ST.MARY'S UNIVERSITY

FACULTY OF BUSINESS

DEPARTMENT OF ACCOUNTING

AN ASSESSMENT OF FORIGEN BANKING PRACTICE IN THE CASE OF COMMERCIAL BANK OF ETHIOPIA

BY

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MAY, 2014

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

The ‘internationalization’ of banking, which started in the early 1970s,paved the way for the ‘globalization’ of finance and became more and more evident during the 1990s as international capital flows increased in magnitude.The internationalization and globalization processes have been facilitated by the ongoing communications and information technology (C&IT)revolution and capital flows have increasingly responded to economic and political news. This has created the potential for increased global financial and consequent economic, instability.By allowing countries, whether they are developed, developing, in transition or emerging market economies, to draw on a global capital pool to finance investment, rather than rely entirely on domestically generated savings, a globalized financial system provides great opportunities as well as the aforementioned threat of instability(Zwick, 1994; 32).

The ultimate objective of the monetary authorities must thus be to createa new ‘global financial architecture’, which ensures that capital flows freely to those who will make the best use of it to enhance the well-being of mankind. To achieve this, risks and benefits (pecuniary and social) and disbenefits (for example, poverty and environmental degradation) must be accurately priced and measured and a regulatory and supervisory systemmust be put in place to assure price stability without distorting the price mechanism. Much work needs to be done to achieve such a utopia, but good progress is being made on risk, environmental and poverty impact measurement and on the regulatory and supervisory front. Good governance

at the international, state and corporate levels is of course essential for the successful conclusion of the global project (Nigh et al., 1999;59).

Commercial Bank of Ethiopia is the leading bank in Ethiopia, established in 1942. It is the pioneer to introduce modern banking to the country. It has 780 branches stretched across the country as of January 6,2014. It is the leading African bank with assets of 158.11 billion Birr as on June 30th 2013. It plays a catalytic role in the economic progress & development of the country. It is the first bank in Ethiopia to introduce ATM service for local users. Currently CBE has more than 7 million account holders. It has strong correspondent relationship with more than 50 renowned foreign banks like Commerz Bank A.G., Royal Bank of Canada, City Bank, HSBC Bank. CBE has a SWIFT bilateral arrangement with more than 700 others banks across the world. CBE combines a wide capital base with more than 18,000 talented and committed employees. Pioneer to introduce Western Union Money Transfer Services in Ethiopia early 1990s and currently working with other 20 money transfer agents like Money Gram, Atlantic International (Bole), Xpress Money. CBE has opened two branches in South Sudan and has been in the business since June 2009.CBE has reliable and long-standing relationships with many internationally acclaimed banks throughout the world (www.cbe.gov.et.com).

The foreign banking service of the bank performs the following important functions:

- Grants direct loans in Ethiopia and outside for import and export.
- Business advisory and technical assistance.
- Refinances loans and suppliers of credit.
- Rediscounts usance export bills export bills for banks.
- Provides overseas investment finance.
- Bulk import finance.
- Foreign currency preshipment credit.
- Product equipment finance programs.

1.2 Statement of the Problem

Where the foreign banking market is not intensely competitive and entry barriers are low, growth and profit potential may also be correspondingly higher, irrespective of market size or relative growth. The foreign market competitiveness hypothesis posits that potential MNBs are more favorably disposed towards expansion into less competitive foreign banking sectors. Typically, the competitiveness of foreign banking sectors in econometric work has been gauged by concentration ratios and the theory finds some empirical support (Goldberg

and Johnson, 1990).

The Trade Service is one of the core processes of the bank entrusted with the task of international banking services. the are now provided at all branches of the bank with a single contact point of customer service relationship officers assigned for this purpose only.

Based on the preliminary study, among the foreign banking services offered by the CBE the student researchers identified gaps on promoting of the export and import activities, on the meeting of the financial requirements of the exporters and on the providing guarantee and make foreign exchange facilities to exporters.

1.3 Basic Research Question

1. What is the extent of foreign banking service of the bank on the promoting of the export and import activities?

2. How does the bank perform to meet the financial requirements of the exporters?

3. How does the bank service on the providing guarantee and make foreign exchange facilities to exporters?

1.4 Objective of the Study

1.4.1 General Objective

The general objective the study was to assess the foreign banking practice of the Commercial Bank of Ethiopia.

1.4.2 Specific Objective

1. To assess the extent of foreign banking service of the bank on the promoting of the export and import activities.

2. To evaluate the bank performance to meet the financial requirements of the exporters.

3. To assess the bank service on the providing guarantee and make foreign exchange facilities to exporters.

1.5 Scope of the study

This study were conducted on CBE head office & the study focused on the assessment of foreign banking practice of the bank 2009 - 2013 and this is because the performance report of the year 2014 is not compiled. This study evaluated the effectiveness of the bank's foreign banking practice, its compliance with policies and procedures; national or international standards and the quality of performance in carrying out assigned responsibilities in the private bank.

1.7 Significance of study

This study will help for the bank in indentifying major problems in foreign banking practice and day to day practices, which are more susceptive for mistake, errors discrepancies and fraud. In addition, the outcome of the study show the strength and weakness of the foreign banking practice, policies procedures, rules and regulations, which in turn enhance the service giving capacity of company in efficient and effective way. Moreover, it was significant to the student researchers on overall activities of foreign banking practice. Finally the study can be used as a reference for the other students who work their study with the same title.

1.7. Research Methodology

1.7.1 Research Design

In order to answer the basic research questions, the student researcher used descriptive research method. Descriptive research method helps to describe the research setting as it is and also allows the use of both quantitative and qualitative approach.

1.7.2 Methods of data collection

Primary data were obtained from both open and close ended questionnaires and by conducting interview. Questionnaires were distributed to the customers and interview were conducted to concerned staffs of the head office and head office. Secondary data source such as the banks' annual reports, manuals, articles, journals and other documents relevant to the study were reviewed and observed.

1.7.3 Population and Sampling technique

The respondents of the study included business customers and in staffs of trade service and international banking division of the bank. Regarding the business customers, the student researchers used non-probability sampling approach, particularly convenient sample technique. Due to the difficulty nature of determining sample size of the customers of CBE the student researchers used 150 respondent customers as representative sample in order to have sufficient and reliable data.

1.7.4Types of Data Collected

Both primary and secondary data were collected for the study. The primary data were obtained from the customers and from employees by questionnaires and interview respectively. Secondary data source such as the company annual reports report, manuals, and other document relevant to the study were used.

1.7.5 Methods of Data Analysis

The study used both qualitative and quantitative data analysis techniques. The responses that were collected from questionnaires were analyzed by quantitative approach; tabulation and percentage were used. Responses that were obtained through interview were narrated qualitatively.

1.8 Limitation of the Study

In research process, there were problems when the study was conducted to keep the quality of the study. Therefore, in the study a number of limitations were faced in the process. Some of limitations are as follows:

1. The respondents who were not willing to give some of the information needed for the study. The reason might be due to confidential of the information.

1.8 Organization of the paper

The research paper was organized in such a way that the first chapter introduced the over all purpose of the research and explain why the study was important. Chapter two deals with related literature review on historical perspectives and definition of foreign banking practice ; scope and objective of foreign banking practice . Chapter three deal with data analysis, interpretation and presentation. The last chapter, which is chapter four, summarized the major findings, conclusions and recommendations of the research paper.

CHAPTER TWO

2. REVIEW OF RELATED LITRATURE

2.1 Introduction

Globalization has rendered international expanding activities increasingly important for the survival, growth and success of modern firms. Simultaneously, the banking industry has been undergoing major consolidation in recent years, with a number of global players emerging through successive mergers and acquisitions. Competition is generally considered a positive force in most industries; it is supposed to have a positive impact on an industry's efficiency, quality of provision, innovation and international competitiveness. However, this issue has always been controversial in banking, as the perceived benefits derived from increased competition have to be weighed against the risks of potential instability (Casu and Girardone,2009;88).

Within this fluid business environment, which is characterized by international mergers and acquisitions and extreme competition between the enterprises, the internationalization of banking work is a subject of major importance for researchers and economists. However despite of the major importance of banking internationalization, up to recently, small number of researchers has focused on the conceptual framework of 'international banking. Under this prism, the aim of this article is the imprinting of both the conceptual approach of term "international banking" and the evaluation of advantages and disadvantages of the international extension of banks. Taking into consideration the more complete imprinting of the aim of this article, initially the conceptual delimitation of international banking is analyzed. Then the more important forms of international extension of banks are mentioned. Aiming at the export of completed conclusions the more important profits are presented on one side while the more essential risks at the process of internationalization of banking activities are also included. The present article is completed by presenting the main conclusions, the restrictions of the current research and the proposals for future research (Lambkin and Muzellec, 2008; 124).

2. CONCEPTUAL FRAMEWORK OF FORIEGN BANKING

The industry was transformed in the 1970s. Until then most banks concentrated on their home markets, considering themselves as domestic institutions that handled foreign business. With the rapid expansion of international networks, the talk is of global banks. Now, the banking sector occupies a pivotal position in the global economy as it has access to the capital, the technological capabilities, and the international network to facilitate these activities. Banks monitor the business sector through the evaluation, pricing, and credit-granting functions. In this context, the operations of an international trade of services, that have as a consequence either the creation and management of financial means, or the transport of capital from surplus units of country in another, or the mediation in the frame of national financier system are called "International Banking activity" (Jayawardhena and Foley, 2000; *Malulet al.,* 2009;134).

When studies refer to "the internationalization of banks", they are concerned with two different aspects of internationalization. The first aspect refers to the exchange in terms of import and export of banking services and transactions in foreign currency. The second aspect, however, is related to the strategy of banks when internationalizing concluded that the loss of a comparative advantage by commercial banks as providers of credit to large borrowers, competition from non-bank financial firms ,and increased competition from foreign banks have created the impetus for adoption of universal banking (Cameron, 1995; 95).

Through an extensive review of relevant literature, it was also found that the basic motive for the achievement of cross-border banking activities is the redistribution of international fluidity and international capital between the various countries. In relation to the above approach, the profit from the internationalization work of banking is the increase of the so called surplus of the consumer ,that is to say the difference between the initial sum that the consumer has to pay for a banking service and the final sum that he finally pays (Germanidi, 1992;165).

Moreover, the international extension of financier Institutions is always in relation to their size, their international experience, the sufficiency both in human potential and in capital but also in the nature of the domestic and international work. Finally, on one hand the forms or the basic operations, with which a financier institution is developed in a international banking network are the following two: financial and credit. On the other hand, the operation of the international banking is achieved through the services in the banking market of foreign country with either in direct or indirect way. More specifically, the direct way for the transport of capital from the savers to those who are landed money is used, mainly, by the investment banks and the Stock Exchange companies; while the indirect way is used by the commercial banks (Drogendijk and Hadjikhani, 2008;133)

2.2 The Settlement and Financing of International Trade

International trade activities involve such issues as the exchange of good sand services, the activities of exporters and importers, international payment sand exchange rates, and the role of international banking and finance. Exporters and importers tend to prevail on their banks to obtain for them the most cost-effective methods of payment and settlement. Bank sand other financial institutions play an important role in identifying from the existing financial markets the most suitable instruments that could bused to finance international trade. Export financing, therefore, can be simply defined as a mechanism for financing export sales. On these grounds, the financing of international trade can be considered as an integral element of international banking (Murinde, 1996; 218).

In general, international trade finance refers to the provision of bank credit facilities to meet a company's borrowing needs in relation to its international trade activities. For example, international trade financing techniques can be used to bridge the funding gap between any credit provided in the trade contract and the need to finance stock and debtors. Historically, within commercial banks this funding gap has been financed by overdraft facilities. Furthermore, it is fully acknowledged that in many instances traditional internal working capital finance continues to offer a perfectly adequate solution to customers involved in international trade. However, a major advantage of trade finance products and techniques is the additional assurance which banks can gain through transactional control; and hence the banks' ability to grant lending facilities where they would not be able to do so otherwise (Ayse,2004;134).

The dominant mode of international trade finance, which gives a clear view of potential areas of risk, is structured loans. Trade finance structured loans typically have rolling limits and maturity dates set to coincide with the borrower's cash flow generated by the sales of goods, thus offering the banks some considerable advantages. Use of trade finance instruments (for example, documentary collections, letters of credit and so on) enables the bank to exercise transactional control and mitigate risks. Credit facilities are more closely matched to the customer’s transactional requirements and trade cycle. For example, repayment is more closely linked to the sale of underlying goods. Any delay in repayment gives an early warning of liquidity problems. Structured facilities increase the quality of account information for banks, which therefore improve the ability to monitor risk. In certain circumstances banks will have a prior security interest in the goods financed, enabling banks to sell the underlying goods (Eren, 2005;156).

The increased levels of assurance that banks can acquire through trade finance techniques have a positive effect on the willingness to make credit facilities available to the customers involved in international trade. Thus, the use of trade finance products by commercial banks in the UK offers number of advantages for the customers. First, banks may be prepared to make trade finance facilities available even if the customer’s normal credit facilities are fully extended or the customer’s balance sheet does not support the level of limits requested. Second, specific facilities for individual transactions enable the customer to evaluate the profitability of individual transactions, including financial costs. Third, for the customer with a strong credit standing and balance sheet, banks may be prepared to offer lower margin than on a conventional overdraft, in recognition of the superior transactional control and improved risk profile (Murinde, 1996; 222).

The operational framework that links all the elements of international trade finance in this chapter is the inverse relationship between the risk faced by the importer versus the risk facing the exporter. To understand this framework, we need to bear in mind that importers and exporters have naturally opposing views of risk in international trade. A payment structure which is totally satisfactory for an importer invariably involves a high element of risk for the exporter and vice versa. It is possible to consider this inverse relationship as a risk ladder on which the risks for the importer gradually increase as you go higher, while the corresponding risk for the exporter gradually decreases (Murinde, 1996; 223).

The method of payment used will usually depend on two important aspects. First, the negotiations between the exporter and importer before the sales contract are signed. An importer who is very keen to obtain goods from a particular source (perhaps due to quality or price) may have little choice other than to accept the exporter’s request for a certain type of payment method. Second, the commercial practice in the countries involved is important. When negotiating the method of payment the exporter/importer shoulbear in mind that his/her decision on this matter will affect not only the riskof payment but also the alternative trade financing structures available (Murinde, 1996; 223).

Financing of international trade by specificallydealing with the various settlement methods commonly used in shortterm(whereby the settlement is made typically within a maximum12-month period) international trade. These methods are then evaluatedfrom the importer's as well as the exporter's perspective. The settlementmethods and structures that are used in longer-term international trade falloutside the scope of this chapter. Funding mechanisms for medium-tolong-term international trade typically involve the government bodies or substantial guarantor agencies (Murinde, 1996; 223).

2.2.1 Open Account Trading

Open account trading means that there is no bank involved in settlementof trade financing and in enforcing the payment between the exporter andthe importer. This method of trade financing is based on complete trustbetween the importer and the exporter. Thus, under these terms ofpayment, the documents of title (such as bills of lading) are sent directly tothe importer. The importer endorses the payments, effectively agreeing topay after a specified credit period.

The settlement document used could simply be aninvoice. From the importer's point of view, this is the best method because itdoes not involve any costly bank charges, which are associated with other settlementmethods. Banks could be used, not necessarily to ensure fulfillment of settlement obligations by both parties but generally to provide short-termfinance or to provide some other traditional working capital facilities (Spyropoulouet *al.,* 2011; 126).

However, open account trading may be problematic and risky if theexporter and importer do not have an established relationship. The mainrisk is that the exporter loses control of the goods. It is therefore recommendedthat the terms be used only where the exporter-importer relationship and trust have been well established (Spyropoulouet *al.,* 2011;127).

2.3 Documentary Collections

The collection service provided by a bank is a means whereby a creditor(usually an exporter) in one country obtains payment from a debtor (generallyan importer) in another country. Standard international rules governingthe role and responsibilities of banks in collections have been established by the International Chamber of Commerce. These are knownas the Uniform Rules for Collection (URC) (Drogendijk and Hadjikhani, 2008 ;124)

In general, two types of document may be handled by the bank when itarranges a collection on behalf of a customer. The first type consists offinancial documents, such as a bill of exchange, promissory note and so on.The second type comprises important commercial documents, such as a billof lading; invoices, insurance policy and possibly other documents such asa certificate of inspection or certification of origin. When commercial andfinancial documents are present, the collection is known as a documentarycollection, whereas a clean collection consists only of financial documents (Drogendijk and Hadjikhani, 2008;125)

The collection service of the banks can be classified into two,namely export/outward collections and import/inward collections. Underthe former, the bank undertakes to obtain payment of financial or commercialdocumentation from an overseas party on behalf of the exporter.The exporter may or may not be a customer of a commercial bank (Jayawardhena and Foley, 2000; *Malulet al.,* 2009;134).

Under the latter, the bank assists a correspondent bank abroad toobtain payment of a bill of exchange or promissory note or cheque from the importer on behalf of a foreign supplier. It is noteworthy that the debtor may or may not be a customer of a commercial bank in the.The traditional parties to a collection are fourfold. The first party is theprincipal. This is either the customer, the exporter who entrusts anoutward collection to commercial banks, or a foreign supplierwho entrusts the collection to a bank in his/her country for obtaining payment from a debtor in the. The second party is the remitting bank.This is where documents are sent from the bank. The third party is the collectingbank; this is usually a correspondent bank of the remitting bank orthe bank specified by the principal in his/her instructions to the remittingbank. Also involved here is the presenting bank, which presents the documentsto the debtor for acceptance/payment. Often the collecting bank andthe presenting bank are the same bank. The fourth party is the debtor; this is usually the importer (Germanidi, 1992;165).

In general, the two main sources from which commercial banks typically receive instructions to handle collections are a bank customerwho is an exporter (an outward collection) and a foreign correspondentbank acting on behalf of an exporter in its own country (an inward collection)(Germanidi, 1992; 165).

2.3.1 Collection Process (Outward Collections): Exporters

This section briefly explains how the collection process works in practice,on the side of the exporter. Initially, the customer (the exporter) negotiatesa commercial contract with a foreign buyer and ships his/her goods. Then,the exporter submits his/her financial documents and commercial documents to his/her bank (that is, the remitting bank)(Spyropoulouet *al.,* 2011;67).

Although there is no legal obligation to scrutinize any documents, the remitting bankundertakes a prima facie check of documents to ensure that everythingappears to be in order. The remitting bank forwards documents to the collectingbank. Upon receipt, the collecting bank acts in accordance with theinstructions of the remitting bank. When handling a documentary collection the collecting bank arranges for the importer to inspect the documents.Strictly speaking this should be done on the bank's premises although practicevaries from one bank to another. If the importer considers the documentsare in order, the collecting bank releases them against payment or acceptance of the bill or the issuing of a promissory note (Spyropoulouet *al.,* 2011;117)

When handling a clean collection the collecting bank either obtainspayment from the debtor or his/her acceptance to pay at a future date.Between the date of acceptance of the bill and the maturity date, the billitself will remain overseas in the custody of the collecting bank. When the bill is paid, the collecting bank should without delay send the proceeds tothe remitting bank (less charges if appropriate). The remitting bank thencredits proceeds to the account of the exporter (again less charges if applicable) (Spyropoulouet *al.,* 2011;118).

2.3.2 Documents Against Payment Versus Documents Against Acceptance

An exporter should always specify in his/her instructions how the importershould settle a bill of exchange. This should be in one of two ways. The firstinvolves documents against payment (D/P). This means that the bill ispayable at sight by the importer. The collecting bank hands over the shippingdocuments only when the importer has paid the bill. The secondinvolves documents against acceptance (D/A). This means that theexporter is allowing credit terms to the importer. The period of credit is the‘term’ of the bill, also known as ‘usance’. The importer/drawee is requiredto accept the bill, that is, to sign the bill as a promise to pay it at a set datein the future. When the bill has been signed by way of acceptance, theimporter can take the documents and clear his/her goods. The bill ofexchange is then held by the collecting bank until its maturity and will bepresented again at that time for payment by the drawee (Jayawardhena and Foley, 2000; Malulet *al.,* 2009; 188).

Usually, under the D/P terms the exporter keeps control of the goods(through the presenting bank) until the importer pays. If the importercannot pay or refuses to pay, the exporter can protest the bill and take theimporter to the local court (which may be expensive and difficult to controlfrom another country); find another buyer; and arrange for the sale of thegoods at an auction (Jayawardhena and Foley, 2000; Malulet *al.,* 2009;189)

2.3.3 Advantages of collections for the exporter

Documentary collections provide a method of settlement in internationaltrade, which (like documentary credits) offers a compromise betweenpayment in advance (which favours the exporter, who receives paymentbefore the goods are shipped) and trading on open account (which favoursthe importer,who usually pays after the goods are received). By using banksas intermediaries to collect payment from the importer for goods which theexporter has already sent, the use of collections reduces the risks for bothexporter and importer and the delay in receipt of payment by the exporterand the receipt of goods by the importer (Germanidi, 1992; 115).

In the case of documentary collections the exporter can retain controlover the goods until the buyer accepts the bill. The latter arrangement ismore secure for the exporter. The customer (the exporter) may be able toraise finance against the collection by obtaining an advance against the security of the bill. Obtaining bank finances enables the exporter greaterflexibility in the payment terms offered to the buyer overseas. The collectingbank may have greater influence over the foreign debtor and might bemore able to obtain payment than if trade were on open account terms (Germanidi, 1992; 115).

Collections are cheaper than documentary credits (which nevertheless dooffer a more secure means of obtaining payment from the overseas buyer).A bill of exchange, used under documentary collections, once accepted, islegally binding on the drawee, and a promissory note once issued and deliveredis also legally binding. Accepted term bills and promissory notes thereforeprovide a form of security to the exporter, while at the same timeallowing a period of credit to the buyer. Documentary collections speed upthe remittance of funds to the exporter compared with open accounttrading for the following reasons. The collection bank is under an obligationto present documents without delay and to present an accepted bill forpayment not later than its maturity date. The collecting bank ensures thatthe documents are released to the buyer only on acceptance or payment ofbills. In normal circumstances this will encourage the importer to pay oraccept the bill promptly in order to gain access to the goods.When paymenthas been received, the collecting bank can remit the proceeds to theexporter by urgent transfer if this is specified in the collection order (Germanidi, 1992; 116).

An important advantage of documentary collection which includes a fullset of bills of lading (less one original) is that the customer, the exporter,can keep control of the goods until the foreign buyer has either paid forthem or accepted the bill of exchange. This is because the bill of lading isa document of title, and providing that a full set of originals is retained bythe collecting bank until the foreign buyer pays for the goods, accepts a billof exchange or issues a promissory note, then the bank on behalf of its customerhas constructive control over title to the goods. The collecting bankmust only release this title when the debtor complies with the requirementsof the exporter as specified in the collection order (Germanidi, 1992; 117).

2.3.4 Advantages of Collections for the Importer

In general, there are a number of key advantages of collections for theimporter. For example, the use of term bills provides the buyer with aperiod of credit from the exporter. In addition, the importer can inspect thedocuments (but not the goods themselves) before accepting a bill (D/A) orpaying a bill of exchange (D/P). Moreover, in the case of clean collectionsthe buyer can take possession of the goods before paying for them. It is alsopossible to defer payment/acceptance, subject to the exporter's approval,until arrival of the goods. It may also be argued that collections are cheaperand simpler for the importer than documentary credits. This is because thecollecting bank does not have any financial interest or risk commitment, sothere are fewer formalities and costs. Finally, an importer does not requirea credit limit from his/her bank if he/she imports on collecting terms, unlikeother methods of international trade settlement where a suitable credit facility is required(Jayawardhena and Foley, 2000; *Malulet al,* 2009;212)

2.4 Financing

2.4.1Recourse Loans against Collections

An exporter who is arranging a collection through his/her bank might want to obtain finance to fund the overseas sale until payment isreceived. In particular, when extended credit terms are offered to theimporter, the exporter might have to wait a considerable time before receivingthe payment. Commercial banks in the may be prepared to consider granting aloan against the collection in order to make available to the exporter a partor all of the sale proceeds. Generally, loans against collections are subjectto full recourse to the exporter. Therefore if the buyer fails to pay the bill,the bank has the right to debit the exporter's account (Drogendijk and Hadjikhani, 2008;253)

2.4.2 Non-recourse Finance against Collections

A number of circumstances may warrant the use of finance against collectionswithout recourse to the exporter. This may happen where the bills are'avalized' by an overseas bank. This may also be the case where the bills areaccepted by a foreign company with a strong credit rating.

'Avalization' is the process whereby a bank guarantees a bill of exchange.This is achieved by the bank endorsing the accepted bill 'pour aval'. At the exporter's request, the bank may specify that the documents are notready to be released until the importer has accepted the bill of exchangeand the importer's bank has avalized the bill (Drogendijk and Hadjikhani, 2008;255)

In the case of a bill of exchange avalized by an overseas bank (that is, theimporter's bank) it is not necessary to establish a credit limit in the name ofthe exporter, since the liability is marked against the overseas bank. Generally,the avalized bill would be held on behalf of the presenting/collecting bank(which may also be the avalizing bank) for presentation and payment atmaturity. The exporter's bank in the UK would then obtain authenticatedconfirmation from the overseas bank that the bill has been avalized and thatan unconditional undertaking to pay at maturity has been given (Drogendijk and Hadjikhani, 2008;255)

2.5 Documentary Credits

A documentary credit, also known as a letter of credit (L/C), is a written undertaking by a bank on behalf of a buyer/importer to pay the seller an amount of money within a specified time provided the seller presents documents strictly in accordance with the terms laid down in the L/C. It is useful to assume that the banks only handle irrevocable L/Cs, since revocable/Cs are hardly used these days given that under a revocable L/C the importer can amend or even cancel it without prior notice to the exporter. Thus, revocable L/Cs are extremely rare because they do not provide a satisfactory guarantee of payment for the exporter. This right can be exercised at any time until a payment is made to the exporter. Accordingly the exporter is exposed to a substantial risk that a revocable L/C might be cancelledafter he/she has produced and shipped the goods. The exporterwould then face the problem of obtaining payment direct from the buyer.Finally, the issuing bank makes the documents available to the importerand receives reimbursement from the importer (Germanidi, 1992;286).

Receipt and undertaking *L/Cs* (pre-shipment finance) is another form ofpre-shipment finance where an advance is made to the exporter against areceipt and undertaking signed by the exporter. The request for such mustbe made by the applicant when the L/C is issued. The advance can be madeby the advising/confirming bank against a beneficiary's/exporter's receipt

and an undertaking signed by the beneficiary or a third-party bank torefund the loan if the beneficiary later fails to present documents in accordance with the L/C (Germanidi, 1992; 288).

The difference between receipt and undertaking L/Cs and red clauseL/Cs is that under a receipt and undertaking L/C once the advising/confirmingbank has made the loan, it can claim immediate repayment fromthe issuing bank. The bank does not have to wait for the documents to bepresented after shipment of the goods. Furthermore, the issuing bank isresponsible for initiating claims against the exporter if he/she fails to meethis/her obligations under the signed undertaken (Germanidi, 1992;288).

A revolving *L/C* is one which states that the amount is renewed or reinstatedautomatically without specific amendments. A revolving L/Callows for flexibility in commercial dealings between importers and exporters,particularly where there are regular shipments of the same type ofgoods, thereby avoiding the need for repetitive single value/shipment L/Csto be issued. It is emphasized that an L/C which is available for a certainamount and calls for specified quantities of goods to be shipped within agiven period is not a revolving L/C. Rather it is an L/C available by instalmentsas provided for under UCP 500. These types of L/Cs are widely usedtoday(Germanidi, 1992; 289).

2.5.1 Using L/Cs as a Means of Finance

L/Cs are extremely useful in international trade not only because they are asecure method for exports but also because they can be structured in such away as to provide short-term finance to both the exporter and the importer.In this section, the most widely used means of L/C finance are examined.

2.5.1.1 Post-shipment finance for exporters

The most typical method of providing bank finance for the exporter is discounting the bill of exchange under the L/C. This means that a bank pays the net proceeds, that is, the face value of the bill less an interest charge forth period of funding. In this way the exporter receives immediate payment of the account dueto him/her (less charges) instead of having to wait until the end of theperiod of trade credit. Similarly the importer obtains a period of creditbefore having to pay for the imported goods (Murinde, 1996; 256).

There are several advantages for the exporter. L/Cs are one of the mosteffective methods of trading when it comes to raising post-shipmentfinance. In today's highly competitive trading conditions, the exportershave to offer extended credit terms at times in order to enable the importersto buy. An exporter who can offer credit terms, thus improving theimporter's cash flow, will always be more competitive against its peers.The biggest advantage of obtaining finance by means of discountingL/Cs is the fact that the finance is obtained on a non-recourse basis. Thisthen frees up the exporter's facilities and will also be off-balance sheet. It isa very quick way of obtaining funding from banks since there is no requirementfor a credit limit to be put in place for the exporter. The exporter maybe able to access the funds at a cheaper rate than other conventional meansof funding, such as an overdraft(Germanidi, 1992;198).

Pre-shipment finance for exporters

Exporters in some countries are also able to use the L/Cs to obtain pre-shipmentfinance to assist them with the actual manufacturing costs. In this case thelocal banks view the L/C issued by high standing as arobust security against which funding may be extended at a more favourable

rate. The local banks may extend facilities to their customer prior to shipment in order for him/her to manufacturehis/her goods. This is the most important reason why the lead times are typically longer for trade between importer (Germanidi, 1992;211).

2.5.1.2 Post-shipment Finance for Importers - Import/Produce Loans

Although on the whole import loans can be used as a stand-alone fundingvehicle and essentially they are not much different from other loans, they are more likely to be used in close connection with a settlement product such as an L/C or a documentary collection. There are generally two forms of import loans, documentary import loans and clean import loans. The former provide short-term finance for an importer seeking finance to bridge the gap between payment to the exporter and receipt of funds from the sale of goods to a third party. Between receipt of goods by the importer and delivery to the ultimate buyer, goods are held either in an independent warehouse or on trust by the importer/borrower him/herself (Eren, 2005;136).

Finance is made available against the security of a general letter of pledge and subsequent trust receipts, covering documents of title, for example, bills of lading and warehouse warrants. The documentary import loan structure can be used to finance settlement of L/C and documentary collection (inward bill) transactions, that is, when payment to the exporter falls due. This type of funding is ideal for goods or raw materials that are being or have been imported and when the funding bank requires constructive possession of the underlying goods (Germanidi, 1992;68).

Clean import loans are appropriate where the funding made available needs to be structured (with clear expiry date and granted at the back of an L/C or documentary collection) but transactional control is not required/available. Security documentation such as trust receipts is not effective under clean import loans since the banks do not have constructive possession in this case. A clean import loan is a short-term finance against evidence of import and/or goods pre-sold (that is, there is an underlying sales agreement/contract between the importer and his/her end customers).Generally, documentary import loans are required by banks when their assurance, the importer, has a weaker balance sheet and therefore transactional control is preferred (Eren, 2005;142)

Security documents used with documentary import loans One of the major advantages of the documentary import loan is the greater degree of assurance the banks obtain from control of the underlying goods and resultant sale proceeds compared to lending on an unstructured basis. This mitigation of risk can be achieved by using a combination of certain security documentation such as a general letter of pledge, shipping documents(bills of lading, air waybills), warehouse warrants and trust receipts (Eren, 2005;143)

A general letter of pledge is in effect an all-moneys pledge and must be executed prior to the granting of facilities. A pledge is a possessory security over goods and it is not a charge. The existence of a pledge is dependent upon possession of the goods, either actual (through physical possession)or constructive (through documents of title). Loss or surrender of possession

extinguishes the security, except where a trust receipt has been issued. A pledge is created by the pledgor in favor of the pledge by way of a transfer of possession (either actual or constructive) with the intention of making a pledge (Germanidi, 1992;122)

Shipping documents may give title of evidence that goods have been consigned to a bank's order. Constructive and in due course physical control of goods may be achieved by calling for shipping documents which provide title (bills of lading) or evidence that the goods have been consigned to the bank's order (for example, air waybills) (Eren, 2005;148)

A bill of lading has the unique quality of being a shipping document that is also a document of title. Bills of lading are the most important shipping documents since the importer cannot take possession of goods shipped to him/her without presenting an original bill of lading. In order to obtain constructive possession of goods, the bank would normally insist on a *full* set (that is, three copies) of 'clean on board' bills of lading issued to 'order', that is, to the order of the shipper. These days a significant portion of goods are delivered by air, where the goods are normally consigned to the importer. In this case *air waybills* are used. An air waybill is not a document of title (Murinde, 1996; 223).

CHAPTER THREE

DATAPRESENTATION, ANALYSIS AND INTERPRETATION

This chapter of the study deals with presentation, analysis, and interpretation of data's obtained from sample respondents of Commercial Bank of Ethiopia's customers by the means of questionnaire. A total of 150 questionnaires were distributed to customers, however, out of the 150 customers only 135(90%) of them cooperated in filling and returning the questionnaire the rest 15(10%) were not able to return the questionnaire due to unknown inconveniences.

3.1. Analysis of respondent's characteristics

Table 1 Background information of respondents

No	Item	Alternatives	No of respondents	Percentage %
1	Gender	Male Female Total	78 57 135	58 42 100
2	Age	18-30 31-43 44-56	22 46 39	16 34 29

		Above 56 Total	28 135	21 100
3	Educational level	12th complete Certificate Diploma First degree Above first degree Total	20 24 30 42 19 135	15 18 22 31 14 100
4	For how long have you been working with the bank?	< 4 years 5-9 years 10-13 years Above 13 Total	16 20 39 60 135	11.7 15.3 29 44 100

Source; primary data

The data shown in the above table shows background of respondents, 78(58%) of respondents are male, 57(42%) of respondents are female. This shows that most of the company's employees are male. In terms of age indicated in item 2 of the same table the majority of the respondents, 46(34%) are in the range 31-43, 22(16%) are in the range 18-30, 39(29%) are in the range 44-56, the rest 28(21%) are above the age of 56. This shows most of the company's employees are adults.

Item 3 of table 1 shows educational level of respondents. From the total respondents 42(31%) are first degree holders, 30(22%) are diploma holders, 22(18%) are certificate holders, 20(15%) are 12th complete, the rest 19(14%) are above first degree holders. This shows that most of the company's employees have completed tertiary level of education which indicates the respondents can clearly understand the question and respond accordingly.

Item 4 of the same table shows the job experience of respondent in the bank, 16(11.7%) of the respondents are less than four years, 20(15.3%) of them 5 up to 9 years, 39(29%) of them 9 up to 13 years and 60(44%) of them above 13 years. Based on the data,majority (60 in number and 44 in percent) of the respondents working in the bank for above 13 years. This shows that the respondents have had good experience so the student researchers have got accurate data for the study.

3.2. Analysis of Questions Directly Related With the Study

Table 2 Identification of Suitable Instruments and Provision of Credit Facilities to Meet Borrowing Needs

No	Item	Alternatives	No of respondents	Percentage %

1	CBE play an important role in identifying from the existing financial markets the most suitable instruments that could be used to finance international trade.	Strongly agree Agree Neutral Disagree Strongly disagree Total	 29 56 45 5 135	 21 42 33 4 100
2	How do you rate the bank on the provision of credit facilities to meet a company's borrowing needs in relation to its international trade activities?	Very high High Medium Low Very low Total	- - 18 63 54 135	- - 13 47 40 100

Source; primary data

As it is shown in the item 1 of table2, 56(42%) of respondents chose neutral, 45(33%) chose disagree, 29(21%) chose agree, and the rest 5(4%) chose strongly disagree, regarding theCBE play an important role in identifying from the existing financial markets the most suitable instruments that could be used to finance international trade. Based on the data majority of the respondents didn't satisfied by the bank role in identifying from the existing financial marketsto finance international trade.

In item 2 of the same table respondents were asked to ratethe bank on the provision of credit facilities to meet a company's borrowing needs in relation to its international trade activities. The majority of respondents, i.e. 54(40%) rated it as very low, 18(13%) rated it as medium, the rest 63(47%) rated it as low. This indicates that the bank provision of credit facilities and the company's borrowing needs in relation to its international trade activitiesis not compromised.

Table 3 Open Account Trading and Collection Service

No	Item	Alternatives	No of respondents	Percentage %
1	The bank permite open account trading without interference.	Strongly agree Agree Neutral Disagree Strongly disagree Total	29 38 58 10 - 135	21 28 44 7 - 100
2	How do you evaluate the bank on the collection service provided whereby a creditor (usually an exporter) in one country obtains payment from a debtor (generally an importer) in another country?	Very high High Medium Low Very low Total	- 6 36 35 58 135	- 9 27 26 43 100

Source; primary data

As it is indicated in item 1 of table 3, 10(7%) of the respondents disagree, 29(21%) of them strongly agree, 38(28%) of them agree and the majority of respondents, 58(44%), neutral on the bank permits open account trading without interference.This indicates that the bank appreciate the open book account trading for the customers.

Item 2 of table 3, shows how customers rated the bank on the collection service provided whereby a creditor (usually an exporter) in one country obtains payment from a debtor (generally an importer) in another country, out of the total respondents 36(27%) rated it as medium, 58(43%) rated it as very low, 35(26%) rated it as low and 6(9%) rated it as low. The majority of respondents chose very low. This indicates that the bank payment collection service provision may affect the importers on the using the opportunity of getting

Table 4 Standard International Rules Governing Role and Responsibility of the Bank

No	Item	Alternatives	No of respondents	Percentage %
1	CBE is under the standard international rules governing the role and responsibilities of banks in collections have been established by the International Chamber of Commerce.	Strongly agree Agree Neutral Disagree Strongly disagree Total	23 38 28 32 14 135	17 28 21 24 10 100

Source; primary data

As can be seen on the Item 1 of table shows that from the total respondents, 38(28%) agreed, 32(24%) disagreed, 28(21%) chose to be neutral, 23(17%) agreed strongly, and the rest 14(10%) disagrees strongly to the statement "CBE is under the standard international rules governing the role and responsibilities of banks in collections have been established by the International Chamber of Commerce. This shows that the bank is governed under the rules of International Chamber of Commerce.

Table 5 Documantary Collection Performance of the Bank

No	Item	Alternatives	No of respondents	Percentage %
1	How do you rate the performance of the bank on the documents against	Very high High	21 34	16 25

	payment versus documents against acceptance?	Average Low Very low Total	57 10 3 135	42 15 2 100
2	The documentary collectionservices of the bank provide a method of settlement in international trade.	Strongly agree Agree Neutral Disagree Strongly disagree Total	31 52 39 11 2 135	23 39 29 8 1 100

Source; primary data

As it is shown in item 1 of table 5, the performance of the bank on the documents against payment versus documents against acceptance was rated as very high by 21(16%) of respondents, 34(25%) rated it as high, 10(15%) rated it as low, 3(2%) rated it to be very low, whereas the majority respondents (57 in number 42 in percent) rated the performance as average. This indicates that the performance of the bank on the documents against payment versus documents against acceptance most of the respondents rated it as average and above.This shows that the use of collections moderately reduces the risks for bothexporter and importer and the delay in receipt of payment by the exporterand the receipt of goods by the importer

Item 2 of the same table shows customers response onthe documentary collections service of the bank provide a method of settlement in international trade. Out of the total respondents only 11(8%) and 2(1%) chose disagree and strongly disagree, 39(29%) chose neutral, 31(23%) chose strongly agree, and the majority that is 52(39%) chose agree indicating the company highly engages inthe documentary collections and on the provision of a method of settlement in international trade.

Table 6 Collection and Reciept Service of the Bank

No	Item	Alternatives	No of respondents	Percentage %
1	By the using of the bank's collections service reduces the risks for both exporter and importer.	Strongly agree Agree Neutral Disagree Strongly disagree Total	- 9 20 42 54 135	- 7 14 39 40 100
2	How do you rate the bank on the acting as intermediaries to collect payment from the importer for goods which the exporter has already sent,	Very high High Average Low Very low Total	27 38 42 17 11 135	20 28 31 13 8 100

3	How do you evaluate the advantages of collections service of the bank for the importer on the use of term bills provides the buyer with a period of credit from the exporter?	Very high High Medium Low Very low Total	- - 42 68 25 135	- - 31 50 19 100

Source; primary data

As it is shown in item 1 of table 6, 54(40%) of the total respondents strongly disagrees, 42(39%) respondents disagrees, 20(14%) respondents chose to be neutral and 9(7%) respondents chose agree to the statement “by the using of the bank’s collections service reduces the risks for both exporter and importer and the delay in receipt of payment by the exporter and the receipt of goods by the importer.” The data indicates that majority of respondents specifically 54(40%) strongly disagreed by the using of the bank’s collections service reduces the risks for both exporter and importer. This may affects the delivering time of goods for the exporter as well as reduce the quality of goods.

Item 2 of the above table shows how respondents ratedthe bank on the acting as intermediaries to collect payment from the importer for goods which the exporter has already sent, out of the total respondents 27(20%) rated it as very high, 38(28%) rated it as high, 42(31%) rated it as average, 17(13%) rated as low, 11(8%) rated it as very low. The majority of respondents rated it as average. This shows that the bank acting as intermediaries to collect payment between the importer and exporter.

Item 3 of the same table shows how customers have ratedthe advantages of collections service of the bank for the importer on the use of term bills provides the buyer with a period of credit from the exporter. The majority of respondents (68 in number and 50 in percent) rated it as low, the rest 42(31%) and 25(19%) rated it as medium and very low respectively. This indicates that the collections service of the bank didn’t have advantage for the importer on the use of term bills

Table 7 Grant of Loan and Use of Finance

No	Item	Alternatives	Number of respondents	Percentage %
1	Commercial bank of Ethiopia in the may be prepared to consider granting a loan against the collection.	Strongly agree Agree Neutral Disagree Strongly disagree Total	27 39 56 13 - 135	20 29 41 10 - 100
2	How do you rate the bank on the warrant the use of finance against collections without recourse to the exporter for an overseas banks?	Very high High Average Low Very low	28 38 51 18 -	21 28 38 13 -

	Total	135	100

Source; primary data

As it is shown in item 1 of the above table, 27(20%) agrees strongly, 39(29%) agrees, 56(41%) Chose to be neutral, 13(10%) disagrees to the statement “the company has a good relationship with the society.” Commercial bank of Ethiopia in the may be prepared to consider granting a loan against the collection in order to make available to the exporter a part or all of the sale proceeds.” This indicates that the bank has good performance on the granting against loan.

Item 2 of the same table shows how customers ratedthe bank on the warrant the use of finance against collections without recourse to the exporter for an overseas banks. Out of 135 respondents, 28(21%) rated it as very high, 38(28%) rated it as high, 51(38%) as average the rest 18(13%) respondents rated it as low. The majority of respondents rated the bank on the warrant the use of finance against collections without recourse to the exporter for an overseas banks.

Table 8 Performance of the Bank in Handling Problems

No	Item	Alternatives	No of respondents	Percentage %
1	How do you evaluate the bank’s performance on the giving credit service by on behalf of a buyer/importer to pay the seller an amount of money within a specified time provided?	Very high high Medium Low Very low Total	- - - 73 62 135	- - - 54 46 100
2	How do you evaluate pre-shipment finance service where an advance is made to the exporter against a receipt and undertaking signed by the exporter?	Very high High Medium Low Very low Total	- - 49 24 73 135	- - 36 18 54 100
3	How do you rate the revolving latter of credit service of the bank by allows for flexibility in commercial dealings between importers and exporters, particularly where there are regular shipments of the same type of goods?	Very high High Medium Low Very low Total	16 - 4 29 49 135	12 - 3 21 36 100

Source; primary data

As it is shown in item 1 of the above table, 73(54%) of respondents choose low and 62(46%) of the respondents choose very lowon the bank’s performance on the documentary credit, a letter of credit (L/C), written undertaking by on behalf of a buyer/importer to pay the seller an amount of money within a specified time provided. The data indicates that majority of the respondents didn't satisfied on the company documentary credit performance.

In item 2 of the same table, 49(36%) of the respondents choose medium, 24(18%) of them choose low and 73(54%) of them very low on the pre-shipment finance service where an advance is made to the exporter against a receipt and undertaking signed by the exporter. This indicates that the bank pre-shipment service is not appreciate the exporter.

In item 3 of the same table on the revolving latter of credit service of the bank by allows for flexibility in commercial dealings between importers and exporters, particularly where there are regular shipments of the same type of goods, 16(12%) of the respondents choose very high, 4(3%) of them choose medium, 29(21%) of them choose low and 49(36%) of them very low. The data indicates that majority of the respondents implies that the company need improvement on the revolving latter of credit service of the bank.

Table 9 the Bank Post Shipment Finance Service for Exporters and Importers

No	Item	Alternatives	Number of respondents	Percentage %
1	How do you rate the bank service on the post-shipment finance for exporters?	Very high High Average Low Very low Total	27 39 56 13 - 135	20 29 41 10 - 100
2	How do you rate the bank service on the post-shipment finance for importers- import/produce loans?	Very high High Average Low Very low Total	28 38 51 18 - 135	21 28 38 13 - 100

Source; primary data

As can be seen on the on the item 1of table 9, 27(20%) of them choose very high, 39(29%) of them choose high, 56(41%) of them choose average and 13(10%) of them choose low on the bank service on the post-shipment finance for exporters. Similarly, on the item 2 of the same table 28(21%) of the respondent choose very high, 38(28%) of them choose high, 51(38%) of them choose average and 18(13%) of them choose low the bank service on the post-shipment finance for importers- import/produce loans. Based on the data the bank have had good performance on the bank service on the post-shipment finance for importers- import/produce loans.

3.2 Analysis of the Interview

The bank grant the loan as per the requests of the customers by considering pre requirements that they offer and the economic benefit of the imported goods but most of the time the bank appreciate the exporters.

The bank give advisory service for forign banking borrowers before financing them and after financing continuous follow up advisory service were given. Sometimes there were mischief on the customers so continuous follow up is required to safeguard the capital.

The bank provides overseas investment finance and bulk import finance for customers that doing business on medical and related tasks, agricultural, construction, educational and other governmental institutions.

The bank used to meet the foreign currency pre shipment credit request of the customers by the following criteria the type of good to be imported, the economic benefit of it, by assessing the profitability of the good by the considering the current market situation of the country. By considering the country current economic situation like for what type of activities should give priority.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATION

4.1. Summary of the Major Findings

Based on the analysis of the chapter three the major findings summarized in this section;

As the data indicates, the number of male customers/respondents were greater than females and majority 46(34%) of the respondents were in the age rangebetween 31-43. Moreover, most of the company's employees have completed tertiary level of education. In addition, based on the data majority (60 in number and 44 in percent) of the respondents worked with the bank for 13 years and above.

Based on the data majority of the respondents didn't satisfied by the bank role in identifying from the existing financial markets and payment collection service provision may affect the importers in using this opportunity.

According to the majority of the respondents, CBE is under the standard international rules governing the role and responsibilities of banks in collections have been established by the International Chamber of Commerce.

This indicates that the performance of the bank on the documents against payment versus documents against acceptance most the majority (57 in number 42 in percent) of the respondents rated as average and above. Moreover, the majority 52(39%) agreed indicating the company highly engage in the documentary collections and on the provision of a method of settlement in international trade.

As the data indicates that majority of respondents specifically 54(40%) of them strongly disagreed by the using of the bank's collections service reduces the risks for both exporter and importer.

It is shown that the bank acting as intermediaries to collect payment between the importer and exporter was rated as average by the majority of the respondents and the collections service of the bank didn't have advantage for the importer on the use of term bills as per the majority (68 in number and 50 in percent).

The majority of the respondents believe that the company has a good relationship with the society. Commercial bank of Ethiopia in the may be prepared to consider granting a loan against the collection in order to make available to the exporter a part or all of the sale proceeds.

The majority of respondents rated the bank on the warrant the use of finance against collections without recourse to the exporter for an overseas bank.

Majority of the respondents didn't satisfy on the company documentary credit performance. Thepre-shipment finance service where an advance is made to the exporter against a receipt and undertaking signed by the exporter was rated as low and very low by the majority of the respondents and the data also indicated that majority of the respondents implies that the company need improvement on the revolving letter of credit service of the bank.

Based on the data the bank have good performance on the bank service on the post-shipment finance for importers- import/produce loans.

The bank grant the loan as per the requests of the customers by considering pre requirements that they offer and the economic benefit of the imported goods but most of the time the bank appreciate the exporters.

The bank give advisory service for both importers and importers before financing them and after financing continuous follow up advisory service were given. Sometimes there were mischief on the customers so continuous follow up is required to safeguard the capital.

The bank provides overseas investment finance and bulk import finance for customers that doing business on medical and related tasks, agricultural, construction, educational and other governmental institutions.

The bank used to meet the foreign currency preshipment credit request of the customers by the following criteria the type of good to be imported, the economic benefit of it, by assessing the profitability of the good by the considering the current market situation of the country. By considering the country current economic situation like for what type of activities should give priority.

4.2. Conclusion

For the summarized major finding of the study, these conclusions drawn are listed below;

The numbers of male customers/respondents are greater than female. Moreover, most of the company's employees have completed tertiary level of education which indicates the respondents can clearly understand the question and respond accordingly. In addition, they were worked with the bank for 13 years and above. This shows that the respondents have had good experiences which provide the student researchers to get accurate data for the study.

Majority of the respondents were not satisfied by the bank role in identifying from the existing financial markets to finance international trade. In addition to this, the majority of respondents rated it as very low regarding the bank provision of credit facilities and the company's borrowing needs in relation to its international trade activitiesis not compromised.

It is indicated that the bank appreciate the open book account trading for the customers and the bank payment collection service provision may affect the importers on using the opportunity where by a creditor in one country obtains payment from a debtor in another country.

The use of collections moderately reduces the risks for both exporter and importer and the delay in receipt of payment by the exporter and the receipt of goods by the importer. Hence, the company highly engaged in the documentary collections and on the provision of a method of settlement in international trade.

The bank's collections service reduces the risks for both exporters and importers which may affects the delivering time of goods for the exporter as well as reduce the quality of goods.

It is shown that the bank acting as intermediaries to collect payment between the importer and exporter was rated as average by the majority of the respondents and the collections service of the bank didn't have advantage for the importer on the use of term bills.

The company has a good relationship with the society. Commercial bank of Ethiopia in the preparation to consider granting a loan against the collection in order to make available to the exporter a part or all of the sale proceeds indicated that the bank has good performance on the granting against loan.

The bank on the warrant the use of finance against collections without recourse to the exporter for overseas banks. And the company documentary credit performance were not satisfactory to customers.

The bank pre-shipment service does not appreciate the exporter and it is indicated that the company need improvement on the revolving letter of credit service.

Based on the data the bank has good performance on the bank service on the post-shipment finance for importers- import/produce loans.

The bank grant the loan as per the requests of the customers by considering pre requirements that they offer and the economic benefit of the imported goods but most of the time the bank appreciate the exporters.

The bank give advisory service for both forign banking borrowers before financing them and after financing continuous follow up advisory service were given. Sometimes there was mischief on the customers so continuous follow up is required to safeguard the capital.

The bank provides overseas investment finance and bulk import finance for customers that doing business on medical and related tasks, agricultural, construction, educational and other governmental institutions.

The bank used to meet the foreign currency pre-shipment credit request of the customers by the following criteria the type of good to be imported, the economic benefit of it, by assessing the profitability of the good by the considering the current market situation of the country. By considering the country current economic situation like for what type of activities should give priority.

4.3. Recommendations

Based on the problems identified on the conclusion of the major findings the research team recommended below;

The CBE should take into account customer's satisfaction regarding its role in identifying from the existing financial markets to finance international trade and in addition should compromise the bank provision of credit facilities and the company's borrowing needs in relation to its international trade activities.

The bank should appreciate the open book account trading for the customers and should work towards in reducing the effect on importers by the payment collection service provision so as to provide the opportunity where by a creditor in one country obtains payment from a debtor in another country.

The use of collections moderately reduces the risks for both exporter and importer and the delay in receipt of payment by the exporter and the receipt of goods by the importer. Therefore, the bank should focus on the moderate reduction of risks to a higher and safer level.

The bank should play intermediaries role in collection of payment between the importer and exporter and the collections service of the bank should have advantage for the importer on the use of term bills.

Besides the good performance on the bank service on the post-shipment finance for produce loans, the pre-shipment service should be taken into account in order to appreciate the exporter and improve the revolving letter of credit service.

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APPEDICIES

Appendix I
St. Mary's University
Faculty of Business
Department of Accounting

Questionnaire to be Filled by the Customers

This is a questionnaire prepared by a student researchers in the field of accounting in St. Mary's University for a partial fulfillment of BA degree of an senior essay on the foreign banking in the case of Commercial Bank of Ethiopia.

Please fill the questionnaire with honesty because the accuracy of the data to be collected and findings of this research paper is important for the bank in adjusting its performance. Your response will be kept strictly confidential.

Remarks

A. Writing your name is not necessary.
B. Give your response by ticking in the box provided besides each choice.

1. Background of respondents

1) Gender A. Male [___________) B. Female □
2) Age A. 18-30)____) B. 31-4 ☐ C. 41-50 ☐ D. Above 50 D
3) Educational level

A. Certificate a B. Diploma □

C. BA degree)) D. Masters and above [_______1

4) For how long have you been working with the bank?

A. < 4 years □ B. 6-9 years) j C. 10-13 years ☐

D. Above 13))

5. CBE play an important role in identifying from the existing financial markets the most suitable instruments that could be used to finance international trade.

A. Strongly agree)____) C. Neutral [____]

B. Agree)_____) D. Disagree | j

E. Strongly disagree □

6. How do you rate the bank on the provision of credit facilities to meet a company's borrowing needs in relation to its international trade activities?

A. Very high

B. High 1___1

C. Medium

D. Low [___)

E. Very low |_j

7. The bank permite open account trading without interference.

A. Strongly agree j j

C. Neutral (------)

B. Agree □

D. Disagree | j

E. Strongly disagree □

8. How do you evaluate the bank on the collection service provided whereby a creditor (usually an exporter) in one country obtains payment from a debtor (generally an importer) in another country?

A. Very high [j

B. High |_____|

C. Medium j j

D.Low | |

E. Very low | j

9. CBE is under the standard international rules governing the role and responsibilities of banks in collections have been established by the International Chamber of Commerce.

A. Strongly agree j___j

C. Neutral [____]

B. Agree j j

D. Disagree j----1

E. Strongly disagree [j

10.How do you rate the performance of the bank on the documents against payment versus documents against acceptance?

A. Very high j j

B. High |_____)

C. Medium j j

D. Low | |

E. Very low j j

11. The documentary collections service of the bank provide a method of settlement in international trade.

A. Strongly agree j j **C. Neutral [___J**

B. Agree [j **D. Disagree j—j**

E. Strongly disagree i]

12. How do you rate the bank on the acting as intermediaries to collect payment from the importer for goods which the exporter has already sent,

A. Very high j j **B. High | |**

C. Medium j j **D. Low | |**

E. Very low [j

13. By the using of the bank's collections service reduces the risks for both exporter and importer and the delay in receipt of payment by the exporter and the receipt of goods by the importer.

A. Strongly agree | j **C. Neutral [ ]**

B. Agree j j **D. Disagree [j**

E. Strongly disagree | j

14. How do you evaluate the advantages of collections service of the bank for the importer on the use of term bills provides the buyer with a period of credit from the exporter?

A. Very high [ ] **B. High □**

C. Medium j j **D. Low | |**

E. Very low | j

15. Commercial bank of Ethiopia in the may be prepared to consider granting a loan against the collection in order to make available to the exporter a part or all of the sale proceeds.

A. Strongly agree j j **C. Neutral [j**

B. Agree j. J **D. Disagree j j**

E. Strongly disagree | j

16. How do you rate the bank on the warrant the use of finance against collections without recourse to the exporter for an overseas banks?

A. Very high [___]   B. High |___|

C. Medium |___]   D. Low | |

E. Very low |_j

17. How do you evaluate the bank's performance on the documentary credit, a letter of credit (L/C), written undertaking by on behalf of a buyer/importer to pay the seller an amount of money within a specified time provided?

A. Very high   B. High |___)

C. Medium   D. Low | j

E. Very low |_j

18. How do you evaluate pre-shipment finance service where an advance is made to the exporter against a receipt and undertaking signed by the exporter?

A. Very high]___]   B. High |___|

C. Medium   D. Low j_|

E. Very low

19. How do you rate the revolving latter of credit service of the bank by allows for flexibility in commercial dealings between importers and exporters, particularly where there are regular shipments of the same type of goods?

A. Very high]___]   B. High |___|

C. Medium]_j   D.Low | |

E. Very low |_j

20. How do you rate the bank service on the post-shipment finance for exporters?

A. Very high [___]   B. High □

C. Medium]___]   D. Low |_j

E. Very low |_j

21. How do you rate the bank service on the post-shipment finance for importers-import/produce loans?

□   □

A. Very high

B. High

C. Medium [___1

D. Low | j

E. Very low |_____|

22. If you any suggestion about the foreign banking service of the bank please specify-

Appendix II

St. Mary's University College

Faculty of Business

Department of Accounting

Interview Check List for Employee

Interview to be conducted to CBE employees this interview is prepared by a student researcher. Prospectively graduate of years 2006 in the filled of accounting for the partial fulfillment of a senior essay and the main objectives this interview is to make an assessment on foreign banking.

There for you are kindly requested to respond honesty and with due care because or corrective of the answer will have paramount important for outcome of the researcher.

Thank you in advance for you sincerely cooperation

1. At what extent the bank grants direct loans in Ethiopia and outside for import and export.

2. How do you see the giving of business advisory and technical assistance for the customers?

3. What are the pre conditions the bank requires to perform refinances loans and suppliers of credit

4. How does the effectiveness of rediscounts usance export bills export bills for banks?

5. For what type of customers the bank provides overseas investment finance and bulk import finance?

6. What criteria does the bank used to meet the foreign currency preshipment credit request of the customers?

DECLARATION

We, The Undersigned, Declare that this senior essay/project our original work, prepared under the guidance of________________. All source of materials used for the manuscript have been dully acknowledged.

NAME SIGNATURE

PLACE OF SUBMISSION___________________

DATE OF SUBMISSION ____________________

SUBMISSION APPROVAL SHEET

This paper has been submitted for examination with my approval as an advisor.

NAME:_____

SIGNATURE:

DATE: