

**ST.MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING**

**ASSESSMENT OF CHALLENGES IN INTERNATIONAL
BANKING OPERATIONS IN THE CASE OF UNITED
BANK S.co**

BY

SURAFEL MECHAL

BAMLAKU KEFALE

JUNE, 2014

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APPROVED BY THE COMMITTEE OF EXAMINERS

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**A SENIOR ESSAY SUBMITTED
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ST.MARY'S UNIVERSITY**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENT
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SMU
ADDIS ABEBA

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Acrimony

1. FED: - Federal Reserve System
2. ECB:- European Central Bank
3. FXD:- Consumer Disc AlphaDEX
4. UCP:- Uniform Consumer and Practice
5. URC:- Uniform Rules for Collections
6. CRF:- Cost and Freight
7. FOB:- Free on Board
8. CIF:- Cost Insured Freight
9. IB:- International Banking
10. L/C:- Letter of Credit
11. T/T:- Telegraphic Transfer
12. ODBP:- Outward Documentary Bills
13. CAD:- Cash Against Document
14. B/L:- Bill of Lading

DECLARATION

We, the undersigned declare that this senior essay is our original work prepared under the guidance of (AtoAberaYilma). All source of material used for manuscript have duly acknowledge.

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Chapter-One

1. Introduction

1.1 Back ground of the study

Basically trade can be domestic or international, trade is essential for satisfaction of human wants, trade is conducted not only for the sake of earning profit; it also provides service to the consumers. Trade is an important social activity because the society needs uninterrupted supply of goods forever increasing and ever changing but never ending human wants. Trade has taken birth with the beginning of human life and shall continue as long as human life exists on the earth. It enhances the standard of living of consumers. Thus we can say that trade is a very important social activity.

International trade is concerned with business transaction that takes place between different nations. In other word we are referring to import and export businesses. International trade rise due to uneven distribution of resources in different countries which give rise to relative difference in cost and price of goods and services. International trade demands a flow of goods from seller to buyer and payment from buyer to seller. There is no doubt that importing or exporting goods and services bring exciting new opportunities. Raw material can be cheaper, earning and profit can be higher and dependency on domestic markets can be reduced. Taking this opportunities is not without challenges but banking professional are dedicated to helping people mitigate the risks whether commercial, currency or political. In the globalize world the movement of goods and services from one part of the world to the other part of the world and the process of payment is a day to day routine activity and the progress of technology , the discovery of new mineral exploration sites and the emergency of new economic market volumes international trade. With the expansion of the market volume and the parties involved there, the handling of the international

trade also become more sophisticated requiring more advance ways of handling procedures. Banks being one of the financial institutions facilitate payment for merchandise shipped and a service rendered layout funds for buyer and seller and gives its professional advices to the traders. (*Investopedia*)

United Bank is a Share Company which began its operation on September 21, 1998. The first branch "Beklobet branch" was inaugurated and started providing domestic banking service on October 1, 1998. with an authorized capital of Br.100,000,000(one hundred million),out of which Br.20,863,100.00 was subscribed and paid up in cash by 335 founder shareholders. Following the decision of the 3rd extraordinary general meeting of the shareholders held on 7 December 2002, the capital of the bank was increased to Br.200 million, which was fully subscribed and paid on 14th day of March 2007. On the general meeting held on 19 April 2007 it was planned to increase the authorized capital to be Br. 500,000,000.00 as well as the paid up shares capital of the Bank shall be increased from Br.200 million to Br. 400 million in five years' time. Currently, United Bank is a full service Bank that offers a full range of commercial banking service with its 78 branch offices (out of which 45 branch offices are located in Addis Ababa and the other 33 Branches are in major towns of the country). Now a days the Bank has a subscribed and fully paid up capital of birr 600,000,000.00. The bank is currently using modern computer facilities to facilitate quality services to customers, in this course; it has successfully transforms its past data from Fox to flex cube 12.0 version computer system. The international banking service provided at various branches with different level of authority, for larger branches the service is provided at section level and for the smaller branches the service is provided by supervisor or junior officers. Currently the bank has wide network around the world to facilitate transactions to its customers. ([www.united bank.com](http://www.unitedbank.com))

1.2 Statement of the problem

International banking service is the type of banking service, which facilitates the transfer of goods and services from one part of the world to the other. The main features of international banking services is facilitating the communication between the import and export of goods and services and effecting payment to one party on behalf of the other party involved. In the process of international banking transactions many parties are involved importer, exporters, importer's banks, exporter's bank and international governing bodies. Since the involved parties are many in number, every action of one party has a positive or negative impact on the other. The international banking operation challenges are not limited to the parties indicated above.

An international banking operation faces different kinds of challenges particularly in developing countries: this is mainly due to the trade deficit. Trade deficit is an economic measure of a negative balance of trade in which a country's imports exceeds its exports. The export commodity is limited to cheap agricultural products and their import is machineries, petroleum and other expensive commodity, this resulted in a high trade deficit represented by an out flow of domestic currency to the foreign market. The resulted trade deficit forces these developing countries to design and implement various rules and regulating that enable them to restrict their foreign currency spending. Due to these facts the rules and regulations and other factors create challenge to international banking operations in this developing countries.

Ethiopia's international banking operation faces similar as well as particular challenges. Examining and analyzing this problem needs a careful and in depth study of the prevailing situation of the present international banking operations of the country, as well as the particular organization under consideration. *(Investopedia)*

1.3 Basic research questions

- What are the main causes of trade deficit in Ethiopia which affect United Bank S.C.?
- What are the impacts of the rules and regulations on foreign currency spending in the Bank?
- How is the shortage of foreign currency affect the international banking service in the case of aforementioned bank?

1.4 Objectives of the study

1.4.1 General objectives

Assessment of challenges in international banking operations in the case of united bank Share Company.

1.4.2 Specific objectives

- To identify the main causes of trade deficit in Ethiopia that affect united bank S.C.
- To point out the main impacts of rules and regulations on foreign currency spending in the bank.
- To discuss and analyze how shortage of foreign currency affect the international banking service in the case of aforementioned bank.
- To suggest important solutions that may help to mitigate the existing challenges.

1.5 Significance of the study

- It can be used as a basis for further study for researchers who are interested in the area of international banking operations.
- It may help the organization under study to improve its service on the area of international banking operations.

1.6 scope of the study

This research covers most international banking operation and its challenges in case of united bank S.C. Actually most of the practice of the bank is as per the international standard. This research undertake in department of international banking and selecting four sample branches in the boundary of Addis Ababa. This is because most international banking operations takes place in the capital city of the country. This research will also confine to assess challenges in international banking operation from year 2010-2013 G.C.

1.7 Research design and methodology

1.7.1 Research Design

The research design used for the study is descriptive because it focuses on the banks international banking operation and describes it.

1.7.2 Population and Sampling Technique

The population of the study was employees of united bank working in international banking department (IBD) and branches handling international banking operations these are 159 in number.

The sample size was 40 people of them 25 employees working in international banking department and 15 employees working in four sample branches of the bank handling international banking operations. (Beklobet, Leghar, Misrak and

T/haimanot). The sample was selected from Addis Ababa city: this is because the major international banking operation is concentrated in the capital city. And also, the selection was applied by using random sampling among employees working in the international banking department and employees working in the branches of the bank handling international banking operations.

1.7.3 Types of data used

For the fulfillment of the study primary as well as secondary data were collected, primary through questioners and secondary through company recorded documents, relevant books, brochure, journals, (internet)on line available information, policy and procedure, report presented by the company itself and other related research findings.

1.7.4 Data collection method

The research data were collected using both primary and secondary data sources. The researchers administer questionnaires to selected employees from the international banking department (IBD) and from four different branches of the bank namely Bekelobet, T/haimanot, Misrak, & Legehar.

While collecting the primary data, questionnaires were used. The questionnaires include important elements about the present situations of international banking operations in the bank, rules and regulations of the country, important international regulations and improvement opinions. The secondary data was collected by reviewing relevant research documents that has been done earlier and other relevant documents of the bank that are used as a guidance, policy, different websites, manuals and books.

1.7.5 Data analysis method

The data was analyzed using descriptive techniques and quantitative data interpretation of questionnaires. Theoretical data and experience of the employees was used as an input for the assessment and evaluation of challenges in international banking operations. In order to arrive at a convinced conclusion, data was edited, coded classified and tabulated.

1.8 Organization of the study

The study was organized in four chapters; the first chapter deals with the problem and its approach which contain background, statement of the problem, objective, significance, scope, methodology, and organization of the study. The second chapter is concerned with presenting the review of related literature. The third chapter treats the analysis and interpretation of the data collected. The fourth chapter brings to an end this study with conclusion and recommendation.

1.9 Limitation of the study

As we said earlier, the research focuses solely on the international banking operation of united bank S.c. Being a bank in Sub-Saharan Africa, United bank only gives limited services due to under development of the continent. There are many international banking services that is not rendered by this bank. There are also constraint of time and resources which hinder from achieving a lot more than what actually achieved from this research.

Chapter-Two

REVIEW OF RELATED LITRATURE

2.1 Overview of international trade

Trade is the movement of goods and services that develops from a business transaction between a seller and a buyer.

Import and export of goods and services characterizes international trade.

(Sylvestre, 2007)

Establishment of Basel Committee

The Basel Committee was established as the committee on banking regulations and supervisory practices by the central bank Governors of the group of ten countries at the markets (failure of Bankhaus Herstatt in West Germany). The first meeting took place in February 1975 and meetings have been held regularly three or four times a year since then.

The committee's members come from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States. The countries are represented by their central bank and also by the authority with formal responsibility for supervision of banking business.

The committee provides a forum for regular cooperation between its member countries on banking supervisory matters. Initially, it discussed ways of for international cooperation in order to close gaps in the supervisory net, but its wider objective has been to improve supervisory understanding and the quality of banking supervision worldwide. It seeks to do this in three principal ways: by exchanging information on national supervisory arrangements; by improving the effectiveness of techniques for supervising international banking business;

and by setting minimum supervisory standards in areas where they are considered desirable.

The committee does not possess any formal supranational supervisory authority. Its conclusions do not have, and were never intended to have, legal force. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements, which are best, suited to their own national systems. In this way, the committee encourages convergence towards common approaches and common standards without attempting detailed harmonization of member countries supervisory techniques.

The two important objectives of the committee are: no foreign banking establishment should escape supervision; and supervision should be adequate.

(History of the Basel Committee and its Membership-January 2007)

Core principles of the Basel Committee

The core principles are framework of minimum standards for sound supervisory practices and are considered universally applicable. The committee drew up the core principles and the methodology as its contribution to strengthening the global financial system. Weaknesses in the banking system of a country, whether developing or developed, can threaten financial stability both within that country and internationally. The committee believes that implementation of the core principles by all countries would be a significant step towards improving financial stability domestically and internationally and provide a good basis for further development of effective supervisory systems.

The core principles are 25 in number. ***(History of the Basel Committee and its Membership- January 2007)***

2.2 Challenges of International Banking

There are various challenges facing the banking sector:

- Trade Finance Challenges
- The Challenge of Convergence
- Global Challenges

2.2.1 Trade Finance Challenges

The ability to see and predict demand is one of the key challenges facing trade finance today. To rise to this challenge, banks must consider new solutions based on better market knowledge and knowing your customer expertise as well as releasing key professionals from constraints of location.

International trade relies as much as on smooth cross-border financing as on the smooth cross-border flow of goods. As importers and exporters become more sophisticated in their demands, they will give their trade business to banks that can work within multiple time zones and currencies that have on-the-ground experience of their markets and counterparts, and have expertise to pull these offerings together in one seamless transaction.

Asked what they look for when choosing a bank for their financing needs, importers and exporters increasingly cite one key factor (sometimes about price)-market knowledge. Knowing your customer means understanding its business from a global perspective. That means an awareness of how a production slow-down in China impacts its African operations, how a hurricane in the US affects its shipping orders, and how legislative change in Eastern Europe affects the enforceability of its contracts. (*Hebron, 2006*)

2.2.2 The Challenges of Convergence

For many years, there have been differences in regulating regimes and rules for banking, insurance and securities activities. These have resulted in largely separate market developing within national jurisdictions. International regulatory barriers have also hindered the emergence of a truly global financial services industry.

Banks could leverage on their size and local knowledge to dominate their domestic markets. They didn't feel serious competitive pressure from outside their industry. However, this situation has changed drastically in recent years. Several factors have contributed to this change: the liberalization and deregulation of the financial sector; the greater use of financial engineering techniques and models; significant advances in information technology and telecommunications; and growing consumer demands for better pricing as Internet enhanced consumer information. The result has been greater competition and finer pricing. As a consequence, banks have had to review their strategies for generating more fee-based income, and income from non-traditional sources.

The intense and accelerating competition has driven banks to seek new business models and laid the groundwork for growing convergence among the various firms but also their regulators. This convergence is for banking securities and insurance. (*Palmer, 2002*)

2.2.3 Global Challenges in Banking

Financial sector reforms in any country will bring about revolution in the structure of banking environment. While deregulation has opened up new opportunities for banks, liberalization has intensified competition in the banking industry by opening the market to new foreign and private banks. Declining interest rates and reduced lending margins have thrown up new

challenges to banks, particularly public sector banks. Banks need to equip themselves sufficiently to operate in such a competitive environment.

- ❖ Enhancement of customer service
- ❖ Innovations in technology
- ❖ Improvement of risk management systems
- ❖ Diversifying products (*Viswanathan, April 06,2008*)

2.3 Rules and Regulations Related to International Banking

The business activities which banks carry out beyond national borders can be conducted in various ways. In choosing between them, various different variables may have an influence-for example legislative requirements in the foreign country concerned and/or in the home country, or the individual business objectives of the concerned. (*Stenber, 1976*)

The Impact of Government Policy and Regulations on Banking

Banks operating in the United States and in most other countries must contend with heavy regulations, rules enforced by federal and state agencies governing their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the public.

No new bank can enter the industry in the United States and in most other countries as well, without government approval. The types of deposits and other financial instruments banks sell to the public to raise funds must be authorized by each bank's principal regulatory agency. The quality of a bank's loans and investments and the adequacy of its capital are carefully reviewed by bank examiners. When a bank, seeks to expand by constructing a new building, merging with another bank, setting up a branch office, or acquiring or starting a non-bank business, regulatory approval must first be obtained. Finally, a bank's owners cannot even choose to close its doors and leave the

industry unless they obtain explicit approval from the government agency that granted each bank's original charter of incorporation.

Why are most banks so closely regulated? There are a number of reasons for this heavy burden of government supervision, some of them centuries old. **(S.Rose, 2002)**

The Principal Reasons Banks are Subject to Government Regulation

- ❖ To protect the safety of the public's savings.
- ❖ To control the supply of money and credit in order to achieve a nation's broad economic goals (such as high employment and low inflation).
- ❖ To ensure equal opportunity and fairness in the public's access to credit and other vital financial services.
- ❖ To promote public confidence in the financial system, so that savings flow smoothly into productive investment and payments for goods and services are made speedily and efficiently.
- ❖ To avoid concentrations of financial power in the hands of a few individuals and institutions.
- ❖ To provide the government with credit, tax revenues, and other services.
To help sectors of the economy that have special credit needs (such as housing, small business, and agriculture). **(S.Rose, 2002)**

The Impact of Regulation on Banks

While the reasons for bank regulation are well known, the possible impacts of regulation on the industry are in dispute. The lifting of regulations in banking would subject individual banks to greater risk and eventually result in more bank failures.

There is an ongoing struggle between regulated firms and the regulators, called the regulatory dialectic. This means that once regulations are drafted and set

in place, bankers will inevitably search to find ways around the new rules through innovation to maximize the value of each banking firm. This struggle between regulated firms and regulators goes on indefinitely. (**S.Rose, 2002**)

Backing's Principal Regulatory Agencies and Their Responsibilities

Federal Reserve System

- Supervises and regularly examines all state-chartered member banks and holding companies operating in the United States and acts as the “umbrella supervisor” for financial holding companies that are now allowed to combine banking, insurance and securities firms under common ownership.
- Imposes reserve requirements on deposits (Regulation D).
- Must approve all applications of member's banks to merge, establish branches, or exercise trust powers.
- Charters, supervises and examines international banking corporations operating in the United States. (**S.Rose, 2002**).

Comptroller of the Currency

- Issues charters for new national banks.
- Supervises and regularly examines all national banks.

Must approve all national bank applications for new branch offices, trust powers, mergers, and acquisitions. (**S.Rose, 2002**)

Federal Deposit Insurance Corporation

- Insures deposits of banks conforming to its regulations.
- Must approve all applications of insured banks to establish branches, merge, or exercise trust powers.
- Requires all insured banks to submit reports on their financial condition.

Department of Justice

Must review and approve proposed bank mergers and holding company acquisitions for their effects on competition and file suit if competition would be significantly damaged by these proposed organizational changes.
(S.Rose, 2002)

Securities and Exchange Commission

- Must approve public offerings of debt and equity securities by banks or bank holding companies and oversee the activities of bank securities affiliates.

State Banking Boards or Commission

- Issue charters for new banks
- Supervise and regularly examine all state chartered banks.
- Reserve the right to approve all applications of banks operating within state borders to form a holding company acquire affiliates and subsidiaries, or establish branch offices.

The Central Banking System: It's Impact on Individual Banks

Like all central banks around the globe, the central bank of the United States, the Federal Reserve System (the FED) probably has more impact on the day-to-day activities of banks than any other government agency.

The nations belonging to the new European Union also have a central bank, the European Central Bank or ECB, which is relatively free and independent of government control as it pursues its main goal of avoiding inflation. In contrast, central banks in Japan, China and other part of Asia are generally experienced higher inflation rates, volatile currency prices and other significant economic problems in recent years.

In addition to regulatory agencies changes in government spending, taxes budget deficits, and borrowing, often called fiscal policy, have impact on banks and other institutions operating in the financial markets. **(S.Rose, 2002)**

National Bank Regulation

There are challenges, which are common to many countries. These challenges are related to regulations of the National Bank or regulatory Bank. The following are some of the directions issued by National Bank of Ethiopia, which are related to International Banking and has adversely affect the International Banking Industry.

Commercial Banks, which are licensed, to operate in Ethiopia are authorized to allow imports and exports excluding coffee and provide associated services against submission of the required documents by the importer and exporter. Commercial Bank shall approve imports for any values; but values of USD 1,000,000.00 and above are subject to open international competitive bidding backed by relevant documents.

❖ Commercial Banks are authorized to allow exports under the following mode of payment

- a) Letter of Credit b) Consignment **(Directive No. FXD/07/1998)**

Types of Acceptable Credit Cards

- American Express
- Visa Card
- Master Card
- Euro Card
- Diner Club Card
- Cart Blanche **(Revised Directive No.**

FXD/21/2003)

Foreign Currency Holding Limit

- ❖ Commercial banks can only hold up to 5% of their paid up capital in foreign currency notes as working balance at the close of each calendar month. Any excess holding shall be surrendered to the NBE within 5 working days from the end of the calendar month. These banks have the right to sell part of their 5% foreign currency holding at any time if they wish to do so. They are allowed to trade and hold currencies, which have a reasonable, turnover and advantageous to them but limited to the list provided by NBE. (*Directives No. FXD/23/2004*)

Eligible Foreign Currency Accounts for Diaspora

- ❖ In this country foreign currency accounts are restricted to the following types of currency:
 - i) The US Dollar
 - ii) Pound Sterling
 - iii) Euro
 - iv) Japanese Yen (*Directive No FXD/25/2004*)

International Banking Operations Rules

- ❖ In handling International Banking operations the following rules are indispensable.

UCP 600

This is an international rule used to govern documentary credit transactions like various types of L/C's and ODBP's. It is an international rule used in any part of the world. It is subject to revision. (**UCP 600, 2007**)

ICC/URC

This is another form of international rule used to govern documentary credits like CAD and ODBP. (**UCP 600, 2007**)

Incoterms (International Commercial Terms)

This refers to publication by ICC regarding internationally accepted interpretations regarding sales terms.

Some of the Incoterms used in United Bank are:-

- ✓ Free on board (FOB)
- ✓ Ex-works
- ✓ Cost and Freight (CFR)
- ✓ Cost, Insurance and Freight (CIF) (*IB Manual, 2007*)

2.4 International Banking

International Banking is designed to give service to the customer whose businesses are with the outsiders mainly in the form of import and export.

The main International Banking services given by United Bank are:

- Facilitate export transaction for exporters
- Facilitate import transaction for importers
- Handling of foreign incoming and outgoing transfers
- Give exchange service i.e. buying and selling foreign currencies

2.5 International banking services provided in United Bank

In United Bank the above International Banking service are facilitated by using different international Banking services which are applicable all over the world.

The major International Banking services provided in United Bank are:

- ❖ Import
- ❖ Export
- ❖ Others (*IB Manual, 2007*)

2.5.1 Import

Letter of Credit

It is an undertaking by a bank at the request of an applicant (importer/buyer) to a beneficiary (exporter/supplier) to effect payment against presentation of shipping documents, which comply with terms, and conditions stipulated in L/C.

It has been used for centuries to facilitate the worldwide exchange of goods and services. They have played a significant role in the expansion of trade. It reduces payment risk by providing an efficient method for arranging settlement for goods and services. This method of payment is the most secure means for all the parties involved. *(IB Manual, 2007)*

Types of letter of credit

- ❖ Revocable L/C – an L/C that can be cancelled or amended by issuing Bank at any time without prior notice or arrangements from the exporter. (Not applicable in United Bank)
- ❖ Irrevocable L/C – an L/C that is definite commitment by the issuing Bank to pay, it cannot be amended or cancelled without the consent of all parties involved.
- ❖ Confirmed L/C – an irrevocable undertaking of the confirming Bank to honor or negotiate that compliance with the terms and conditions.
- ❖ Unconfirmed L/C – a credit, which doesn't assume the importers country risk. *(IB Manual, 2007)*

Cash against Document (CAD)

Documentary collections are one of the modes of payments in international trade. In CAD goods are dispatched to the buyer on the strength of the simple sales contract concluded between seller and buyer. Payments always take place at a later date upon submission of collection documents. A document in international Banking means Financial or Commercial documents.

Financial documents means bill of exchange, promissory note, cheques, drafts or other similar instruments used for obtaining payment.

Commercial documents mean invoice, shipping documents or documents of title. (*IB Manual,2007*)

Cash in Advance (TT)

This is a type of payment methods by which the seller receives cash from the buyer prior to shipment. Mail, telex, swift, draft etc can effect such kind of payment. (*IB Manual, 2007*)

2.5.2 Export

ODBP

This is an export method presents the export through which the exporter in the country appears on the counter of the Bank and document for the Bank to be sent for collection.

The Bank then sends the document to the Bank of the importer abroad. The importer's Bank then presents the document to the importer abroad and the collection is settled by reimbursing the exporters Bank. (*IB Manual, 2007*)

Consignment

This is another type of payment method used in United Bank by which the seller ships the goods to the exporter known as consignee whilst retaining the ownership. The consignee is the agent responsible for paying the supplier if and when the goods are sold. (*IB Manual,2007*)

2.5.3 Other services provided in United Bank

Outgoing International Bank Guarantee

A) Bid Bond (Tender Bond) Guarantee

This kind of assurance is issued by United Bank (Issuing Bank) to foreign counter part (Beneficiary) on behalf of local customer (Principal) while they participate in international bid bond. The Bank collects money from principal in local currency and provides guarantee for the foreign counter part (Beneficiary) in equivalent hard currency amount in case the local customer (Principal) wins the bid bond. *(IB Manual, 2007)*

B) Repayment (Advance Payment) Guarantee

It is kind of guarantee (undertaking to pay) by United Bank (Issuing Bank) for the account of local customer (Principal) in order to secure the payment made in advance by foreign counter part (Beneficiary), if the principal fails to fulfill it's contractual obligation and unable to reimburse the beneficiary. *(IB Manual, 2007)*

C) Performance Bond Guarantee

This kind of assurance is issued by United Bank to foreign counter part (Beneficiary) on behalf of local customer (Principal) for completion of a specific task. The Bank collects money from the local customer in local currency and provides guarantee for the foreign counter part in equivalent hard currency amount and assures the foreign counter part for the payment in case the local partner fails to complete the job. *(IB Manual, 2007)*

D) Retention Guarantee

E) Standby Letter of Credit. (Could be applied in place of A, B, C & D)

F) Guarantee for presentation of B/L (Bill of Loading) without original document to Customs Authority.

Chapter Three

DATA ANALYSIS AND INTERPERTAION

The purpose of this study is to assess the challenges in international banking operation in united bank, so this chapter deals with presentation, analysis and interpretation of the study based on the data gathered from the respondents. All the data were obtained through questionnaire.

The questionnaire is prepared and distributed to 40 employees of the bank working at various levels, and out of the distributed questionnaires, 36 questionnaires are filled and returned back, which is 90% of the total questionnaires.

3.1. Background Information

The background of the respondents is based on educational background and years of experience are summarized and presented below in the following table.

3.1.1. Classification of respondents by educational level and years of experience

Table 1

LEVEL OF EDUCATION	B.A. DEGREE	BELOW DIPLOMA	DIPLOMA	ABOVE B.A.	TOTAL
NUMBER	20	0	16	0	36
PERCENTAGE	56%	0%	44%	0%	100
YEAR OF EXPERIENCE	LESSTHAN TWO YEARS	GREATER THAN TWO AND LESS THAN FOUR YEARS		GREATER THAN FOUR YEARS	TOTAL
NUMBER	6	14		16	36
PERCENTAGE	17%	39%		44%	100

Source :(own survey 2014)

The above table shows that 20 (56%) of the respondents are degree holders, 16 respondents (44%) are diploma holders and it shows that there is no respondent having a qualification below diploma and above B.A. degree. And also, the respondents are comprised of 6 respondents (17%) having less than two years of experience, 14 respondents (39%) have experience of greater than two years and less than four years, and 16 of the respondents which are 44% of the respondents have more than four years of experience.

The position of the respondents includes 1 division head, 3 section heads, 2 unit heads, 8 senior foreign banking officers , 2 auditors and 20 respondents from other different levels which includes, International banking supervisors, junior foreign officer , swift operators and foreign clerks.

3.2. Analysis of the Questionnaire

3.2.1. Various Regulations Related to International Banking Services

(Referring questions 1-4)

Challenges on work unit and branch

Is your branch or work unit facing any challenge in relation to international banking services?

Table 2

ANSWER	YES	NO	TOTAL
NO. OF RESPONDENTS	29	5	34
PERCENTAGE	85%	15%	100%

Source :(own survey 2014)

Among the respondents 29 (85%), feel that their work unit is facing challenges with regard to international banking operations, the rest of the respondents five in number (15%) feels that their work unit is not facing any international banking challenges. Specifically, 21 of the respondents (62%) feels that some regulations designed by the National Bank of Ethiopia are their major challenges, 9 of the respondents (26%) feel that the regulation designed by some government bodies create more challenges, 2 of the respondents (6%) feels that, of all the regulations, the most challenging one are designed by the commercial banks, the remaining 2 (6%) of the respondents feel that internal regulations by the bank are the main challenges for international banking operations.

In relation to National bank regulations, 15 of the respondents (44%) feel that National bank directives are big challenges for international banking, and 4 of the respondents (12%) the respondents feel the National bank controlling procedures are more challenging for international banking operations, 5 of the respondents (15%) feel that the National bank reserve requirement is a big challenge for international banking operations, 10 of the respondents (29%) feel that National bank's foreign currency usage policy is the major challenge for international banking operations.

On government regulations, 12 of the respondents (35%), thinks that regulations that restricts import of some kind of goods is the major challenge for international banking operations, 16 of the respondents (47%), thinks that regulation that restricts export of some kind of goods is a major challenge for international banking operations, 1 of the respondents (3%) thinks that regulations designed to encourage some other sectors brings challenge to international banking operations, 5 of the respondents (15%), thinks that regulations related to custom clearance creates a big challenge for international banking operation.

With regard to commercial banks policy, 9 of the respondents (26%), thinks that financing regulations are a major challenge for international banking operations, 19 of the respondents (56%) thinks that commercial banks foreign currency usage policy is a major challenge for international banking operations, 2 of the respondents (6%) thinks that the banks choice of international communication choice can create a challenge for international banking operations, 4 of the respondents (12%) thinks that retention account utilization policy creates a challenge for international banking operations.

3.2.2. Restriction to use Ethiopian Shipping Lines

Q.5) Do you think the restriction to use Ethiopian Shipping Lines for import purpose is placing a challenge for international banking operations?

Table 3

ANSWER	YES	NO	TOTAL
NO. OF RESPONDENTS	19	16	35
PERCENTAGE	54%	46%	100%

Source :(own survey 2014)

The above table shows that 19 respondents (54%) feel that the restriction to use Ethiopian Shipping Lines for import purpose creates challenge for international banking operations.

The remaining 16 respondents, which cover 46% of the total respondents feel that the restriction to use the Ethiopian Shipping Lines did not create a significant challenge for international banking operations.

3.2.3. Import Financing Capacity

Q.6) Do you think the import financing capacity of your organization is sufficient for customers?

Table 4

ANSWER	YES	NO	TOTAL
NO. OF RESPONDENTS	23	10	33
PERCENTAGE	70%	30%	100%

Source :(own survey 2014)

As indicated in this table, 23 of the respondents (70%) said the import financing capacity of United Bank is sufficient for customers. The 10 respondents (36%) who said the import financing capacity of the bank is not sufficient for customers suggested a few reasons, which are categorized as follows:

- a) Because of the focus on export financing, the capacity of import financing is not sufficient.
- b) Even if the bank can expand its capacity, this is difficult because of authorization problem by government

3.2.4. Export Financing Capacity

Q.7) Do you think the export financing capacity of your organization is sufficient for customers?

Table 5

ANSWER	YES	NO	TOTAL
NO. OF RESPONDENTS	29	6	35
PERCENTAGE	83%	17%	100%

Source :(own survey 2014)

Compared to import financing and as indicated above except for 6 respondents, all 83% respondents think that export financing capacity of United Bank is sufficient for customers. The reasons and solutions of respondents who said export financing capacity is categorized in to two:

- a) The related authorities did not authorize for expansion or improvement of capacity even if the capacity of United Bank is enough.
- b) Priority is not given to export when compared to import.

3.2.5. Issuance of International Bank Guarantee

Q.8) Do you think the various kinds of international bank guarantee issued by your bank is satisfactory for customers?

Table 6

ANSWER	YES	NO	TOTAL
NO. OF RESPONDENTS	24	11	35
PERCENTAGE	69%	31%	100%

The above data is filled by United Bank employees who have a direct relationship with international bank guarantee service and their customers. The total respondents are thirty five. The 24 (69%) employees or respondents believe that the service given by the bank under the international bank guarantee is satisfactory. However, the remaining eleven (31%) respondents doubt the service given under international bank guarantee is satisfactory. In other words, they believe that the service is unsatisfactory for their customers.

3.2.6. Lack of International Trade Knowledge

Q.9) Do you consider lack of international trade knowledge by customers could be a setback for processing their orders?

Table 7

ANSWER	YES	NO	TOTAL
NO OF RESPONDENTS	33	2	35
PERCENTAGE	94%	6%	100%

Source :(own survey 2014)

It is clear from the number of respondents that almost all believe there is a high degree of lack of international knowledge by customers coming to their department and this resulted in a strong set back for processing their orders.

3.2.7 Lack of knowledge of some Regulations

Q.10/ Do you think lack of knowledge of some regulations by the participating parties could create problem in the international banking operations?

Table 8

Answer	Yes	No	Total
No. of Respondents	34	-	34
Percentage	100%	-	100%

Source :(own survey 2014)

From the above table one can clearly see that the lack of knowledge of some regulations by participating parties have created a major problem in handling smoothly the international banking operations.

3.2.8. Challenges Related to Technology, Professional, Partial Shipment and Trans-shipment.

(Referring questions 11-14)

All the respondents feel that employing of recent technology in international banking operation is enabling the international banking operation for the provision of better and advanced services.

With regard to the qualification of the bank's professional, all the respondents feel that the bank has qualified professionals to provide quality services for its international banking customers.

With regard to questions asked about partial shipment, all the respondents feel that partial shipment of goods doesn't has any challenge on international banking operations.

With regard to questions asked about trans-shipment of goods, 27 of the respondents (82%) think that there is no challenge in partial shipment of goods. However, 6 of the respondents (18%) think that partial shipment of goods could create challenge for international banking operations.

3.2.9 International Regulations on bank charges

Q.15/ Do you think that international regulations about various kinds of bank charges against the interest of local parties?

Table 9

Answer	Yes	No	Total
No. of respondents	17	17	34
Percentage	50%	50%	100%

Source : (own survey 2014)

We see in the above table that the respondents have equal in number in favor and against this particular question.

3.2.10 Scarcity of foreign currency does it make a dalliance on the international banking operation –Referring to question 16

Q.16 Do you think that scarcity of foreign currency makes a dalliance in the service operation of international banking?

Based on the answers obtained from the respondents 35 of them (100%) feel that this foreign currency scarcity make a dalliance on the service operations of international banking and the customers are forced to wait for a longer period in order to fulfill their foreign currency needs for payment to be made abroad for the purpose of import of goods and services.

3.2.11 possible solutions that suggest to decrease this foreign currency scarcity in case of unites bank –Referring to question 17

Q.17 What possible solutions do you suggest to decrease foreign currency scarcity in case of united bank SC?

Based on the answers of the respondents they try to suggest the possible solutions to decrease the foreign currency scarcity in cases of united bank this are:-

- a. They suggest that increasing to be a direct agent of the international money transfer helps the bank to accumulate the foreign currency.
- b. To facilitate the importer to use united bank

3.2.12 Contribution of international banking to the overall income of united bank –Referring to question 18

Based on the answers obtained from the respondents 35 of the respondents (97%) feel that the contribution of international banking operation to the overall income of the bank is vast, only the rest of the respondents one in number (3%) thinks that the contribution of international banking operations is not significant for the overall income of the bank.

3.2.13 Additional comments of the respondents –Referring to Question - 19

The other point raised by the respondents is the lack of international communication system within the organization. Since the international banking services is based on detailed contractual agreements and documents communicating this documents using modern communications application within the organization reduce the time and cost related to the manual processing of the documents .The absence of modern communication system within the organization is also a problem for the customers; it forces them to wait for longer time until their order is processed manually at various level, that could have be processed at one point with the help of modern communication system within the organization.

Customers demand for the old and outdated files is also another challenge that creates inconvenience in the international banking operations. The customers are continuously in need of outdated and older files and documents; this is due to the stringent and rigid requirements by some government offices and personnel. This government offices and personnel require the customers to bring past data's to process their current order.

The major problem cited by the respondents is the lack of good communication system between different government bodies. The communication problem between these government bodies creates inconvenience for the customer to process their business timely. Some of the major government bodies that lack a good communication system are National Bank of Ethiopia, Ethiopian Customs Authority, Ministry of Trade and Industry and Ethiopian Quality and Standard Authority. This communication problem could create a major problem when one government body designs and disseminates procedures and rules; the other government body could override this procedure and rules.

Another challenge in international banking operations considered by the respondents is the UN and USA trade sanction. These sanctions are designed to prohibit business communication with specified countries that are considered as deviants with one or another reason. The UN sanction prohibits any banking communication within the sanctioned countries. So that any transactions related to these countries is illegal and should be avoided in whatever conditions. The sanction imposed by USA mainly focuses on business relations of its own banks to the sanctioned countries. The USA restricts any money transfer through its bank to the sanctioned countries. Since the USA is the widest banking network in the world, a USA sanction means a big challenge both for the remitter of money and the receiver of money around the world.

The other issue raised by the respondents is that the risk aversion tendency by the management of the organization. The respondents argue that most of the international banking rules around the world are applied almost everywhere. And also the locally designed policies and procedures are designed for every participating bank and other bodies. However, the interpretation of these international and local rules and procedures are implemented as per the

understanding, attitude and ability of the management of the organization. So that, the management attitude towards risk management determines the interpretation of the rules and procedures. In turn, highly risk averting managers are creating challenges for international banking operations.

Chapter Four

Conclusion and recommendation

4.1 Summary

Among the studied respondents the significant majority, which is 85% feels that their work unit is facing challenges with regard to international banking operations. While analyzing the specific rules 62% of the respondents assume that, regulations designed by the National Bank of Ethiopia are their major challenges and 26% of the respondents feel that regulations designed by government bodies are creating more challenges in international banking operations. Among the National Bank regulations, 44% of the respondents proved that National Bank Directives are creating a big challenge for international banking operations and also, 15% of the respondents felt that National Bank controlling procedure are more challenging for international banking operations, 29% of the respondents felt that the National Bank foreign currency usage policy is a major challenges for international banking operations.

On government regulations, 35% of the respondents thinks that regulations that restricts import of some kind of goods are the major challenges for international banking operations, 47% of the respondents think that regulations that restricts export of some kind of goods are a major challenge for international banking operations, 15% of the respondents thinks that regulations related to custom clearance creates a big challenges for international banking operations.

On commercial banks policy, 26% thinks that financing regulations are a major challenges for international banking operations, 56% thinks that commercial banks foreign currency usage policy is a major challenges for international banking operations.

4.2 Conclusion

Since 54% of the respondents agree about the restriction to be the challenge, we can conclude that the restriction to use of Ethiopian Shipping Lines S.C is not a major challenge for international banking operation. The 48% respondents who disagree about the restriction being a challenge also support this.

There are a challenges related to financing capacity. These challenges are related to import and export financing. There is no sufficient capacity of import and export financing. This is the result of unable to use the whole capacity of the bank because of the government authorizing parties' restriction of a capacity to a certain level. There is also a debating issue that the bank focuses on export financing than import financing. From the percentage composition give in Table 4 and 5, it is clear that the existing export financing capacity should be given some boost in the future. To improve or expand financing capacity, the bank should ask and make government understand that it has capacity above the authorized limit. This might lead the authorities to reconsider the expansion of financing capacity. In addition, the bank should not give more focus to export financing because import financing is also important as export financing.

As we have observed from Table 6, more than two-third of the respondents agree about the satisfaction of issuance of bank guarantee to customers, and nearly one-third of them disagree. Therefore, we can conclude that the international bank guarantee issued by United bank is sufficient.

With regard to lack of international trade knowledge, we saw that customers have a high degree of ignorance about it and this resulted to the bank operation as one area of challenge.

When we see to the customers knowledge of some international regulations, it is clear that almost all customers do not have enough or no knowledge and this has created another challenge area to be dealt with by the bank's employees which used up unnecessary time wastage.

The application of modern technology in international banking operation is enabling customers of the bank a better service in international banking operations.

The bank has qualified professional to provide services for it's international banking operations.

It is proved that partial shipment of goods does not create any kind of problem in international banking operations.

82% of the respondents believe that no challenge exist due to transshipment of goods. However, the rest respondents felt it could create challenge for international banking operations.

The response to whether the international regulations about various kinds of banks charges are against the interest of local parties has resulted in equal number of respondents. This clearly shows that the regulations did not favors one from the other meaning that it has tried to balance the interest of both international parties and locals.

It is found that the contribution of international banking operation to the overall income of the bank is significant.

The shortage of foreign currency is also challenge sited by the respondents. They argue that the shortage of foreign currency forces the bank's customers to wait for longer period in order to fulfill their foreign currency need.

Lack of international communication system within the organization is also found as a challenge for international banking operations. Since the international banking service is based on detailed contractual agreements and documents, communicating this documents using modern communication application within the organization reduce the time and cost related to the manual processing of documents.

Customer's demand for older and outdated files is also another challenge that creates inconvenience the international banking operation. Some government agencies request the customer to bring past history of their orders so that, it creates inconvenience for customers.

Lack of good communication system between different government bodies is another challenge. Some of the government bodies that lack a good communication system are National Bank of Ethiopia, Ethiopian customs Authority, Ministry of Trade and Industry and Ethiopian Quality and Standard Authority.

A UN and USA trade sanction are another challenge in the processing of international banking operations. These sanctions are deigned to prohibit business communication with specified countries that are considered as deviants with one or another reason. The UN sanction prohibits any banking communication with the sanctioned countries. So that, any transaction related

to these countries is illegal and should be avoided in whatever conditions. The sanction imposed by USA mainly focus on business relations of it's own banks with the sanctioned countries. Since the USA is the widest banking network in the world, a USA sanction means a big challenge both for the remitter of the money and the receiver of the money around the world.

The risk aversion tendency of management is another challenge. The respondents argue that most of the international banking rule around the world are applied almost every part of the world. And also, the locally designed policies and procedures are designed for every participating bank and other bodies. However, the interpretation of these international and local rules and procedures are implemented as per the understanding, attitude and ability of the management of the organization.

4.3 RECOMMENDATIONS

The study shows that most of the employees working on international banking operations feel that their work unit is facing challenge with regard to their day to day activities. So that, the bank should conduct a study in order to solve their problem.

According to the study the major challenge of international banking operations comes from regulations by national bank of Ethiopia and some government offices. So that, the banks authority should study the specific rules deeply and communicate the concerned agencies for the solution of the problems.

For expansion of capacity to be authorized or unauthorized capacity to be used: Make the government or related authorities understand that United Bank has unutilized financing capacity, which is more than what is authorized.

The bank should give the required emphasis or focus both to export or import financing, in fact if possible equal treatment or a financing capacity allocation to export and import on the basis of demand of customers.

Since the major challenge cited by the respondents on commercial banks policy is their foreign currency usage policy, the bank should study areas of the specific problems to solve its foreign currency usage policy in order to satisfy its customer needs for foreign currency.

The bank should dig for different sources of foreign currency for example exchange of currency to satisfy its customers needs to boost its income from foreign banking operation even more.

Since the income from the international banking operation is proved significant, the bank should take a necessary care to maintain its income from international operations or even improve its income contribution by conducting relevant studies.

The bank should apply modern technology like using computers in advanced way in international banking operations to provide a better service to its international banking customers and even attract other international banking customers from other competing banks.

The bank should implement international communication system within the organization to provide efficient and effective services to its international banking customers.

The bank should continue in employing and educate its employee to better exploit their ability for better banking services to its international banking operations.

The bank should provide various training and seminar to its management members in order to create more awareness and confidence about various regulations designed by different agencies.

The bank should arrange different kinds of International Banking Seminars to its existing and prospective international banking customers to

increase their international banking knowledge that enables them process their orders more smoothly.

The bank's employees who are handling international banking operations should take a necessary care in handling documents to be processed with a UN or USA trade sanctioned countries, since, the consequence of the transaction is uncertain.

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Appendices