained finding it is clear to understand that the banks under study do not seem to maintain good relationships with foreign Banks so as to help or facilitate the export process. Furthermore, the finding is tabulated on the table below:

Table 15: Maintaining r/ships with foreign Banks to help the export process

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	45	26%
2.	Agree	35	21%
3.	Neutral	65	38%
4.	Disagree	25	15%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.3.3. Good internal follow-up procedure of private Banks to repatriate proceeds after exports are performed

According to the gathered data 35% of the respondents agree to the case that their Banks have good internal good internal follow-up procedure to repatriate foreign currency after exports are performed, similarly 18% of the respondents also strongly agree that the internal follow-up procedure of their Banks to repatriate foreign currency after exports are performed is good, but on the other hand 29% of the respondents chose to stay neutral to the enquiry, while the rest 18% of the respondents are found to disagree on the matter that internal follow-up procedure of their Banks in repatriate foreign currency after exports are performed is good. Based on the findings it can be said that the Banks under study somehow or moderately have good internal follow-up procedure to repatriate foreign currency after exports are performed. Furthermore, the finding is tabulated on the table below:

Table 16: Good export follow-up procedure of private Banks

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	30	18%
2.	Agree	60	35%
3.	Neutral	50	29%
4.	Disagree	30	18%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.3.4. Pre-shipment loans being quite beneficial to exporters to enhance the export sector

Based on the gathered data 50% of the respondents agree to pre-shipment loans being quite beneficial to exporters to enhance the export sector, similarly 35% of them also strongly agree to pre-shipment loans being quite beneficial to exporters to enhance the export sector, but on the other hand 9% of the respondents have been found to disagree to pre-shipment loans being quite beneficial to exporters to enhance the export sector, while the rest of 6% of the respondents chose to stay neutral to the enquiry. According to the finding one can deduce that pre-shipment loans are essentially quite beneficial to exporters in order to enhance the export sector. This is practically true due to the fact that, pre-shipment loans often lift pre-shipping costs off the shoulders of exporters in which they were supposed to incur in order to ship their goods abroad. This pre-shipment facility is availed in many banks against proper and valid sales contracts between the exporter and importer, and the maturity period of such facilities ranges or falls between three months up to a year. Furthermore, the finding is tabulated on the table below:

Table 17: Pre-shipment loans to exporters

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	60	35%
2.	Agree	85	50%
3.	Neutral	10	6%
4.	Disagree	15	9%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.3.5. Granting term loans to exporters to facilitate their working capital requirements

Among the respondents 47% of them agree to the case that each exporter of a private commercial Bank should be granted term loans in order to facilitate the working capital requirements of the exporter's business, similarly 21% of them also strongly agree to the case, while 26% of them chose to stay neutral to the enquiry and on the other hand the rest 6% of them seem to disagree to the idea where each exporter of a private commercial Bank should be granted term loans in order to facilitate the working capital requirements of the exporter's business. Thus, based on the finding it can be concluded that each exporter of a private commercial Bank should be granted term loans in order to facilitate the working capital requirements of the exporter's business. . Furthermore, the finding is tabulated on the table below:

Table 18: Granting term loans to exporters

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	35	21%
2.	Agree	80	47%
3.	Neutral	45	26%
4.	Disagree	10	6%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.3.6. Giving foreign currency back to exporters for their import businesses so as to retain potential exporters

Based on the gathered data it is observed that 41% of the respondents agree to granting foreign currency back to exporters for facilitation of their import businesses so as to retain potential exporters, in a similar manner 15% of the respondents also strongly agree granting foreign currency back to exporters for facilitation of their import businesses so as to retain potential exporters, but on the other hand 32% of the respondents have been found to disagree to granting foreign currency back to exporters for facilitation of their import businesses so as to retain potential exporters, on the other hand the rest 12% of the respondents chose to stay neutral to the enquiry. Even though the National Bank of Ethiopia prohibits exporters from using their own export proceeds in order to support their other import businesses, majority of the five private Banks under study seem to support granting of foreign currency back to exporters for facilitation of their import businesses for the sake of retaining potential exporters. Furthermore, the finding is tabulated on the table below:

Table 19: Giving foreign currency back to exporters

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	25	15%
2.	Agree	70	41%
3.	Neutral	20	12%
4.	Disagree	55	32%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.3.7. Existence of capacity problems of private Bank's personnel working on export in discharging their responsibility against international standards

As per the gathered data it is observed that 44% of the respondent agree that their Bank's personnel working on export have capacity problems in discharging their responsibility against international standard, 26% of the respondents chose to stay neutral to the enquiry and also another 26% of the respondent disagree to the case that their Bank's personnel working on export have capacity problems in discharging their responsibility against international standards, similarly 3% of the respondents strongly disagree on the matter. Accordingly, the finding here proves that personnel working on export in the majority of the Banks under study are found to have capacity problems in discharging their responsibilities against international standards. Furthermore, the finding is tabulated on the table below:

Table 20: Capacity problems of personnel in discharging duties

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	-	-
2.	Agree	75	44%
3.	Neutral	45	26%
4.	Disagree	45	26%
5.	Strongly disagree	5	3%
	Total	**170**	**100%**

Source: Questionnaire

4.2.4. Export oriented policy of the National Bank of Ethiopia (NBE)

4.2.4.1. Attracting and recruiting new exporters as a tool to increase the flow of exports

Among the sample of respondents 47% of them agree that attracting and recruiting new exporters can be considered as one of the tools to increase export rather than giving emphasis on existing exporters of any given private commercial Bank, similarly 21% of them also strongly agree to attracting and recruiting new exporters rather than giving emphasis on the existing ones so as to increase the flow of exports, on the other hand another 21% of them disagree to attracting and recruiting new exporters and agree to giving special emphasis on existing exporters so as to increase exports of any given private commercial Bank, similarly 3% of them are observed to strongly disagree to the matter as well, whereas the rest 9% of them chose to stay neutral to the enquiry. Accordingly, the finding clearly reveals that in addition to giving special emphasis to existing exporters of any given private commercial bank it is understood that attracting and recruiting new exporters is consistently important to use as a tool to increase the flow of exports on a continuous manner. Furthermore, the finding is tabulated on the table below:

Table 21: Attracting and recruiting new exporters to increase exports

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	35	21%
2.	Agree	80	47%
3.	Neutral	15	9%
4.	Disagree	35	21%
5.	Strongly disagree	5	3%
	Total	**170**	**100%**

Source: Questionnaire

4.2.4.2. More room for export and less room for non-export financing to enhance the sector

When respondent are enquired if more room for export and less room for non-export financing can be regard as the major tool to increase the flow of exports; 38% of them disagreed to the matter, on the other hand 29% of them agreed on opening more room for export financing rather than non-export financing, similarly 12% of them seemed to strongly agree to the direction of opening more room for export financing while narrowing the room for other non-export related financings and lastly, 21% of the respondents chose to stay neutral to the enquiry. Therefore, the finding shows that extending or enhancing the room for export financing while narrowing it down for non-export financing has moderately been found to be the tool to increase the flow export across the five private commercial Banks under study. Furthermore, the finding is tabulated on the table below:

Table 22: More room for export and less room for non-export financing

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	20	12%
2.	Agree	50	29%
3.	Neutral	35	21%
4.	Disagree	65	38%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.4.3. Correspondent Banks choosing to work only with the state owned Bank (CBE), decreasing the flow of private Bank's Export

Recently more than a few correspondent Banks are only choosing to stick with state owned Bank that is Commercial Bank of Ethiopia due to several inconveniences and discrepancies encountered with most private commercial Banks. Keeping this in mind, the gathered data shows that 47% of the respondents agree to the situation where correspondent Banks choosing to work only with the state owned Bank (CBE) contributes to the decrease of export flow on the side of private commercial Banks, similarly 12% of the respondents also strongly agree to this situation, but on the other hand another 12% of the respondents disagree on the choice of correspondent Banks to work with the state owned Bank as a contributing factor to the decrease of the flow of export on the side of private commercial Banks, similarly 3% of the respondents also strongly disagree to interrelating the choice of correspondent Banks to the decrease of export flow on the side of private commercial Banks, whereas the rest of 26% of the respondents chose to stay neutral to the enquiry. Based on the out puts of the findings it can be generalized that correspondent Banks fleeing private commercial Banks to only work with the state owned Bank (CBE) contributes in a way to the decrease of exports flow on the side of private commercial Banks. Furthermore, the finding is tabulated on the table below:

Table 23: Choice of correspondent Banks to only work with CBE

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	20	12%
2.	Agree	80	47%
3.	Neutral	45	26%
4.	Disagree	20	12%
5.	Strongly disagree	5	3%
	Total	**170**	**100%**

Source: Questionnaire

4.2.4.4. Developing the manufacturing sector in order to enhance export

In recent years the government of Ethiopia is extensively working to develop the manufacturing industry sector with the anticipation of increasing the foreign currency reserve of the country by directly exporting the manufacturing industry out puts for international markets across the globe. Keeping this in mind, 56% of the respondents agree on developing the manufacturing sector in order to enhance export which can be seen as vital in order to increase exports, similarly 38% of the respondents also strongly agree on developing the manufacturing sector as a vital tool in order to enhance export, on the other hand 3% of the respondents disagree on developing the manufacturing sector as a tool to enhance export and the rest 3% of the respondents chose to stay neutral to the enquiry. In overall, the finding reveals that developing the manufacturing sector in order to enhance export can be seen as vital in order to increase exports. Furthermore, the finding is tabulated on the table below:

Table 24: Developing the manufacturing sector in order to enhance export

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	65	38%
2.	Agree	95	56%
3.	Neutral	5	3%
4.	Disagree	5	3%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.4.5. The GOE's arrangement with China (dominant importer of Ethiopia's goods) to channel any exports only through CBE contributing to the draining of private Bank's Export.

The government of Ethiopia has made arrangements with China's state owned Bank on terms and conditions in which any sort of export from Ethiopia to China to be channeled or exported only through CBE. Keeping this in mind, among the sample of respondents 56% of them agree on the case that channeling export to the country's dominant importer such as China only through CBE is one of the major contributing factors to the draining of export on the side of private commercial Banks, similarly 24% of the respondents also strongly agree on the matter, on the other hand 18% of the respondents chose to stay neutral to the enquiry and lastly the rest 3% of the respondents disagree on the case that the arrangement made with China to benefit CBE from the export proceed seen as one of the major contributing factors to the draining of export on the side of private commercial Banks. Accordingly, the finding portrays that channeling export to the country's dominant importer such as China only through Commercial Bank of Ethiopia is one of the major contributing factors to the draining of major export flows on the side of private commercial Banks since china has been dominantly importing different types of oil seeds from Ethiopia. Furthermore, the finding is tabulated on the table below:

Table 25: The GoE's export trade arrangement solely via CBE

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	40	24%
2.	Agree	95	56%
3.	Neutral	30	18%
4.	Disagree	5	3%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.4.6. Ambitious mega projects of the Government consuming excessive amounts of foreign currency

For the past decade the country has been and still is going under heavy duty constructions on a nationwide basis, among the ongoing constructions mega hydro power development projects are the dominants. Keeping this in mind, among the respondents 41% of them seem to agree to the ambitious mega projects of the government literally consuming excessive amounts of foreign currency, thus causing foreign currency scarcity across private Banks; similarly 24% of the respondents also strongly agree to the excessive consumption of foreign currency by the government's ambitious mega projects causing foreign currency scarcity across private commercial Banks; on the other hand 18% of the respondents seem to disagree on the interrelatedness the country's mega projects consumption of excessive foreign currency with the scarcity of foreign currency facing private commercial Banks over the years, lastly the rest 15% of the respondents chose to stay neutral to the enquiry. Nevertheless, as per the obtained finding it can be deduced that Ambitious mega projects of the government have literally been consuming excessive amounts of foreign currency, thus causing foreign currency scarcity across Banks. Furthermore, the finding is tabulated on the table below:

Table 26: Ambitious mega projects of the Government

No.	Extents of agreement	Respondents	Percentage (%)
1.	Strongly agree	40	24%
2.	Agree	70	41%
3.	Neutral	25	15%
4.	Disagree	30	18%
5.	Strongly disagree	-	-
	Total	**170**	**100%**

Source: Questionnaire

4.2.4.7. Special consideration of private commercial Banks for export financings

As per the response gathered from the interviewees, the data obtained with regard to giving special emphasis or considerations for export financing seemed identical as the directors of the Banks under study stressed that these special considerations incorporate:

a. Entertaining exporters with various export related credit products at preferential interest rates in order to exploit the benefits of foreign currency generation;
b. Facilitating the ground work in availing pre-shipment credit facilities to exporters, since the facility is availed on clean basis (without collateral) and reliefs the exporter from the short term cash shortage encountered at shipping.

4.2.5. Enhancing foreign currency remittance of private commercial Banks

As per the enquiry respondents have rated the extent in which foreign currency remittance of their respective Banks could be enhanced through the following alternatives.

Table 27: Enhancing foreign currency remittance of private Banks

Alternatives	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Enhancement of service quality by maintaining high quality service	8%	11%	1%	0%	0%
Undertaking aggressive promotion & awareness creation programs	6%	11%	1%	2%	0%
Strengthening relationship marketing by creating and retaining strong relationship with customers	11%	9%	0%	0%	0%
Enhancing System Efficiency in order to avoid system interruptions	7%	11%	2%	1%	0%
Enhancing accessibility of services through branch expansion	8%	11%	1%	0%	0%
Working in collaboration with developmental partners	9%	10%	1%	0%	0%

Accordingly, the finding demonstrates that maintaining high quality service, undertaking aggressive promotion and awareness creation programs, strengthening relationship marketing, enhancing system efficiency, enhancing accessibility of services and working in collaboration with developmental partners are the alternatives where 62% and 49% of the respondents have agreed and strongly agreed respectively to their means of enhancement of remittance within their respective Banks.

4.2.6. Enhancing export activities of private Banks

As per the enquiry, respondents have managed to rate the extent in which export activities of their respective Banks could be enhanced through the following alternatives

Table 28: Enhancing export activities of private Banks

Alternatives	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Enhancement of service quality by improving service quality on export processes	9%	11%	0%	1%	0%
Enhancing service efficiency by providing of export services with minimal cost	8%	11%	1%	1%	0%
Enhancing integration between processes of export transaction	8%	11%	2%	0%	0%
Assessment of new product channels to introduce additional service products under export businesses	11%	8%	1%	1%	0%
Enhancing accessibility of services through branch expansion	6%	10%	4%	0%	0%
Strengthening relationship marketing by creating and retaining strong relationship with customers	12%	8%	0%	0%	0%

Accordingly, the finding demonstrates that improving service quality on export process, providing export services with minimal cost, enhancing integration between processes of export transaction, assessment of new product channels, enhancing accessibility of services and strengthening relationship marketing are the alternative where 58% and 53% of the respondents have agreed and strongly agreed respectively to their means of enhancing export activities within their respective Banks.

4.2.7. Enhancing foreign currency purchase of private Banks

As per the enquiry, respondents have managed to rate the extent in which foreign currency purchase of their respective Banks could be enhanced through the following alternatives

Table 29: Enhancing foreign currency purchase of private Banks

Alternatives	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Enhancement of service quality by maintaining high quality service	10%	9%	0%	0%	0%
Undertaking aggressive promotion & awareness creation programs	12%	6%	1%	0%	0%
Establishing sustainable linkage with selected development partners	9%	8%	2%	0%	0%
Carrying out financial literacy programs to create awareness on the foreign currency usage polices of the NBE	5%	12%	3%	0%	0%
Strengthening relationship marketing by creating and retaining strong relationship with customers	9%	9%	1%	0%	0%

Accordingly, the finding demonstrates that maintaining high quality service, undertaking aggressive promotion and awareness creation programs, establishing sustainable linkage with selected development partners, creating awareness on the foreign currency usage policies of the NBE and creating and retaining relationship with customers are the alternative where 45% and another 45% of the respondents have agreed and strongly agreed respectively to their means of enhancing foreign currency purchase of their respective Banks.

4.3. Secondary Data Analysis

4.3.1. Operational and Financial Performance of the Private Banks Under Study

4.3.1.1. Awash Bank S.C (AB)

The asset size of Awash Bank is Birr 42 billion as at the end of June 2017, on account of increases in loans and advances, deposits with foreign banks and NBE bills purchase. The total paid-up capital of the Bank rose to Birr 2.6 billion as at end of June 2017, depicting a growth of Birr 402.6 million as compared with the same period of last year.

Total deposits of the Bank, including margins held on letters of credit, surged remarkably by 35 percent(Birr 8.5 billion) and reached Birr 32.8 billion at the end of June 2017 from Birr 24.2 billion during the same period of last year. As compared to the Bank's last five years average growth rate of 24 percent per annum, this year's growth rate was highly commendable. It is also the highest amount of absolute deposit growth registered among local private banks operating in Ethiopia during the review period.

The total outstanding loans and advances of the Bank rose to Birr 22.6 billion as at June 30, 2017 from Birr 15.4 billion a year ago, depicting high appetite for credit demand associated with expansion of existing businesses and new investment ventures. Accordingly the financial performance of the Bank is stipulated as per the following table below:

Table 30: Operational and Financial Performance of Awash Bank S.C.

(In Millions of Birr)

Descriptions		**Financial Year**			**% Change**	
		2014/15	**2015/16**	**2016/17**		
		A	**B**	**C**	**B/A**	**C/B**
Income	Interest income	1,461.5	1,922.5	2,587.6	31.5	34.6
	Commission & charges	432.8	445.6	643.5	2.9	44.4
	Gain on foreign exchange dealings	220.1	226.9	268.1	3.1	18.2
	Other income	186.6	229.0	264.6	22.7	15.6
	Total Income	**2,301.0**	**2,824.0**	**3,763.8**	**22.7**	**33.33**
Expenses	Interest Expenses	638.8	781.8	9 14.2	22.4	16.9
	Salary and Benefits	466.8	615.3	848.1	31.8	37.8
	General and Administrative Expenses	325.8	421.9	557.0	29.5	32.0
	Provision for Bad Debts	8.3	18.7	94.0	124.7	403.9
	Total Expense	**1,439.8**	**1,837.6**	**2,413.3**	**27.6**	**31.3**
Profit	Gross profit	861	986	1,350	14	37
	Net Profit	645	744	1,003	15	35

4.3.1.2. Dashen Bank S.C (DB)

At the end of June 30, 2017, the total asset of the Bank scored Birr 34.6 billion, exceeding the preceding year's level by Birr 6.0 billion or 21%. The significant growth in assets was largely contributed by the rise in outstanding loans and advances coupled with a corresponding increase in long term investment.

By the close of the 2016/17 reporting fiscal year, the total shareholders' equity contribution and legal reserve of the Bank reached Birr 4 billion, indicating a 19% year-on-year growth. Paid up capital of the Bank has increased by Birr 435 million during the reporting period and reached Birr 1.9 billion accounting 48% of the total capital.

The leveraging of the Bank's widespread footprint of branches, continuing expansion of digital channels and growing customer base well positioned the Bank to attract sustainable source of funding despite the fierce competition faced in the market. At the end of June 2017, the corporate deposit totaled Birr 27.8 billion increasing by Birr 5.0 billion or 22% year-on-year. The resource mobilization endeavor was supported by the Bank's aggressive expansion strategy, which resulted in the opening of 83 new branches.

During the 2016/17 financial year, the Bank's outstanding loans & advances grew by Birr 5.2 billion or 42% to reach at Birr 17.7 billion, up from Birr 12.5 billion a year earlier. As a result, the loan to deposit ratio of the Bank stood at 0.64:1; which happened to be way above last year's same period position of 0.55:1, indicating an enhanced utilization of the funds mobilized

Despite the pressure on foreign currency, international banking operations of Dashen Bank continued to generate a substantial amount of income for the Bank. The overall income earned from foreign banking operations amounted to Birr 898.9 million, which suggests an increase by 1% as compared to that of 2015/16 fiscal year

Accordingly the financial performance of the Bank is stipulated as per the following table below:

Table 31: Operational and Financial Performance of Dashen Bank S.C

(In Millions of Birr)

Descriptions		**Financial Year**			**% Change**	
		2014/15	**2015/16**	**2016/17**		
		A	**B**	**C**	**B/A**	**C/B**
Income	Interest income	1,414.0	1,522.0	2,070.0	107.6	136
	Commission & charges	224.9	233.4	226.1	103.8	96.87
	Gain on foreign exchange dealings	299	287.9	266.6	96.29	92.6
	Other income	1,101.00	1,212.00	1,345.00	110.1	111
	Total Income	**3,038.9**	**3,255.3**	**3,907.7**	**417.8**	**436.5**
Expenses	Interest Expenses	667	741	921	111.1	80.46
	Salary and Benefits	501	569	788	113.6	72.21
	General and Administrative Expenses	383	473	726	123.5	65.15
	Provision for Bad Debts	13.3	29.1	131.6	218.8	22.11
	Total Expense	**1,564.3**	**1,812.1**	**2,566.6**	**567.0**	**239.9**
Profit	Gross profit	963.8	950.6	979.7	0.98	3
	Net Profit	729.1	727	756.1	0.99	4

4.3.1.3.United Bank S.C (UB)

Total assets of the Bank registered a commendable increment during the Fiscal Year 2016/17. The total assets of the Bank stood at Birr 21.90 billion as at 30 June 2017, showing a substantial growth of Birr 4.63 billion (26.82%) over last year same period balance of Birr 17.27 billion.

Total capital of the Bank reached Birr 2.52 billion at the end of June 2017. The balance exceeded last year same period figure of Birr 2.07 billion by Birr 443.15 million (21.38%). Of the total capital, paid-up capital accounted for the lion's share with 61.9% (Birr 1.56 billion), followed by Legal Reserve and Retained Earnings which constituted 25.98% (Birr 653.53 million) and 11.4% (Birr 286.32 million), respectively. Paid-up capital showed an increment of Birr 305.68 million (24.42%) over last year same period balance.

Despite the stiff competition for resources in the banking industry, United Bank managed to register an impressive improvement in its deposits level year-on-year. Total deposits of the Bank reached Birr 17.68 billion as at 30 June 2017 registering a remarkable increase of Birr 4.08 billion (30.01%) compared to the balance of Birr 13.60 billion registered as at 30 June 2016. The number of depositors of the Bank has also been showing a notable growth from time to time implying the strong confidence the public vested on the Bank.

The total outstanding balance of loans and advances extended to customers as at June 30, 2017 stood at Birr 11.99 billion, resulting an increase of Birr 3.46 billion (40.56%) compared with the previous year.

Income from international banking services accounted for substantial share of the total income of the Bank. United Bank generated Birr 317.37 million from this line of banking services during the period under review. This accounts for 15.78% of the total income of the Bank.

Accordingly the financial performance of the Bank is stipulated as per the following table below:

Table 32: Operational and Financial Performance of United Bank S.C

(In Millions of Birr)

Descriptions		Financial Year			% Change	
		2014/15	2015/16	2016/17		
		A	B	C	B/A	C/B
Income	Interest income	948.0	1,226.1	1,549.0	29.3	26.3
	Commission & charges	260.5	308.8	332.6	18.5	07.7
	Gain on foreign exchange dealings	102.1	118.0	104.3	15.5	88.4
	Other income	23.1	20.7	24.7	89.6	19.3
	Total Income	**1,333.7**	**1,673.6**	**2,010.6**	**25.4**	**20.1**
Expenses	Interest Expenses	385.8	526.0	634.7	36.3	20.6
	Salary and Benefits	-	-	-	-	-
	General and Administrative Expenses	579.0	692.1	849.9	19.5	22.8
	Provision for Bad Debts	10.8	27.1	37.4	101.8	38.0
	Total Expense	**975.6**	**1,245.2**	**1,522.0**	**27.6**	**22.2**
Profit	Gross profit	358.2	428.5	488.6	19.6	14.0
	Net Profit	281.3	339.0	381.7	20.5	12.6

4.3.1.4. Berhan International Bank S.C (BrIB)

As at June 30 2017, the Bank's total asset reached Birr 10.5 billion, recording annual growth rate of 45.8percent and surpassing the preceding year's record of Birr 7.2 billion. Increment in loans & advances and investment in NBE bills by Birr 1.5 billion and Birr 610.4 million respectively contributed to the Bank's asset growth.

During the fiscal year 2016/17, the Bank recorded a total capital of Birr 1.9 billion exceeding the preceding year's performance with growth rate of 77.8 percent and net incremental of Birr 825 million. Subsequently, the paid-up capital of the Bank reached Birr 1.4 billion with annual growth rate of 91.1 percent and net incremental of Birr 665.5 million as compared to the earlier fiscal year. Besides, the Bank's number of shareholders increased by 53.6 percent from the prior year i.e. reached 14,841.

As at June 30, 2017, the Bank recorded a total deposit of Birr 7.6 billion registering annual growth rate of 43.3 percent. The net incremental deposit from the prior year was Birr 2.3 billion. In terms of the components of deposit, saving deposit took the lion's share with 62.4 percent (Birr 4.7 billion) followed by demand deposit with 25.4 percent (Birr 1.9 billion). The remaining 12.2 percent share (Birr 930 million) of the total deposit was taken by fixed time deposit.

The Bank's outstanding loan as at June 30, 2017 reached Birr 5.4 billion with net annual incremental outstanding loan of Birr 1.6 billion and annual growth rate of 42.1 percent as compared to the preceding year's performance. Additionally, the Bank invested Birr 817.6 million on NBE bills as per the requirement of National Bank of Ethiopia (NBE) raising the total bills purchased to Birr 2.2 billion. Besides, the Bank's non-performing loans (NPLs) ratio stood at 2.1 percent sustaining its loan book quality.

Berhan Bank mobilized USD 124.9 million during 2016/17 financial year, slightly falling below the prior year's performance by 4.5 percent. The foreign currency shortage throughout the country, among other reasons, has significantly challenged the foreign currency mobilization activities of the Bank in the year under review. Nevertheless, the Bank implemented different strategies including the Lottery Program, which turned out to be successful in strengthening the foreign currency mobilization activities. Besides, the Bank notably moved to seize other foreign currency sources.

Accordingly the financial performance of the Bank is stipulated as per the following table below:

Table 33: Operational and Financial Performance of Berhan Int'l Bank S.C

(In Millions of Birr)

Descriptions		Financial Year			% Change	
		2014/15	**2015/16**	**2016/17**		
		A	**B**	**C**	**B/A**	**C/B**
Income	Interest income	210.3	460.4	687.9	45.68	149.41
	Commission & charges	115.9	242.4	395.6	47.81	163.20
	Gain on foreign exchange dealings	37.2	74.4	66.4	50.00	89.25
	Other income	162.3	325.8	476.8	100.6	46.3
	Total Income	**525.7**	**1,103**	**1,626.7**	**244.09**	**448.16**
Expenses	Interest Expenses	73	134.4	227.4	84	69.1
	Salary and Benefits	74,7	158.9	465.8	112.5	78.1
	General and Administrative Expenses	86.3	143	182.8	65.7	27.8
	Non-interest expenses	161.1	301.9	282.9	87.4	54.3
	Total Expense	**320.4**	**738.2**	**1,158.9**	**349.6**	**229.3**
Profit	Gross profit	138.5	349.7	471.4	152.4	34.8
	Net Profit	78.4	195.1	261.4	248.85	33.9

4.3.1.5. Lion International Bank S.C (LIB)

The total asset of the Bank has reached 10.9 billion as of the reporting period June 30, 2017 exhibiting a significant increase of Birr 2.9 billion 35% compared to the previous year same period which was only 8.1 billion, while total liability stood at 9.53 billion.

The capital of the Bank reached 1.45 billion as of the reporting period June 30, 2017 exhibiting an increment of Birr 372.9 million compared to the previous year same period which was 1.15 billion. During the 2016/17 FY, the paid up capital of the bank has also reached Birr 938 million witnessing a growth of 46% as compared to the same period in the year before.

LIB's deposit position was boosted from Birr 6.33 Billion in the previous year to Birr 8.77 billion by the end of June, 2017. The remarkable Birr 2.4 billion (39%) leap in the year is backed by stable source of funds with relatively predictable costs since 89% of the net mobilization came from saving and demand deposit; while savings hold the upper hand (77%) within this category.

Equivalent to the boost in the resources, the total lending of the Bank grew by 27 percent and reached Birr 5.5 billion during the 2016/17 FY from the preceding year's 4.3 billion outstanding balance. Excluding the amount invested for bill purchase, the loan to deposit ratio of the Bank at the end of the 2016/17 FY has reached 63%. Despite the notable growth in the gross lending, the Bank's policy to monitor the credit portfolio by identifying early warning signals and focus to revive defaults has helped to maintain modest non-performing loans, much lower than the regulatory maximum limit of 5% and most of the peers.

Shaped by the course of the global circumstances and the focus to make the most out of the available resource in the local context, international Banking operations have continued to be tough and competitive ground. Notwithstanding the challenges coming from these, LIB has been able to generate 103 million U.S Dollars during the 2016/17 FY. The emphasis that was given for export has paid off as it generated 73% of the stated total foreign currency

Accordingly the financial performance of the Bank is stipulated as per the following table below:

Table 34: Operational and Financial Performance of Lion Int'l Bank S.C

(In Millions of Birr)

Descriptions		Financial Year			% Change	
		2014/15	**2015/16**	**2016/17**		
		A	**B**	**C**	**B/A**	**C/B**
Income	Interest income	326.9	527.2	763.6	61.2	44.8
	Commission & charges	117.4	117.8	146.3	00.3	24.2
	Gain on foreign exchange dealings	74.9	110.5	51.2	47.5	46.3
	Other income	119.7	139.2	81.6	16.2	58.6
	Total Income	**638.9**	**894.7**	**1,042.7**	**40.0**	**16.5**
Expenses	Interest Expenses	106.6	169.6	240.7	59.1	41.9
	Salary and Benefits	122.9	200.2	251.3	62.9	25.5
	General and Administrative Expenses	103.5	136.5	173.5	31.9	27.1
	Provision for Bad Debts	27.0	38.5	26.3	42.6	68.3
	Total Expense	**360.0**	**544.8**	**691.8**	**51.3**	**27.0**
Profit	Gross profit	275.6	349.7	350.9	26.9	00.3
	Net Profit	200.8	261.5	268.4	30.2	02.6

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with the summary of the findings and conclusions driven from the discussions and analysis of the study. It also ends up with the recommendations on the basis of the findings of the study.

5.1. Summary of Major Findings

The main purpose of this study was to assess the mobilization of foreign currency on the performance of private commercial Banks. The study was conducted in five privately owned commercial banks i.e. Awash Bank S.C (AB); Dashen Bank S.C (DB); United Bank S.C (UB), Lion International Bank S.C (LIB) and Berhan International Bank S.C (BrIB)

The study tried to assess the mobilization of foreign currency on the performance of private commercial Banks by spotting, recognizing, analyzing and exposing factors hindering private commercial banks in mobilization of foreign currency as per plan, which is the baseline of their performance contributing or making up a substantial portion of their profit.

Standardized questionnaire with 28 questions organized in seven themes in four up to five-point likert scale were prepared and distributed to 170 respondents selected from the banks under study. While taking sample, non-probability purposive sampling has been adopted to purposively select respondents who are international banking experts (staffs engaged in the overall process of planning up to execution of foreign currency mobilization) and have the working knowledge on the foreign currency areas. Of the total questionnaire, it was successfully managed to collect all 170 of them, i.e. 100% response rate. To gain access to a broader spectrum of data on the effects of foreign currency shortage and the means of mobilization to alleviate the problem; eight basic open ended questions in a form of interview were prepared and distributed to five respondents who are International Banking Department Directors of the Banks under study.

Accordingly, the analysis was conducted by taking each theme which are prominent aspects of foreign currency mobilization. Each theme has 5 to 6 questions that are suitably designed to assess the factors hindering foreign currency mobilization of private commercial Banks and subsequent relevant analysis was made. In addition to this, secondary data that indicate the operational and financial performance of the Banks under study were collected and analyzed. The major findings of the study results from primary and secondary data analysis are summarized as follows:

The major findings of the study resulted from primary data analysis are summarized as follows

- Availing competitive services to exporters and remittance recipients, working with multiple numbers of remitting agencies and Diaspora's opening of foreign currency accounts have found to be the capabilities nurturing sustainability of foreign currency mobilization in private commercial Banks.
- Constraining policies and rules of the governing body, lack of sufficient number of genuine exporters, international market price fluctuations of export items and exporters using their own export proceeds for their import businesses are the major challenges faced by private commercial Banks in their continuous foreign currency mobilization.
- Among the sources of foreign currency; export, remittance and foreign currency /FCY/ purchases are found to be the major sources of foreign currency for private commercial Banks.
- Effects of foreign currency shortages on private commercial Bank's reputation in facilitating foreign currency requests; extends to the point where the Banks loose loyalty of their clients due to the insufficiency they face while fulfilling foreign currency request of their client. On the other hand when such clients become disloyal they tend to flee their home Banks in search of a better foreign currency provider and in the middle of this they will automatically withdraw their retained deposits from their home banks.
- For factors contributing to the avoidance of the export sector by merchants, the finding illustrated that limited exportable items within the country and lack of government's feedback and support on the sector along with the intense and competitive rivalry of the international market are the major contributing factors that are forcing merchants to avoid the export sector as a profitable business.
- The foreign exchange policy of the government is regard as too tight and restrictive not allowing existing exporters as well as private commercial Banks to exploit the benefits and opportunities yielded within the field of international banking operations. This is also considered as a barrier to entry for new potential exporters.

- The heavy domination of export by few primary agricultural commodities favors for the minimal proceeds generated through export. This shows that the experience among exporters in differentiating exportable commodities is poor nor the government hasn't opened doors to permit the export of highly diversified goods.
- The common available financings (credit products) of private commercial Banks for exporters are: export term loans, pre-shipment credit facilities, revolving export credit facilities and merchandise export credit facilities.
- It is understood that in order to overcome foreign currency scarcity, the Banks under study give special emphasis to exporters and make foreign currency purchases.
- The study revealed that in addition to giving special emphasis to existing exporters of any given private commercial bank it is understood that attracting and recruiting new exporters is consistently important to use as a tool to increase the flow of exports on a continuous manner.
- The study also revealed that extending or enhancing the room for export financing while narrowing it down for non-export has moderately been found to be one of the tools to increase the flow of export across the five private commercial Banks under study.
- The private commercial Banks under study are found to be inexperienced in maintaining good relationships with foreign correspondent Banks so as to help or facilitate the export process.
- Major exportable commodities channeled through the private commercial Banks under study are found to be coffee, sesame seeds and different types of spices.
- The private Banks under study moderately have good internal follow-up procedure to repatriate foreign currency proceeds after exports are performed.
- Export document negotiation process of the Banks under study is in compliance with both international and local rules.
- The level of engagement of private commercial Banks in enhancing and improving remittance services incorporates: adding more international money transfer partners to the existing ones, introduction of international payment cards (VISA, Master Card and China Union Pay) and also introduction of an incentive mechanism that awards remittance recipients of both international money transfer agents and SWIFT with a prize through the lottery system.

- As one of the burning issues making foreign currency mobilization easily unrealizable, the study has revealed the literal consumption of lucrative amounts of foreign currency by ambitious mega projects of the government, thus causing foreign currency scarcity across private commercial Banks.
- On the other hand, channeling exports to the country's dominant importer such as China only through Commercial Bank of Ethiopia is the major contributor to the draining of export on the side of private commercial Banks. As result, this takes away the portion of foreign currency that was supposed to be generated by private commercial Banks.
- The commonly adopted foreign currency deposit mobilization strategy across the five Banks under study are found to be: working with multiple number of remitting agencies, encouraging the flow of remittances and foreign currency purchases by introducing an incentive mechanism that awards winners with a prize through the lottery system, availing competitive services to exporters and remittance recipients, giving special emphasis to exporters by engaging on enhancement of the export sector in full capacity and maintaining and expanding correspondent relationships with international Banks

The major findings of the study from the secondary data analysis that incorporates the operational and financial performance of the private commercial Banks under study are summarized as follows:-

- The asset size of Awash Bank is Birr 42 billion as at the end of June 2017, and the total paid-up capital of the Bank rose to Birr 2.6 billion as at end of June 2017, depicting a growth of Birr 402.6 million as compared with the same period of last year. Total deposits of the Bank, including margins held on letters of credit, surged remarkably by 35 percent(Birr 8.5 billion) and reached Birr 32.8 billion at the end of June 2017 from Birr 24.2 billion during the same period of last year. The total outstanding loans and advances of the Bank rose to Birr 22.6 billion as at June 30, 2017 from Birr 15.4 billion a year ago, depicting high appetite for credit demand associated with expansion of existing businesses and new investment ventures. As at June 2017, Awash Bank has exhibited a total income of Birr 3.7 Billion, total expense of Birr 2.4 Billion and a gross profit of Birr 1.3 Billion

- At the end of June 30, 2017, Dashen Bank has scored a total asset of Birr 34.6 billion, exceeding the preceding year's level by Birr 6.0 billion or 21%. Paid up capital of the Bank has increased by Birr 435 million during the reporting period and reached Birr 1.9 billion accounting 48% of the total capital. At the end of June 2017, the corporate deposit totaled Birr 27.8 billion increasing by Birr 5.0 billion or 22% year-on-year. During the 2016/17 financial year, the Bank's outstanding loans & advances grew by Birr 5.2 billion or 42% to reach at Birr 17.7 billion, up from Birr 12.5 billion a year earlier. The overall income earned from foreign banking operations amounted to Birr 898.9 million, which suggests an increase by 1% as compared to that of 2015/16 fiscal year. As at June 2017, Dashen Bank has exhibited a total income of Birr 3.9 Billion, total expense of Birr 2.5 Billion and a gross profit of Birr 970 million.
- The total assets of United Bank stood at Birr 21.90 billion as at 30 June 2017, showing a substantial growth of Birr 4.63 billion (26.82%) over last year same period balance of Birr 17.27 billion. Total capital of the Bank reached Birr 2.52 billion at the end of June 2017. The balance exceeded last year same period figure of Birr 2.07 billion by Birr 443.15 million (21.38%). Total deposits of the Bank reached Birr 17.68 billion as at 30 June 2017 registering a remarkable increase of Birr 4.08 billion (30.01%) compared to the balance of Birr 13.60 billion registered as at 30 June 2016. The total outstanding balance of loans and advances extended to customers as at June 30, 2017 stood at Birr 11.99 billion, resulting an increase of Birr 3.46 billion (40.56%) compared with the previous year. Income from international banking services accounted for substantial share of the total income of the Bank. United Bank generated Birr 317.37 million from this line of banking services during the period under review. This accounts for 15.78% of the total income of the Bank. As at June 2017, United Bank has exhibited a total income of Birr 2 Billion, total expense of Birr 1.5 Billion and a gross profit of Birr 488 million.
- The total asset of Berhan International Bank as at June 30, 2017 reached Birr 10.5 billion, recording annual growth rate of 45.8percent and surpassing the preceding year's record of Birr 7.2 billion. During the fiscal year 2016/17, the Bank recorded a total capital of Birr 1.9 billion exceeding the preceding year's performance with growth rate of 77.8 percent and net incremental of Birr 825 million. Subsequently, the paid-up capital of the Bank reached Birr 1.4 billion with annual growth rate of 91.1 percent and net incremental

of Birr 665.5 million as compared to the earlier fiscal year. As at June 30, 2017, the Bank recorded a total deposit of Birr 7.6 billion registering annual growth rate of 43.3 percent. The net incremental deposit from the prior year was Birr 2.3 billion. The Bank's outstanding loan as at June 30, 2017 reached Birr 5.4 billion with net annual incremental outstanding loan of Birr 1.6 billion and annual growth rate of 42.1 percent as compared to the preceding year's performance. Berhan Bank mobilized USD 124.9 million during 2016/17 financial year, slightly falling below the prior year's performance by 4.5 percent. As at June 2017, Berhan Bank has exhibited a total income of Birr 1.6 Billion, total expense of Birr 1.1 Billion and a gross profit of Birr 470 million.

- The total asset of Lion International Bank S.C has reached 10.9 billion as of the reporting period June 30, 2017 exhibiting a significant increase of Birr 2.9 billion 35% compared to the previous year same period which was only 8.1 billion, while total liability stood at 9.53 billion. The capital of the Bank reached 1.45 billion as of the reporting period June 30, 2017 exhibiting an increment of Birr 372.9 million compared to the previous year same period which was 1.15 billion. During the 2016/17 FY, the paid up capital of the bank has also reached Birr 938 million witnessing a growth of 46% as compared to the same period in the year before. LIB's deposit position was boosted from Birr 6.33 Billion in the previous year to Birr 8.77 billion by the end of June, 2017. Equivalent to the boost in the resources, the total lending of the Bank grew by 27 percent and reached Birr 5.5 billion during the 2016/17 FY from the preceding year's 4.3 billion outstanding balance. Notwithstanding the continued challenges of tough and competitive ground of international Banking operations, LIB has been able to generate 103 million U.S Dollars during the 2016/17 FY. As at June, 2017 Lion Bank has exhibited a total income of Birr 1 Billion, total expense of Birr 690 million and a gross profit of Birr 350 million.

5.2. Conclusions

With regard to factors hindering foreign currency mobilization of private commercial Banks the study was able to found out the following key factors. Among the key factors the first one is the challenges faced by private commercial Banks in their continuous foreign currency mobilization which incorporates International market price fluctuations of export items, exporters using their own export proceeds for their import businesses, lack of sufficient number of genuine exporters and lack of constraining policies and rules of the governing body. The second one is the size of a bank determining the performance of private commercial Banks in mobilization of foreign currency, this means that the tendency of private Bank's foreign currency earnings can increase as they grew and become larger in resources, capital, customer base, and branch expansion and so on. The third one is related to the factors contributing to the avoidance of the export sector by merchants, these contributing factors are limited exportable items within the country and lack of government's feedback and support on the sector along with the intense and competitive rivalry of the international market.

The fourth one is the existing power of exporters over private commercial Banks; these powers include persuading private banks to use their own proceeds for their other import businesses and by diverting export funds (loans received from banks in a form of short, medium and long term loans) to other unrelated business owned by such exporters. The fifth one is the prevailing tight and restrictive foreign exchange policy of the governing body i.e. National Bank of Ethiopia. The sixth one is the heavy domination of few primary agricultural export commodities favoring for the minimal proceed generated through export. This is due to the resemblance of many exporters to heavily engage on export of quite few agricultural products dominantly coffee and oil seeds leaving no room for diversification. The seventh one is the lack of maintaining god relationships with foreign Banks so as to help facilitate the export process.

The eighth one is the problem related to the choice of correspondent Banks to only work with the state owned "Commercial Bank of Ethiopia" due to grievances and discrepancies they experienced while working with private commercial Banks. The ninth one is the GOE's arrangement with China (dominant importer of Ethiopia's goods) to channel any exports only through Commercial Bank of Ethiopia (CBE), this almost drains major export flow of private commercial Banks since china has been dominantly importing different types of oil seeds from Ethiopia. The tenth factor is related to the escalating exchange rate of the existing informal and parallel markets /Black Market/ that influences the society to exchange foreign currency notes and receive money transfers at the exchange rate of the black market which is unlawful act prohibited by the constitution. Last but not least, the eleventh factor is the ongoing ambitious mega projects of the government literally consuming excessive amounts of foreign currency, thus causing foreign currency scarcity across Banks.

With regard to the effects of foreign currency shortages of the five Banks under study, the study came across the following key effects. The first one stresses the effects of foreign currency shortages on private commercial Bank's reputation in facilitating foreign currency requests of their importers, and this effect extends to the point where private Banks loose loyalty of their clients due to the insufficiency they face while fulfilling foreign currency request of their clients. On the other hand when such clients become disloyal they tend to flee their home Banks in search of a better foreign currency provider and in the middle of this they will automatically withdraw their retained deposits from their home banks. The third effect is the point where private commercial Banks will be forced to give foreign currency proceeds back to exporters for facilitating their other import businesses due to the prevailing insufficiency, but it needs to be noted that recently the NBE has prohibited commercial Banks from availing such services. Last but not least, the fourth recent effect is the one where the NBE has laid down a new policy to administer broader financing of the export sector while neglecting the other economic sectors, meaning that more room will be given for export financing while narrowing it down for non-export financings due to the exiting shortage of foreign currency across commercial Banks.

With regard to assuring and enhancing sustainability of foreign currency mobilization across private commercial Banks several elements has been identified as follows. The first one is capabilities nurturing sustainability of foreign currency deposit mobilization, and these capabilities are availing competitive service to exporters and remittance recipients and working with multiple number of remitting agencies. The second element is the availability of the major sources and/or means of foreign currency mobilization which are export, remittance and foreign currency /FCY/ purchases. The third element comprises enhancement possessed by private commercial Banks in order to overcome foreign currency scarcity which is giving special emphasis to exporters. The fourth one is in order to enhance sustainability of foreign currency mobilization private commercial banks channel major exportable commodities such as coffee, sesame seed, different types of spices and cereals. The fifth element deals with commonly adopted foreign currency deposit mobilization strategies of private commercial Banks such as working with multiple number of remitting agencies, encouraging the flow of remittances and foreign currency purchases by introducing an incentive mechanism that awards winners with a prize through the lottery system, availing competitive services to exporters and remittance recipients, giving special emphasis to exporters by engaging on enhancement of the export sector in full capacity, maintaining and expanding correspondent relationships with international Banks. The seventh element brings to mind the technical assistances that are given by private commercial Banks to exporters and they are locating potential international markets for exporter's commodities, advising exporters on the proper utilization of pre-shipment loans, advising exporters on timeliness of genuine export proceeds, creating awareness on the probable business damages caused by export fund diversion, advising exporters to fulfill their commitments with regard to foreign currency generation and to abstain from export proceed diversion.

The eighth element is concerned with realization of the common available financing (credit products) of private commercial Banks for exporters and these credit products available for exporters are: export term loans, pre-shipment credit facilities, revolving export credit facility and merchandise export credit facility. The ninth element outlines the level of engagement of private commercial Banks in enhancing and improving remittance services by adding more international money transfer partners to the existing ones, introduction of international payment cards (VISA, Master Card and China Union Pay) and also introduction of an incentive mechanism that awards remittance recipients of both international money transfer agents and SWIFT with a prize through the lottery system. The tenth element identifies that export document negotiation of private banks is in compliance with international standards. The eleventh element ascertains that the banks under study have good internal follow-up procedure to repatriate proceeds after exports are performed.

The twelfth element as per the findings of the study advocates the benefits of pre-shipment loan to exporters to enhance the export sector and the granting of term loans to exporters in order to facilitate their working capital requirement. The thirteenth elements also underlines finding of the study that personnel of the Banks under study working on export are capable of discharging their responsibility against international standards. The fourteenth element here shares the need of attracting and recruiting new exporters as a tool to increase the flow of exports. The fifteenth element that needs to be considered as identified by the study is the need to develop the manufacturing sector in order to enhance export. This is one of the trustworthy endeavors of the government to alleviate the existing foreign currency shortage by allowing the manufacturing of high valued and quality goods for exports. Last but not least, the sixteenth element brings about the special considerations of private commercial Banks for export financings and these consideration incorporates entertaining of exporters with various export related credit products at preferential interest rates and facilitating the ground work in availing pre-shipment credit facilities to exporters, since the facility is availed on clean basis (without collateral) and reliefs the exporter from the short term cash shortage encountered at shipping.

5.3. Recommendations

Based on the analysis and subsequent findings from the study, the following recommendations are forwarded in which private commercial Banks in Ethiopia should consider in their attempt to enhance foreign currency deposit mobilization.

- Private commercial Banks should intensively work to enhance their capabilities in sustaining foreign currency deposit mobilization by devising their strategies and procedures to be more export emphasized and to allow partnerships with various remitting agencies. And they also shall work towards overcoming the challenges they face in the mobilization process by shaping their internal policies along with the existing and emerging constraining policies and rules of the governing body and also by attracting and recruiting new potential exporters and retaining existing ones.
- As per findings of the study entails, the availability of foreign currency has become one of the promising reputations of commercial Banks by facilitating the foreign currency request of clients timely. Thus, in order to avoid fleeing of clients in search of a better foreign currency provider, private commercial Banks have to keep their distribution of foreign currency balanced and should highly emphasize on exporters and increase the number of their remitting agencies in order to secure their portion of foreign currency flow.
- Private commercial Banks have to fully exploit their major sources of foreign currency which are export, remittance and foreign currency purchases by entertaining exporters with loans and advances at preferential rates, by assuring export document negotiation of their banks are in line with international standards, by rendering technical assistance to exporters, by applying internal follow up procedure to repatriate proceeds after exports are performed, by expanding their horizons of remitting agencies and correspondent

banking relations and also aware the public on the corporate or country specific benefits driven from legally exchanging foreign currency notes at commercial Banks.

- In order to overcome foreign currency scarcity, private commercial Banks must extensively give special emphasis to exporters by granting term loans at preferential interest rates, by extending technical assistances and by availing pre-shipment loans.
- In contrary to the finding of the study which supports the giving of foreign currency proceeds back to exporters to facilitate their other import businesses, private commercial Banks at any means should refrain from availing such services since it paves the way to misallocation or misappropriation of resources and perpetuates foreign currency shortages. Besides the NBE has recently condemned and prohibited this type of service under its newly revised IBO directive.
- As one part of their technical assistance program, private commercial Banks have to advise exporters to diversify and differentiate their exportable commodities other than the major exportable commodities commonly channeled across commercial Banks. This due to the factual reason that exporters having typically identical and uniform exportable goods have suffered severe loss of profit and damage on their businesses from the unprecedented price fall of exportable commodities, some countries have even banned the import of major oil seeds such as sesame seeds and selectively from Ethiopia. With this regard the government has to give incentives as well as feed backs to exporters that enable them to gain the accessibility and facilitation of product diversification and differentiation schemes.
- In addition to adding more money transfer partners, introduction of international payment cards and also introduction of an incentive mechanism that awards remittance recipients; private commercial Banks should keep up the pace with the fastest emergent and changing technological advancement of remittance services across the globe in order to increase their level of engagement in enhancing and improving remittance services.
- As the new export policy of the NBE permits, private commercial Banks have to make excessive room for export and manufacture financing while narrowing it down for non-export so as to avoid conflicts of resource allocation with a prior anticipation of encouraging and enhancing the growth and development of the export sector, as a result to keep the flow of foreign currency coming on a continual basis.

- The study has also discovered the need of developing the manufacturing sector so as to enhance export. Thus, private commercial Banks have to make room for sufficient financing of the manufacturing sector as part of the new export policy of NBE and with this manner the government has built several industrial parks to manufacture high valued and quality goods for the sole purpose of exporting.
- Private commercial Banks have to make sure of the capability of their personnel working on export in discharging their responsibilities is in line with international standards.
- Private commercial Banks have to maintain good relationships with foreign correspondent Banks in order to help the smooth and speedy flow of the export process.
- On the other hand, the government has to limit the number of its ambitious mega projects taking place in various locations of the country with the intention of slowing down government's expenditure that is used to finance the activities of the projects especially the import of basic raw materials that consumes excessive amounts of foreign currency causing its scarcity. At least if the government's expenditures seizes, the scarcity of foreign currency might be alleviated to some level.
- Additionally, the government also has to abstain from making export arrangements only through the state owned Bank that is "Commercial Bank of Ethiopia" with dominant importer countries of Ethiopia's goods. The government's arrangement with China to channel any sort of exports though CBE is the best practical example

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ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF MBA IN GENERAL MANAGEMENT

Appendix I: Questionnaire for Employees

Dear respondent, I am currently carrying out a study for the purpose of writing a final year research paper as requirement for the award of Master of Business Administration of St. Mary University. The research is entitled: "The Assessment of Foreign Currency Mobilization on the Performance of Private Commercial Banks." This questionnaire is distributed to five private commercial Banks under study and you have been selected to participate in this study due to the importance of your information to the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Please feel free and answer all the questions truthfully. Hence your name is not required. Many thanks for your profound contribution towards this study

Section One: Respondent's Background Information

Please tick your appropriate choice. (✓)

1. Gender: Male ☐ Female ☐
2. Age of the respondent (Year):
   21 – 30 ☐ 31 – 40 ☐ 41 - 50 ☐ 51 – 60 ☐
3. Marital Status:
   Single ☐ Married ☐ Divorced ☐
4. Educational background:
   PHD ☐ Masters ☐ Degree ☐ Diploma ☐
5. Length of service at the Bank where you are working:
   1– 5 years ☐ 5 - 10 Years ☐ 11-15 Years ☐ Above 15 year ☐
6. State your current position in the Bank where you are working:

   ____

Section Two: Specific Information

In this section the researcher seeks to establish the assessment of foreign currency mobilization on the performance of private commercial Banks. Thus, please stipulate your answers by choosing (ticking) the following close ended questions in accordance to the relevancy of the stated questions. Respondents can tick on more than one choice only for the multiple choice questions. **(✓)**

Internal (Operational) Facets of Foreign Currency Deposit Mobilization

7. What are the capabilities nurturing your bank in sustaining its foreign currency mobilization?
   f. Diaspora's opening of foreign currency accounts [ ]
   g. Working with multiple number of remitting agencies [ ]
   h. Rewarding customers who exchange foreign currency notes [ ]
   i. Availing competitive services to exporters and remittance recipients [ ]
   j. Maintaining and expanding correspondent relationships with international Banks [ ]
8. Tick on the challenges faced by your bank in its continuous foreign currency mobilization?
   A. Exporters selling their export proceeds in a black market price [ ]
   B. International market price fluctuations of export items [ ]
   C. Exporters using their own export proceeds for their import businesses [ ]
   D. Lack of sufficient number of genuine exporters [ ]
   E. Constraining policies and rules of the governing body [ ]
9. What are the major sources of foreign currency for your bank?
   A. Export [ ] B. Remittance [ ] C. Official transfers [ ] D. FCY Purchases [ ]
   E. Private transfers [ ]
10. How does your Bank overcome foreign currency scarcity?
   A. By making foreign currency purchases [ ]
   B. By giving special emphasis to exporters [ ]

C. By holding up the foreign exchange reserves of the Bank for prominent customers [ ]

D. Raising foreign currency through short term foreign loans from correspondent banks[ ]

11. Tick on any of the following major exportable commodities commonly channeled or exported through your Bank

A. Coffee [ ] B. Sesame Seeds [ ] C. Leather [ ] D. Spices [ ] E. Others [ ]

12. Bank's size determines the performance of commercial Banks in mobilizing foreign currency deposits

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

External (Macroeconomic) Facets of Foreign Currency Deposit Mobilization

13. Please tick on any of the following matters contributing to the avoidance of the export sector by merchants

A. Volatility of foreign exchange rate [ ]

B. Limited exportable items within the country [ ]

C. Lack of government's feedback and support on the sector [ ]

D. Intense competition and rivalry of the international market [ ]

E. Lack of sufficient financings from private commercial Banks [ ]

14. Please tick on any of the following existing influences (power) of exporters over private commercial Banks

A. Exporters persuade banks to use export proceed for their import [ ]

B. Existence of export fund diversion to other business [ ]

C. Existence of diversion of export proceeds to another bank [ ]

D. Financed exporters perform as expected by the bank [ ]

15. There is positive and significant effect between foreign exchange rate and financial Performance of commercial banks.

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

16. The foreign exchange policy of the government can be regarded as too tight and restrictive

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

17. The existence of informal and parallel markets (Black Market) within the economy is the major aggravating factor for the diminished foreign currency reserve across private commercial Banks in Ethiopia.

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

18. Export being heavily dominated by few primary agricultural commodities favors for the minimal proceeds generated through export

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

Export Processing Challenges of Private Commercial Banks

19. Export document negotiation process of your Bank is in compliance with both international and local rules

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

20. Your Bank has good relationship with foreign banks which helps the export process

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

21. Your Bank has a good internal follow-up procedure to repatriate foreign currency after exports are performed

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

22. Pre Shipment loan for exporters is quite beneficial to enhance the export sector?

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

23. Each exporter of a private commercial Bank should be granted term loans in order to facilitate the working capital requirements of the exporter’s business

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

24. In order to retain exporters private Banks should give foreign currency back to exporters for any imports that they may have on a continuous manner

    Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

25. Your Bank's personnel working on export have capacity problems in discharging their responsibility against international standard.

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

Export oriented policy of the National Bank of Ethiopia (NBE)

26. Attracting and recruiting new exporters can be considered as one of the tools to increase export rather than giving emphasis on existing exporters of any given private commercial Bank.

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

27. More room for export and less room for non-export financing can be regard as the major tool to increase the flow of exports

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

28. Some correspondent Banks choosing to work only with the state owned Bank (CBE) contributes to the decrease of export flow on the side of private commercial Banks.

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

29. Developing the manufacturing sector in order to enhance export can be seen as vital in order to increase exports

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

30. Channeling export to the dominant importer of Ethiopia's goods such as China only through Commercial Bank of Ethiopia is the major contributor to the drainage of export on the side of private commercial Banks

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

31. Ambitious mega projects of the government have literally been consuming lucrative amounts of foreign currency, thus causing foreign currency scarcity across private Banks

Strongly agree [ ] Agree [ ] Neutral [ ] Disagree [ ] strongly disagree [ ]

32. **Kindly request you to rate the extent to which you agree or disagree on the possibility in which foreign currency remittance of private commercial Banks could be enhanced through the following alternatives?**

Alternatives	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Enhancement of service quality by maintaining high quality service					
Undertaking aggressive promotion & awareness creation programs					
Strengthening relationship marketing by creating and retaining strong relationship with customers					
Enhancing System Efficiency in order to avoid system interruptions					
Enhancing accessibility of services through branch expansion					
Working in collaboration with developmental partners					

33. **Kindly request you to rate the extent to which you agree or disagree on the possibility in which export activities of private commercial Banks could be enhanced through the following alternatives?**

Alternatives	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Enhancement of service quality by improving service quality on export processes					
Enhancing service efficiency by providing of export services with minimal cost					
Enhancing integration between processes of export transaction					
Assessment of new product channels to introduce additional service products under export businesses					
Enhancing accessibility of services through branch expansion					
Strengthening relationship marketing by creating and retaining strong relationship with customers					

34. **Kindly request you to rate the extent to which you agree or disagree on the possibility in which FCY purchase of private commercial Banks could be enhanced through the following alternatives?**

Alternatives	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
Enhancement of service quality by maintaining high quality service					
Undertaking aggressive promotion & awareness creation programs					
Establishing sustainable linkage with selected development partners					
Carrying out financial literacy programs to create awareness on the foreign currency usage polices of the NBE					
Strengthening relationship marketing by creating and retaining strong relationship with customers					

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Appendix II: Interview Questions for Management

Interview questions for Directors of IBD Departments of the Banks under Study

1. What are the effects of foreign currency shortages on your Bank's reputation in facilitating foreign currency requests of your customers engaged in import businesses?
2. What are the adverse effects of exchange rate volatility in your Bank? Especially the recent boom in exchange rate of USD?
3. Please describe if there any technical assistances other than the common or regular services that your bank provides to exporters in order to support their businesses?
4. What are the commonly adopted foreign currency deposit mobilization strategies of your Banks?
5. Does your Bank take special considerations for export financings?
6. What are the common available financings (credit products) for exporters in your Bank?
7. Please describe the level of engagement of your Bank in enhancing and improving remittance services?
8. Please describe your Bank's contribution in preventing illegal sale and purchase of foreign currency in the black market?