ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENET ON PRACTICES AND CHALLENGES OF PRE-SHIPMENT EXPORT CREDIT: EVIDENCE FROM COMMERCIAL BANK OF ETHIOPIA AND AWASH BANK

BY

TESFAYE ABEBE ASSEFA

JUNE/2017

ADDIS ABABA, ETHIPOPIA

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

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Acronyms and Abbreviations

AIB	Awash Bank S.C
CAD	Cash Against Document
CBE	Commercial Bank of Ethiopia
CPP	Credit Process Procedure
CRM	Customer Relationship Manager/Management
DBE	Development Bank of Ethiopia
GDP	Gross Domestic Product
L/C	Letter of Credit
NBE	National Bank of Ethiopia
NPL	Non-Performing Loans
SPSS	Statistical Package for Social Scientists

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Abstract

This study assessed and identified the existing practice and challenges of pre-shipment export credit in two giant commercial Banks namely Commercial of Ethiopia and Awash Bank. The total target population of the study was 72 professional employees working under credit processing unit. The data was collected though questionnaire and analysed. The result of the study generally indicated that the pre-shipment export credit utilization as compared to other types of credit service new product and very low share and banks largely really on the proposal and integrity of the exporters while approving the pre-shipment export credit export. Whereas, lack of effective monitoring, loan diversion, the honesty and integrity of the borrowers and lock of sound credit evaluation method are coined as the main challenges of the pre-shipment export credit and bankrupt of the exporter business, cancelation of the contracts, and refusal of payments and diversion of the loan are factors which diverts the pre-shipment export credit to non-performing loan. Therefore, in order to increase utilization of the pre-shipment credit service banks should design a specific program to encourage new and emerging export though delivering the pre-shipment export credit service in main regional districts. To minimizing the risk of non-performing loans banks should introduce appropriate decision-making and control mechanisms supported by modern management information system. Finally, to better enhance and promote the export turnover the federal government should consider the establishment of export import (EXIM) bank for providing financial assistance to exporters and importers.

Keywords: Export trade, pre-shipment Export Credit, Loan Diversion and Non-Performing Loan

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The significance of export trade is continually increasing in the global arena and hence it is important for the development of economy. In most of developed economies export trade is the major source of foreign currency inflows and increasing export volume of trade constantly increase the economy and financial system of the nation (Muthumeenakshi, 2016). The growing trend of exports among developing countries needs promotion, financing and insurance to sustain and realize their export potential through their respective export credit agencies. Firms need assistance in export counselling, marketing and managing their international trade. Almost all countries put in considerable efforts in maintaining their competitive edge in the sectors that receive recognition abroad (Venkataramany and Bhasin, 2014).

There is no country which is self-sufficient in all aspects. A country which has a competitive advantage on the production of certain commodities or goods exports those items and in return imports those commodities or goods of lesser competitive advantage. Any country makes export as part of its trading activity in the international market due to many reasons. The reasons could be either macro or microeconomic which generally includes the:

(1) Need to generate foreign exchange vital to finance imports,

(2) need to exploit larger scale economies that can be achieved by producing for export markets, given the small size of many developing countries and their negligible purchasing power, and

(3) Potential contribution to employment and growth of national product (Samen, 2010).

An exporter requires an importer to prepay for goods shipped. The importer naturally wants to reduce risk by asking the exporter to document that the goods have been shipped. Export finance is used when financing is required by buyers and sellers to assist them with the trade cycle funding gap. Buyers and sellers can also choose to use export finance as a form of risk mitigation. An exporter needs to mitigate the payment risk from the importer and it would be in their benefit to accelerate the receivables. The function of trade finance is to act as a third-party to remove the payment risk and the supply risk, whilst providing the exporter with accelerated receivables and the importer with extended credit (Vasanthi and Sundari, 2015).

Export is the process of earning money by selling products or services in foreign market. It is finding customers and enterprise which can serve better than those customers' successfully which also allows the enterprise grows and prospers, simultaneously increasing direct and indirect employment. At this point, selling and marketing applies to a product that the market needs. Exporting is just trading but the customer lives in another country. Exporting is only an extension of the need trade. Man's economic and social progress has developed because of the increasing specialization of labour (Kapoor, 2002).

Pre-shipment credit is advanced only on receipt of an export order. To obtain the loan, the exporter should deliver to the bank either a letter of credit established in his favour or a confirmed export order. However, the letter of credit or the confirmed export order is yet to be received, relevant evidence in the form of a cable, letter etc. is acceptable, provided such cable, letter, etc, should contain information regarding the value of the order, the quantity and particulars of goods, date of shipment and the buyer (Vasanthi and Sundari, 2015).

Ethiopia is one of the developing nations in the world which registered an economic growth of double digit for last ten years (NBE 2008/09, NBE 2014/15). Various economic sectors contribute their shares for this registered economic growth. Like any other developing nations in the world, Ethiopia's economy is highly dependent on agriculture. The country imports industrial products, capital goods and different machineries and in return exports different agricultural products. Ethiopia's focus is justifiably placed in export promotion through various government agencies and commercial banks. Despite, the long recognition of the overall need and importance of export finance; many of commercial banks are taking steps to strengthen their support to export credit. However, the pre-shipment credit facilities practice is at its infant stage and confronted with many obstacles in Ethiopia. Thus, the objective of this study will be to find out challenges of pre-shipment export credit in case Commercial Bank of Ethiopia and Awash Bank.

1.2. Statement of the Problem

Recognizing the dynamics of international trade, commercial banks must evolved beyond providing export credit to a conscious, systematic effort at creating international competitiveness capabilities by arranging competitive finance and services at all stages of the business cycle even during currency turmoil (Kesavan, 2015). Access to trade credit is critical to the successful operation of all business sectors. Despite the fact that exporters are of great socio-economic significance although their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal-sector finance. The perception is that financial institutions are generally not responsive to their needs. The financial institutions complain that they incur high risk and cost of providing financial products and services to exporters (Orford et al, 2003).

Increasing globalization has created intense competition for export markets and exporters are looking for any competitive advantage that would help them to increase their incomes. Flexible export financing terms has therefore become a fundamental part of their business. Most Commercial banks in the country are also looking to collaborate with exporters to unlock the export financing industry as evidenced in the establishment of export trade desks at several commercial banks in the country (Benjamin, 2012). According to Mekbib (2008) the factors that influence the competitive status and export performance of industries can be broadly classified into domestic and external. External factors involve international, regional and individual country's trade and related policies. On the other hand, domestic factors could be classified into two categories: factors that are internal and external to the firm. Those that are internal to the firm primarily affect total productivities, which is the fundamental determinant of competitiveness.

Banking industry in Ethiopian has shown progresses on introducing different Loan products to the customer services. Various financing sources are available to exporters, depending on the specifics of the transaction and the exporter's overall financing needs. One among them is a pre-shipment loan. However, this export credit facilities product are given without formulating proper follow up mechanisms as national level how the payments can be made, without having a well trained employees with the required level of skills and without having proper tracking mechanism the where about the disbursed funds. This resulted diversion of funds and increased non-performing loans in the banking sector. Moreover, the banks are forced to reschedule the facility or transfer it to term loan with fixed periodic payment.

On the other hand, pre-shipment credit export facility given to exporters is not able to satisfy the existing exporters as well as new exporters need with the timing and amount facility given them (Mekbib, 2008 and Mengistu, 2014).

However, with exception of a few studies, pre-shipment export credit practices and challenges in Ethiopia remains an unexplored area and there is lack of comprehensive information to inform what is needed from both exporters and commercial banks to overcome challenges and build sustainable partnership between them. Therefore, the objective of this study will be to assess the existing practices and challenges of pre-shipment export credit in two selected commercial banks namely Commercial Bank of Ethiopia and Awash Bank, in Ethiopia.

1.3. Research Questions

In line with achieving the overall objectives by employing descriptive survey approach this study attempt to answer the following basic questions:

1. What are the existing pre-shipment export credit practices?
2. What are the challenges faced by credit performers in enhancing the quality of pre-shipment credits service?
3. What are the major causes for non-performing pre-shipment loans in the last ten years?
4. What measures can be put in place to improve access to pre-shipment finance for exporters?

1.4. Objectives of the Study

1.4.1. General Objectives of the Study

The main objective of the study is to assess the practices and challenges of pre-shipment export credit facilities of Commercial bank of Ethiopia and Awash Bank.

1.4.2. Specific Objectives of the Study

1. To identify the challenges faced by credit performers in enhancing quality of pre-shipment credit.
2. To identify the problems that has been faced by banks in providing pre-shipment export credit.
3. To assess the various modes of pre-shipment export credit offered to exporters.
4. To find out the major causes of non-performing pre-shipment export credits in the last five years.

1.5. Significance of the Study

The study will be of benefit to National Bank of Ethiopia, Commercial Bank of Ethiopia and Awash Bank in export financing service in articulating careful strategies and working policies that are targeted at delivering quality service to its customers. Also the study will help other commercial banks to understand the existing practice, challenges and the importance of efficient export finance and interventions ought to be implemented in overcoming the challenges related pre-shipment export credit service for better utilization of the cooperation and mutual benefit. In addition it will contribute to the existing body of knowledge in the area pre-shipment export credit and emphasize its importance in the socio-economic development processes of the country. Further, it can also serve as to inspire future researchers to carry out further research in the area.

1.6. Scope of the Study

The scope of the study was delimited in assessing the practices and challenges of pre-shipment export credit in Commercial Bank of Ethiopia and Awash Bank with special focus of the central credit CPC department which is found in head office as such it didn't included other pre-shipment cases which are found in the outlying districts and branches. Further, this study only covered data's related to pre-shipment export credit only for the last five years.

1.7. Organization of the Paper

The paper is organized in to five major chapters. The first chapter deals with introductory part, which involves background of the study, statement of the problem, research questions, both general and specific objectives, significance of the study and scope of the study. In chapter two relevant literatures which are related to export credit finance in general and pre-shipment export credit finance in particular was reviewed and presented. The third chapter explore the research method, population, sampling technique and sample size, sources of data and data collection method and data analysis procedures. Chapter four presents the main part of the research which is data presentation and analysis. Finally, the last chapter contains summery of key finding, conclusion and recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURES

2.1. Theoretical Literature Review

2.1.1. Trade Finance

The basic important function of financial system consist mobilization of saving and allocation of funds to investors. In all country, one sector produces an intermediate good while the other produces a final good. Producing the final good requires the use of the intermediate good as an input and committing this resource one period before the output becomes available. A highly developed financial system makes it possible to reduce frictions and finance working capital more efficiently. Therefore, the pattern of trade between the two countries crucially depends on differences in financial development. Having a relatively well developed financial system allows a country to specialize in the risky good while having a weakly developed financial system leads to specialize in the non-risky good (Varun, 2015).

The term trade finance is generally reserved for bank products that are specifically linked to underlying international trade transactions (exports or imports). As such, a working capital loan not specifically tied to trade is generally not included in this definition. Trade finance products typically carry short-term maturities, though trade in capital goods may be supported by longer-term credits (CGFS, 2014).

2.1.2. Pre-shipment Export Credit

Export finance may be broadly classified as Pre-Shipment and Post-Shipment finance depending upon the stage at which the finance is extended. Finance extended to the exporters, prior to shipment of goods is termed as Pre-Shipment Finance, while that extended after shipment of goods is termed as Post-Shipment Finance. Pre-shipment means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment / working capital expenses towards rendering of services, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from exporters country (Marc, 2007).

Pre-shipment finance is issued by a financial institution when the seller wants the payment of the goods before shipment. The main objectives behind pre-shipment finance or pre-export finance are to enable exporter to: Procure raw materials, carry out manufacturing process, provide a secure warehouse for goods and raw materials, process and pack the goods, ship the goods to the buyers and meet other financial cost of the business. Pre-shipment finance covers the requirements arising from the financing of new export ventures, to pre-production funding, through to the stage when the goods are ready for export but have not been sent to the buyer. Post-shipment export finance refers to the period between the time the cargo has been sent and the payment from the buyer is received (or expected to be received) by the exporter (IMF, 2010).

Pre-shipment Finance is issued by a financial institution when the seller wants the payment of the goods before shipment.

According to Amit and Weinstein (2011) the main objectives behind pre-shipment finance or pre-export finance are to enable exporter to: 1. Procure raw materials. 2. Carry out manufacturing process.3. Provide a secure warehouse for goods and raw materials. 4. Process and pack the goods. 5. Ship the goods to the buyers and 5. Meet other financial cost of the business.

2.2.2. Stages of Pre-shipment Finance

1. *Appraisal and Sanctions of Limits:* Before making any an allowance for credit facilities banks need to check the different aspects like product profile, political and economic details about country. Apart from these things, the bank also looks in to the status report of the prospective buyer, with whom the exporter proposes to do the business. Generally, The Bank extended the packing credit facilities after ensuring the following;
   - A. *Whether the exporter has the necessary license and quota permit (as mentioned earlier) or not.*
   - B. *The exporter is a regular customer and has a good standing in the market.*
   - C. *Whether the country with which the exporter wants to deal is under the list of Restricted Cover Countries (RCC) or not.*
2. *Disbursement of Packing Credit Advance*

Once the proper sanctioning of the documents is done, bank ensures whether exporter has executed the list of documents mentioned earlier or not. Disbursement is normally allowed when all the documents are properly executed. Sometimes an exporter is not able to produce the export order at time of availing packing credit. So, in these cases, the bank provides a special packing credit facility and is known as Running Account Packing. Before disbursing the bank specifically check for the following particulars in the submitted documents;

- *Name of buyer*
- *Commodity to be exported*
- *Quantity*
- *Value (either CIF or FOB)*
- *Last date of shipment / negotiation.*
- *Any other terms to be complied with*

The quantum of finance is fixed depending on the FOB value of contract /LC or the domestic values of goods, whichever is found to be lower. Normally insurance and freight charged are considered at a later stage, when the goods are ready to be shipped. In this case disbursals are made only in stages and if possible not in cash. The payments are made directly to the supplier by drafts/bankers/cheques. The bank decides the duration of packing credit depending upon the time required by the exporter for processing of goods. The maximum duration of packing credit period is 180 days; however bank may provide a further 90days extension on its own discretion.

3. Follow up of Packing Credit Advance

Exporter needs to submit stock statement giving all the necessary information about the stocks. It is then used by the banks as a guarantee for securing the packing credit in advance. Bank also decides the rate of submission of this stock. Apart from this, authorized dealers (banks) also physically inspect the stock at regular intervals.

4. Liquidation of Packing Credit Advance

Packing Credit Advance needs be liquidated out of as the export proceeds of the relevant shipment, there by converting pre-shipment credit into post-shipment credit. This liquidation can also be done by the payment receivable from the Government of India and includes the duty drawback, payment from the Market Development Fund (MDF) of the

Central Government or from any other relevant source. In case if the export does not take place then the entire advance can also be recovered at a certain interest rate.

5. Overdue Packing

Bank considers a packing credit as an overdue, if the borrower fails to liquidate the packing credit on the due date. And, if the condition persists then the bank takes the necessary step to recover its dues as per normal recovery procedure (www.eximbank.in accessed on January 19, 2017).

2.2.3. Availability of Pre-shipment Export Finance

Availability of Pre-shipment Export Finance Enterprises require pre-shipment financing to fulfil export orders. This can come from the exporter's own resources, buyer credit or short-term credit from financial institutions. In fact, the bulk of pre-shipment financing is provided by financial institutions. However, financial institutions may serve pre-shipment finance needs of large, well-known exporters more easily than emerging and small exporters. One reason is that banks in many countries have underinvested in systems and training necessary to adequately appraise non-performance risks, especially for emerging small enterprises. Instead, they mainly favour collateralized lines of credit, which firms use at their discretion. As such, large and well-known exporters can generate pre-shipment working capital from bank overdraft facilities backed by the exporters' collateral. Emerging mall enterprises, on the other hand, do not have adequate internal resources and they lack access to short-term bank loans or credit because of their high perceived credit risks. Even if these exporters hold a confirmed L/C, banks may still require a pledge of the exporter's assets before they extend the pre-shipment loan. Export credit insurance and guarantees, offered by most export insurance agencies, do not address this market failure. Instead, they protect exporters and banks granting export finance against foreign buyers' non-payment risks, rather than exporters' non-performance (Benjamin, 2012).

2.2.4. The Role of Commercial Banks in Export Finance

Bank-intermediated trade finance performs two vital roles: providing working capital tied to and in support of international trade transactions, and/or providing means to reduce payment risk. The principal alternative to bank-intermediated products is inter-firm trade credit.

Firms' ability to directly extend credit is supported by possibilities to discount their receivables and the availability o financing not directly tied to trade transactions, as well as possibilities to mitigate payment risk by purchasing trade credit insurance (CGFS, 2014).

According to Muthumeenakshi (2016) finance is the lifeline of export trade which turns the balance of trade in a favourable position. The non-banking institutions help the exporters in getting the finance to some extent. But affordable and accessible are the two main slogans in export finance by banking sector. In addition to their financial involvement in exporting, offer information services on export opportunities, provide market reports, maintain close contact with government and regulatory bodies and increasingly off export seminars. Guidance and advice is also provided to exporters through banks' foreign branches. Commercial banks extend credit to the exporters on the strength of letter of credit, export order, and export receivables and enable them to execute the export orders without financial constraints (Niepmann*etal*, 2013).

One of the most common and standardised forms of bank-intermediated trade finance is a *letter of credit (L/C)*. L/Cs reduce payment risk by providing a framework under which a bank makes (or guarantees) the payment to an exporter on behalf of an importer once delivery of goods is confirmed through the presentation of the appropriate documents. For the most part, L/Cs represents off-balance sheet commitments, though they may at times be associated with an extension of credit. Banks may also help meet working capital needs by providing trade finance loans to exporters or importers. In this case, the loan documentation is linked either to an L/C or to other forms of documentation related to the underlying trade transaction (CGFS, 2014).

2.2.5. Credit and Types of Credit

Before discussing about the concepts related to credit it is important to define what credit is all about. The term credit is used specifically to refer to the faith placed by a creditor (lender) in a debtor (borrower) by extending a loan usually in the form of money, goods or securities to debtor. Essentially, when a loan is made, the lender is said to have extended credit to the borrower and he automatically accepts the credit of the borrower. Credit therefore can be defined as a transaction between two parties in which the creditor or lender supplies money, goods and services or securities in return for promised future payments by the debtor or borrower (Onyeagocha, 2001).

The functions of credit are primarily two: *it facilitates the transfer of capital or money to where it will be most effectively and efficiently used*; and secondly, *credit economizes the use of currency or coin money as granting of credit has a multiplier effect on the volume of currency or coin in circulation* (Suberu and Oke, 2010)

Onyeagoch classified credits in to three major areas. These are commercial credit, consumer credit and investment credit.

1) *Commercial credit* can be bank credit such as overdraft, loans and advances; trade credit from suppliers; commercial papers (or note); invoice discounting; bill finance; hire purchase; factoring, etc.

2) *Consumer credit* is a kind of permission granted an individual or a household to purchase goods like refrigerator, television, car, electronic sets, which could not be paid for immediately but for which instalment payments are made over a period of time.

3) *Investment credit* allows a business concern such as corporate body, sole proprietorship or partnership to obtain credit for capital goods for expansion of factory or procurement of machinery.

However, the tenor of a loan varies from short to medium to long term depending on the institutions, nature and functions (Onyeagocha, 2001).

According to Arora, *et al* (2013) there are four basic types of credit. These are service credit, cash credit, instalment cash and credit cards.

1. *Service Credit:* Service credit is monthly payments for utilities such as telephone, gas, electricity, and water. You often have to pay a deposit, and you may pay a late charge if your payment is not on time.
2. *Cash Credit:* Refers to loans let you borrow cash. It can be for small or large amounts and for a few days or several years. Money can be repaid in one lump sum or in several regular payments until the amount you borrowed and the finance charges are paid in full. Loans can be secured or unsecured.
3. *Instalment Credit:* Instalment credit may be described as buying on time, financing through the store or the easy payment plan. The borrower takes the goods home in exchange for a promise to pay later. Cars, major appliances, and furniture are often

purchased this way. You usually sign a contract, make a down payment, and agree to pay the balance with a specified number of equal payments called instalments. The finance charges are included in the payments. The item you purchase may be used as security for the loan.

4. *Credit Cards:* Credit cards are issued by individual retail stores, banks, or businesses. Using a credit card can be the equivalent of an interest-free loan--if you pay for the use of it in full at the end of each month.

2.2.6. Credit Appraisal

Credit risk is a risk related to non-repayment of the credit obtained by the customer of a bank. Thus it is necessary to appraise the credibility of the customer in order to mitigate the credit risk. Proper evaluation of the customer is performed this measures the financial condition and the ability of the customer to repay back the loan in future. Credit Appraisal is a process to ascertain the risks associated with the extension of the credit facility. It is generally carried by the financial institutions which are involved in providing financial funding to its customers (Arora, *et al*, 2013).

According to Sagandha and Pooja (2015) credit appraisal is a complete exercise which starts from the time a potential borrower walks into the branch and concludes in credit delivery and monitoring with the objective of certifying and maintaining the quality of lending and managing credit risk. Credit appraisal is the assessment of the viability of proposed long term investments in terms of shareholder wealth and the formal analysis of all project costs and benefits which is used to justify the project proposal. A good appraisal justifies spending money on a project. A proper consideration of each of the key components of project appraisal is essential.

The devastating effect of credit loss which is the aftermath of non-performing loans and advances makes sound evaluation of credit request paramount in all banks. The Credit Officers of banks need to properly evaluate and articulate the projects/documents, the customers and the prevailing economic situations (Suberu and Oke, 2010).

According to Sagandha and Pooja (2015) the credit appraisal is essential at least the following reasons;

- An important need of appraisal is obtaining an understanding of the anticipated expenditure and benefits of a project, usually expressed in terms of its inputs (costs) and outputs (results).
- The expected timing of this must also be made clear.
- While detailed appraisal is generally necessary before decisions can be taken and offers made.
- It will enable any obviously poor or ineligible ones to be eliminated, avoid duplication and give an early overall view of the success of the measure.

Mather (1962) described three basic principles for evaluating credit as safety, suitability and profitability.

- In the first instance, safety of any advance or loan is of utmost importance. Banks must emphasize among other things, the character (honesty, integrity and reliability) of borrowers. The probability that the amount granted would be repaid from the cash flows generated from the operations of the company must as a matter of requirement must be high. The borrower must be able to provide acceptable security, which will serve as something to fall back on if the expected source of repayment fails.
- Secondly, the bank should be satisfied with the suitability of a loan/advance. The purpose of the loan must be legal and non-conflicting with the economic and monetary policies of the government and according to guidelines of national or central banks. Certain ventures such as gambling and speculative investment should be avoided while giving credit facilities to customers.
- Also, profitability is a guiding force to any operation of the bank, including credit extension. As profit oriented institutions, banks necessarily expect their facilities to yield certain level of profits with which they can declare dividends to shareholders. The interest charged on loans and advances constitutes a major source of income to the banks among others.

However, the enumerated principles of lending identified by Mather were discovered to be inadequate. There are some other factors which must be considered when granting loans and advances. The factors are usually described as 'the canons of lending' and according to Adekanye (1983) are presented in question forms as follows:

- *How much does the customer want to borrow?*
- *Why does the customer want bank finance or*
- *What does he want it for?*
- *How long does he want it?*
- *How does he intend to repay?*
- *Is the customer's business financially strong enough to keep going if there is a setback?*
- *What security can he offer?*
- *What is your assessment of the customer?*

Adekanye emphasized that the manager must obtain satisfactory answers to those questions before agreeing to a loan request. This proposition also has its flaws as comprehensive credit ratings and credit management and recovery procedures which are the essential requirements of modern lending were not emphasized.

According to Sugandha and Pooja (2015) there two main function of a bank are to accept deposits and to lend money. Lending has always been one of the principal sources of income for commercial bank. The extension of credit on a sound basis is essential to the growth and prosperity of the bank. The success or failure of a bank would largely depend upon the quality of its advances. Before granting credit facilities, the bank officials should satisfy themselves on the five C's of Credit namely:

- **Character**: The honesty and integrity of the borrower is of primary importance. Even if a very good security is being offered by the customer, unless and until, his honesty and integrity is undoubted, no credit request should be entertained. Past performance of the borrower is a good indicator of what can be expected of him in future. Selection of right type of borrower is very essential. Proper enquiry regarding the previous dealings of the proposed customer should be enquired from the market and area surrounding his place of business.
- **Capacity**: This refers to the management's ability to run the business. The advance is safe and secure if the management of the company is able and sound. The capacity or ability of the borrower for business is to be judged in the light of his qualification, experience and leadership qualities.

- **Capital:** This refers to the amount invested in the business by the borrower. In other words, it represents the stake of the owner in the business. It is very important that the prospective borrowers have adequate stake in the business. Capital is the measure of credit that may be granted to those who have earned the right to borrow.
- **Collateral:** To a banker, security is important in order to secure the credit exposure it offers. The security should be one having a good title, stability of value and ready marketability. Security is obtained as an insurance against any unforeseen developments. A security cannot make a bad loan good but it definitely makes a good loan better. Security is not a substitute for character or capacity of borrower. By overlooking character and capacity in favour of security, the banker is simply asking for trouble because the omission of these two factors will ultimately drain the security to the extent where it would become valueless. Whatever security is obtained, care should be taken to see that it is adequately charged and a valid equitable mortgage can be done and all necessary legal formalities are completed so that it can be realized without any difficulty in case of need.
- **Condition**: Particularly in case of industrial advances, the condition of the country and position of the proposed borrower's business in the industrial cycle at the time of credit request is of much importance. One has to make investigation about the existing business conditions and government regulations. One has to consider the overall business cycle, the general condition of the industry as a whole in which this company is engaged, international conditions that could affect the company and the technological development that are taking place in the field in which the company is engaged. Bank should also consider the quantum of advance margin, source of repayment and profitability and value of the account.

Generally, a credit analyst, even at the preliminary stage, should view all these things in totality before coming to a decision regarding entertaining the proposals. The success or failure of a bank would largely depend upon the quality of its advances. The manager is expected to make thorough enquiries about the prospective borrowers and their credit proposals (Sugandha and Pooja, 2015).

2.3. Empirical Literature Review

2.3.1 Ethiopian Experience in Pre-shipment Export

Pre-shipment export credit means any loan or advance granted or any other credit provided by a bank to any exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favor or in favor of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from abroad or any other evidence of an order for export from abroad having been placed on the exporter or some other person, unless lodgment of export orders or letter of credit with the bank has been waived. (Retrieved on Jan 2014 from www.combanketh.et)

According to Commercial Bank of Ethiopia credit policy and procedures (2009) Pre-Shipment Export Credit Facility is a loan extended for purchase of raw materials, processing and converting them into finished goods, warehousing, packing and transporting the goods until the time of shipment.

Pre-shipment credit facility is given by the commercial banks during the previous period against the NBE Export Credit Guarantee Scheme. Later on in 2007 NBE transfers its responsibility related to Establishment and Operation of Export Credit Guarantee Scheme to Development Bank of Ethiopia (DBE) (NBE. Directive No.SBB/41/2007.)

However, currently most commercial Banks has been providing this service on clean basis (only against sales contract) because of the ineffectiveness of Development Bank of Ethiopia (DBE) guarantee to provide protection for defaulted loans.

2.3.2 Pre-Shipment Export Credit Facility against Development Bank of Ethiopia (DBE) Guarantee

If the facility is availed against the DBE guarantee, the eligibility, amount, tenure and other criteria of the pre-shipment export loan shall be set analyzed by the leading banks and Development bank of Ethiopia per the National Bank of Ethiopia (NBE) directives and development bank of Ethiopia.

2.3.3 Pre-shipment Export Credit Facility against Sales Contract

1. Pre-shipment export credit facility against sales Contract can be one-time or revolving.
2. For revolving pre-shipment export credit facility, the sum of advances shall not exceed the limit approved.

3. If the facility is to be availed against sales contract:

   i. The applicant's credit risk rating shah be Grade 1or 2.
   ii. The applicant should be in the export business at least for a year.
   iii. The applicant shah present valid sales contract/a bona-fide order from a foreign buyer.
   iv. The selling price of the exportable item shah be within acceptable range and the Trade Service process team shah confirm this.
   v. Each advance shah not exceeds 70% of the sales contract.
   vi. The facility shah require opening of irrevocable letter of Credit for each advance made by the Bank.
   vii. The export proceed has to be channeled to the exporter's account only through the opening branch of commercial bank of Ethiopia.
   viii. The applicant should provide receipt of export proceeds in the 12 months preceding the date of application from local banks for Pre-Shipment Export Credit facility.

4. The Pre-Shipment Export Credit Facility shall be reviewed every year unless the Bank demands it to be reviewed in less than this period by the credit approving team for any remedial action when the performed of the account is deteriorating.

5. The advance should be settled from the proceeds of the respective Letter or Credit this shall be attentively followed up by Customer Relationship Manager/ Customer Relationship Officer/ Branch Manager to avoid diversion of fund and timely settlement of the advance.

2.4 Conceptual Frame Work

2.4.1 Credit Risk

Despite the important role played by credit in economic and development growth of the country, it is associated with a catalogue of risks. According to Obalemo (2004), credit risk is an assumed risk that a borrower won't pay back the lender as agreed. The various types of credit risks include management risk, geographical risk, business risk, financial risk and industrial risk. The probable occurrence of partial or total default requires a thorough risk assessment prior to granting of loans (Suberu and Oke, 2010).

2.4.2 Non-Performing Loans

Financial stability is considered as *sine qua non* of sustained and rapid economic progress. Among various indicators of financial stability, banks' non-performing loan assumes critical importance since it reflects on the asset quality, credit risk and efficiency in theallocation of resources to productive sectors. A common perspective is that the problem of banks' non-performing loans is ascribed to political, economic, social, technological, legal and environmental (Rajiv Ranjan and Chandra Dhal, 2003).

Lending remains one of the major functions of banks in all economies. In fact, interest charged on loans and advances today constitute a sizeable part of banks' earnings. However, the possibility of failure of loans creates nightmares for not only the borrower and lender, but also poses a serious setback to the economy (Suberu and Oke, 2010).

The occurrence of banking crises has often been associated with a massive accumulation of nonperforming loans which can account for a sizable share of total assets of insolvent banks and financial institutions (HippolyteFofack, 2005). Nonperforming loans generally refer to loans which for a relatively long period of time do not generate income; that is the principal and/or interest on these loans has been left unpaid for at least 90 days (Caprio and Klingebiel (1999).

2.4.3 Determinants of Nonperforming Loans

According to Muniappan (2002) the problem of NPAs is related to several internal and external environmental factors confronting the borrowers. The *internal factors* are diversion of funds for expansion/diversification/modernisation, taking up new projects, helping/promoting associate concerns, time/cost overruns during the project implementation stage, business (product, marketing, *etc.*) failure, inefficient management, strained labour relations, inappropriate technology/technical problems, product obsolescence, *etc.* While *external factors* are recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities.

Sergio (1996) in a study of non-performing loans in Italy found evidence that, an increase in the riskiness of loan assets is rooted in a bank's lending policy adducing to relatively unselective and inadequate assessment of sectorial prospects. Interestingly, this study refuted that business cycle could be a primary reason for banks' NPLs.

Fuentes and Maquieira (1998) undertook an in depth analysis of loan losses due to the composition of lending by type of contract, volume of lending, cost of credit and default rates in the Chilean credit market. Their empirical analysis examined different variables which may affect loan repayment:

(a) Limitations on the access to credit
(b) Macroeconomic stability
(c) Collection technology
(d) Bankruptcy code
(e) Information sharing
(f) The judicial system
(g) Pre-screening techniques and
(h) Major changes in financial market regulation.

They concluded that a satisfactory performance of the Chilean credit market, in terms of loan repayments hinges on a good information sharing system, an advanced collection technology, macroeconomic performance and major changes in the financial market regulation.

Jimenez and Saurina (2003) used logit model for analysing the determinants of the probability of default (PD) of bank loans in terms of variables such as collateral, type of lender and bank-borrower relationship while controlling for the other explanatory variables such as size of loan, size of borrower, maturity structure of loans and currency composition of loans. Their empirical results suggested that collateralised loans had a higher PD, loans granted by savings banks were riskier and a close bank-borrower relationship had a positive effect on the willingness to take more risk. At the same time, size of bank loan had a negative effect on default while maturity term of loans, *i.e.*, short-term loans of less than 1-year maturity had a significant positive effect on default.

2.4.4 Challenges of Pre-shipment Export Credit

The banks' lack of effectiveness in handling small, medium or long-term credit risk (lack of training of loan officers, lack of information on borrowers and absence of a reliable credit registry) result in the entrepreneurs being burdened with high requirements, such as up to three years of financial statements, enough collateral to cover both the loan principal and interest (including a cash deposit that may be up to 30% of the loans' net present value), and to provide every detail of the international trade transaction in question (Marc, 2007).

2.4.5 Methods to Minimize NPL

Mc.Goven (1993) suggested that bankers should make a fairly accurate personality-morale profile assessment of prospective and current borrowers and guarantors. Besides considering personal interaction, the banker should;

(i) Try to draw some conclusions about staff morale and loyalty
(ii) Study the person's personal credit report
(iii) Do trade-credit reference checking
(iv) Check references from present and former bankers and
(v) Determine how the borrower handles stress.

In addition, banks can minimise risks by securing the borrower's guarantee, using government guaranteed loan programs, and requiring conservative loan-to-value ratios. However in order to mitigate risks in international export trade the seller needs to critically consider the following principles.

- Deal with buyer with sound reputation or established track records.
- Engage a reputable credit agency or credit insurer to minimise buyer's insolvency or credit risk.
- Engage on more secured methods of payment such as documentary credit or advance payment.
- Avoid granting excessive credit period or limit to the buyer.
- Ensure that the sales contract or documentary credit does not contain ambiguous or erroneous terms and conditions that are subject to future disputes.
- Acquire sufficient knowledge in document preparation to mitigate against documentation risk.
- Acknowledge and respect cultural differences with the buyer.
- Buy and sell in same currency to minimise foreign exchange risk.
- If financing is needed, enter into a fixed interest rate loan or interest rate swap agreement to mitigate against interest rate risk.
- Ensure sufficient insurance coverage against transit risk.
- Engage a representative in the buyer's country to deal with the goods or relevant parties in case of non-payment or non-acceptance by the buyer.
- Always have a contingency plan against unfavourable event.

2.3.6. Management/Follow-up and Recovery

Every bank has to develop and implement comprehensive procedures and information systems to follow up the condition of individual credits. An effective loan monitoring system according to Odufuye (2007) will include measures to:

- Monitor compliance with established covenants,
- Assess, where applicable, collateral coverage, relative to creditor's current condition,
- Identify contractual payment delinquencies and classify potential credits on a timely basis, and,
- Direct actions at solving problems promptly for remedial management.

Loan monitoring which is the work of the relationship manager in most cases is not a choice, but an imperative for effective and efficient credit administration in the banking sector. Problem loans can easily be spotted out. The banker's experience, knowledge of the customer's business and above all, faith in the customer can be a guide in taking a decision as to how far the customer can be supported before declaring the loan as bad. In some occasions, the customer may be in need of more support. Any or a combination of the following strategies can then be employed:

(a) Alteration or waiver of some of the terms and conditions of loan covenant in a way not to tamper with the bank's interest. However, this must be communicated to the credit department.
(b) Issue of additional collateral security, if available.
(c) Granting of additional funds, if borrower's circumstances and analysis require the need.
(d) Extension of loan repayment period supported by fresh cash flow statement.

Regardless of genuine efforts of parties to a loan, default can still occur. The recovery of loans should be a prerogative of the Recovery Unit to ensure that appropriate recovery strategies are implemented. However, assistance may also be sought from Corporate Banking/Relationship Management. The Recovery Unit must perform the following functions:

- Determination of account action plan.

- Pursuance of all alternatives to maximize recovery, including placing customers into receivership or liquidation as may be appropriate.
- Ensuring that adequate and timely loan loss provisions are made based on actual and expected losses, and,
- Regular review of deteriorating loans.

It should be emphasized that after a loan has been classified as substandard, it should be assigned to a specific Account Manager in the Recovery Unit.

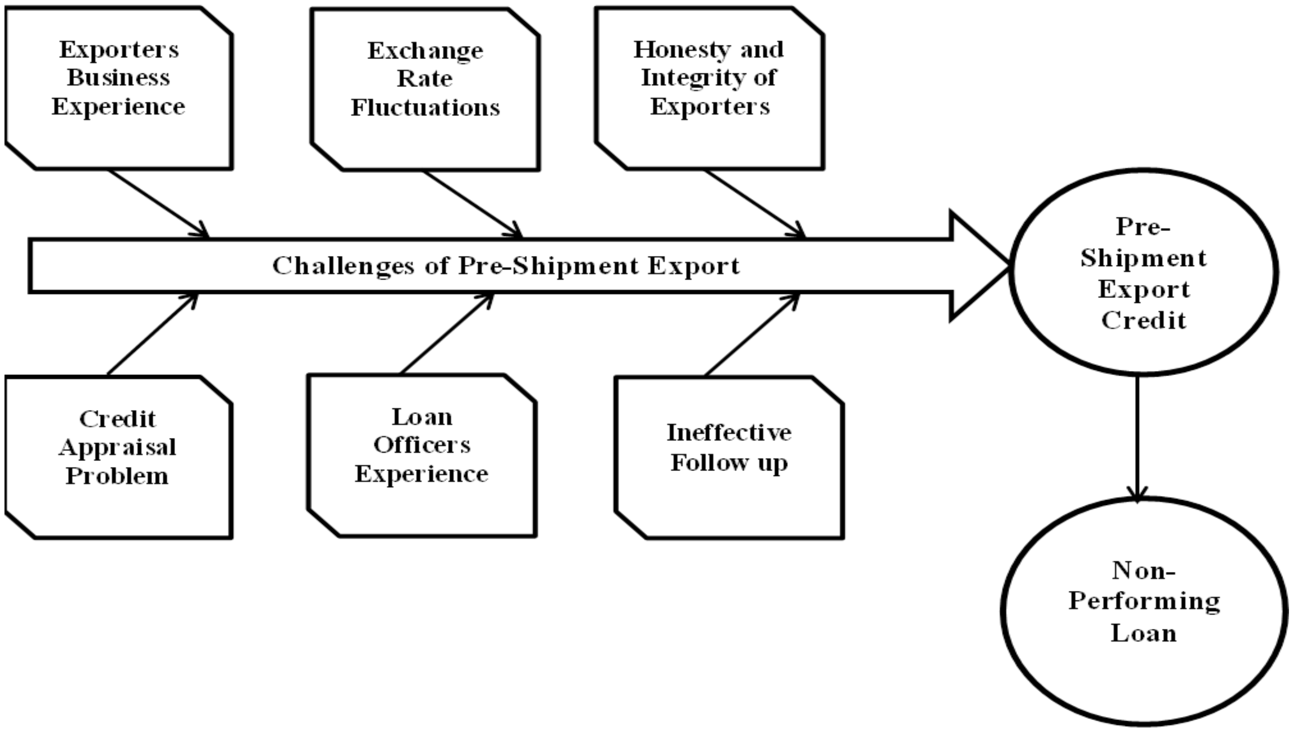
According to Ademu (1998) a number of methods exist for recovering debts owed by banks. Some of these are:

i. Appeals to debtors
ii. Threats and blackmail
iii. Legal action
iv. Use of debt-factoring companies
v. Invoice discounting and
vi. Seizure and sale of collaterals.

2.4. Summary of challenges of pre-shipment Export financing and its Impact for Non-performing Loan

Based on the relevant literatures discussed above related to challenges of pre-shipment credit export the following fish bone diagram is developed. The following figure shows the challenges of pre-shipment export credit which are considered as causes and the non-performing loans which is its outcome.

Fig 1 Fish Bone Diagram Showing the Relationship Between Challenges Pre-shipment Export (Causes) and Non-Performing Loan (Outcome)



CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

The main purpose of this study is to assess the practices and challenges of Pre-shipment Export Credit in Commercial Bank of Ethiopia and Awash Bank, In Ethiopia Therefore, in order to achieve the pre- specified objectives the study carry out a descriptive survey method. According to Leedy and Ormrod (2005), "Survey research involves acquiring information about one or more groups of people or organizations perhaps about their characteristics, opinions, attitudes, or previous experiences and survey research is particularly useful in describing the characteristics of a large population and it allows the researcher to study a larger population than would be feasible using effective qualitative approaches.

3.2. Sampling Technique and Sample Size

The study involves one private and one government owned commercial banks i.e. Commercial Bank of Ethiopia and Awash Bank respectively. Target population of these studies involves all professional employees working in Credit Processing Centre located in head office of the two banks and exporters. In order to give equal chance for target population, a sanseis technique is employed to select sample respondents both from employees and exporter.

3.3. Sources of Data and Data Collection Method

The study will use both primary and secondary data. Primary data will be collected from all from sample respondents who are representatives of selected banks CPC department and exporters. The primary data will be collected through semi-structured questionnaire and interview. The researcher will distribute self-administered questionnaire to each of randomly selected 62 respondents' from two banks.

3.4. Internal Consistency Reliability Analysis

In order to assure that developed scales measure consistently what is intended to be measured, the Cronbach's coefficient alpha was employed to test their reliability of scales Therefore, as shown in the table below the alpha coefficients for the three scales developed for challenges of pre shipment credit loan, causes non-performing loan and factors make the pre-shipment credit export appraisal process difficult were more than 0.70 alpha coefficients. This clearly indicates that the variables used in this research were highly reliable and acceptable. The following table summarizes Cronbach's Alpha of main variables which was measured by Linkert Scale.

Table 4. 8. Cronbach's Alpha Comparison Between Variables

Variables	Cronbach's alpha	Number of items
Challenges of pre shipment export credit	0.861	13
Cause of non-performing loan	0.877	8
Factors make the evaluation process difficult	0.754	6

3.5. Data Analysis Procedures

The data collected through questionnaire will be analyzed through statistical package. The collected data will be coded first in alphabetical and numerical order and encoded into SPSS statistical program. Second, the data will be screened and treated for errors and missing values. Then, the data will first be analyzed with a descriptive statistical analysis to provide data for frequency and percentage of the existing pre-shipment export credit practices and status. Further, mean and standard deviation will be computed for the interpretation of responding banks characteristics to identify the main challenges, the most commonly used modes of pre-shipment credit and to make comparison between the two banks. Finally, document analysis will be conducted to assess the supporting national and institutional policies, strategies and regulations that enhance and facilitate pre-shipment export credit for customers.

3.6. Ethical Considerations

According to Saunders et al (2009), research ethics refers to the appropriate behavior of the researchers concerning to the rights of those who become the subjects of the work or affected by the work. Hence, in conducting the research, the researcher considered the following ethical considerations:

- All data for the study was collected by issuing official letter to the concerned bank.

- Respondents were informed fully about the purpose, methods and intended possible uses of the research, what their participation in the research entails and what risks, if any are involved.
- The confidentiality of information supplied and the anonymity of respondents is respected.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETTION

The previous chapter presents the methodology that is used to achieve the objectives of the study. This chapter presents the data analysis, interpretation and presentation of the collected data through questionnaire and secondary data. The chapter has two sections, the first sections involve the respondents' background profile and the second section involves questions related to surveyed banks pre-shipment export credit practices. In addition, to the data collected through questionnaire, secondary data was used to support the primary data.

4.1 Response Rate

A total of 72 questionnaires were distributed among target employees in the two banks. Among these a total of 52 usable questionnaires were collected back and used which gives a response rate of 72% and the result is quite respectable and considered as high response rate.

4.2 Respondents Background Profile

It is generally true that employees level of education and working experience have a direct significant impact on their work performance i.e. employees with high and relevant work experience positively influences their job performance and workers with low job direct experience may perform less than their counterparts. Therefore, in order to examine the working experience of sampled employees in the banking sector, respondents were asked their direct and indirect experience and other related questions. As indicated in the table 4.1. Below the result clearly shows majority, 40(76.9%) of respondents were from Commercial Bank of Ethiopia and the remaining, 12(23.1%) of respondents were from Awash Bank and 34(65.45%) of responded samples were male and the remaining 18(34.55%) of them were females respectively. Also, majority, 29(55.8%) of respondents were first degree holders and 23(44.2%) of them were second degree holders respectively.

Table 4.1 Respondents Background Information			
Items	**Description**	**Frequency**	**Percentage (%)**
Name of the Bank	Awash	12	23.1%
	CBE	40	76.9%
	Total	**52**	**100%**
Gender	Male	34	65.45%
	Female	18	34.55%
	Total	**52**	**100%**
Education Level	First Degree	29	55.8%
	Second Degree	23	44.2%
	Total	**52**	**100%**
Department	Customer Relationship	29	55.8%
	Credit Analysis	19	36.5%
	International Banking	4	7.7%
	Total	**52**	**100%**
Position	Head of Customer Relationship	12	24.0%
	Head of Credit and Loan Processing	5	10%
	Credit Analyst Officer	21	42.0%
	Portfolio Officer	5	10.0%
	Others	7	14.0%
	Total	**50**	**100.0**
Experience in the banking sector	Less than 3 Years	5	9.6%
	Between 4-6 Years	15	28.8%
	Between 7-9 Years	13	25%
	Above 10 Years	19	36.7%
	Total	**52**	**100%**
Direct Experience related with Pre-shipment export	Less than 3 Years	6	12 %
	Between 4-6 Years	21	42%
	Between 7-9 Years	15	30%

loan	Above 10 Years	8	16%
	Total	**50**	**100%**

Source (Survey Questionnaire, 2017)

With regard to respondents working department and position in the bank most, 29(55.8%) of sampled respondents were from customer relationship management department and the remaining 19(36.5%) and 4(7.7%) of them were from credit analysis and international banking department respectively. The above table, table 4.1, summarizes the summary of respondent's background profile.

Finally, when we examine respondents overall experience in the banking sector majority, 19(36.7%) and 15(28.8%) of sampled respondents have a general banking experience of above 10 years and between 4-6 years respectively and the remaining, 13(25%) and 5(9.6%) of them have 7-8 and below 3 years general banking experience respectively. In addition, when we further analyze the direct experience of respondents in pre-shipment export credit area majority, 21(42%) and 15(30%) of respondents were with direct experience of between 4-6 and 7-9 years respectively in the afore mentioned pre-shipment export credit area and the remaining 8(16%) and 6(12%) of respondents were with direct experience of pre-shipment export credit area one or the other way respectively.

Generally, when we examine the above analysis of respondents' background profile it clearly prevails the fact that, most of respondents were from CBE this is may be resulted due to the size differences of the bank i.e. CBE is much larger than AIB in terms of both capital, human power and number of branches and the participation of females as compared to their male counterparts is very low in the above mentioned departments and positions. In addition, the result related to educational level indicates that all of respondents are first and second degree holders and this clearly indicates that banks have high level trained human power. The other important finding is that, all of the respondents were from departments and positions related to pre-shipment export credit area and these may also increase the creditability and the reliability of their answers. Finally, the above analysis result shows that most respondents have rich experience both in the banking sector and in the pre-shipment export credit areas.

4.3 **Data Analysis Related to Practices and Challenges of Pre-Shipment Export Credit**

4.3.1 Pre-Shipment Export Credit Service

Pre-shipment export credit is one the main part of commercial banks service to its customers. In order to know the pre-shipment export credit service provided by sampled banks respondents were asked whether or not they providing the service. As indicated in the table 4.2 below the result indicates all (100%) of respondents were agree that their bank provides pre-shipment export credit to its customers. One of the main roles of commercial banks is aiding in facilitating the international trade through proving various services including post and pre-shipment export credit to exporters. The above analysis clearly proves these facts of commercial banks regarding their roles in facilitating international trades since all of respondents in the sampled banks agreed that their banks provide the pre-shipment service to its customers.

Table 4.2 Pre-Shipment Export Credit Service

Items	**Description**	**Frequency**	**Percentage (%)**
Does your Bank Provide Pre-Shipment Export Credit Service?	Yes	51	100%
	No	0	0.0%
	Total	**51**	**100%**
Which type of business mostly applies for pre-shipment export credit?	Sole Trader	48	92.3%
	Unions and Cooperatives	6	11.5%
	Partnership	12	23.1%
	PLC	42	88%
		n=52	

Source (Survey Questionnaire, 2017)

However, with regard to the nature of the business which is mostly apply for pre-shipment export credit 92.3% of sampled employees responded that sole traders were the first among other types of business organizations in utilizing the pre-shipment export credit service in the banks which is followed by PLC by 8.8% respectively. However, when we further examine the result, 23.1% of respondents stated that partnership type of business was the third in mostly utilizing the pre-shipment export credit service and the last type of business type was unions and cooperatives with only 11.3%. Therefore, we may easy conclude from the above discussion that majority of the exporter's nature of organization is sole trader which is owned by a single person. A study conducted by Vasanthi and Sundari (2015) in India entitled garment exporters opinion on commercial bank's export support in Tirupu they find out that among sampled customers or exporters of 52.7% of exporters nature of organization is partnership, 37.3% of the exporters are private limited and 10% of the owners are sole traders and they concluded that majority of the exporter's nature of organization is partnership firm. Even though, their conclusions is different from this study regarding the nature of business organizations mostly utilizes the pre-shipment export credit service, partnership and PLC's were among the top in both cases and the result of this study is somewhat in line with their finding.

4.3.2 Pre-Shipment Export Credit Utilization

The level of infrastructure development, the overall institutional management, level of education of the workforce, the efficiency of transportation and communication system in the country, the availability and degree of domestic supply of inputs to exporting firms, the nature of home demand for export commodities, etc., influence the performance of a country's exports. Basically banks avail both pre and post-shipment export credits to exporters. However, the extent of utilizing the two types of export credit services may vary significantly. Therefore, in order to examine the degree of pre-shipment export credit utilization by exporters respondents were asked questions related to utilization of pre-shipment export credit. The result of the analysis is given in table 4.3 below.

Table 4.3 Utilization of Pre-Shipment Export Credit

Utilization of Pre-Shipment Credit	**Responses**				**Total**
	Very Least Extent	**Least Extent**	**Large Extent**	**Full Extent**	
Frequency	12(23.1)	28(53.8)	6(11.5)	6(11.5)	**52(100)**
Weights	1	2	3	4	**10**
Weighted Frequency	12	56	18	18	**104**
Calculated Table Mean					**2**
Table Mean					**2.5**

Note: (figures in parenthesis are percentages) Source (Survey Questionnaire of, 2017)

The above result in the table 4.3 clearly indicates that most of the responding employees believed that the degree of utilizing the pre-shipment export credit by exporters were very low since the table mean is greater than calculated table mean which implies the exporters are not honoring the binding contract and the banks have no strong follow-up procedure.

Hint:

- Weights: In a four point Linkert scale, the weights are given 4 = full extent, 3 = large extent, 2= least extent and 1 = very least extent.
- Weighted frequency: Calculated by multiplying each response by the weight.
- Calculated Weighted Mean: Calculated by diving weighted frequency by total respondents.
- Table Mean: The sum of each weight divided by three. The following fig.1 shows the extent of pre-shipment export credit by exporters.

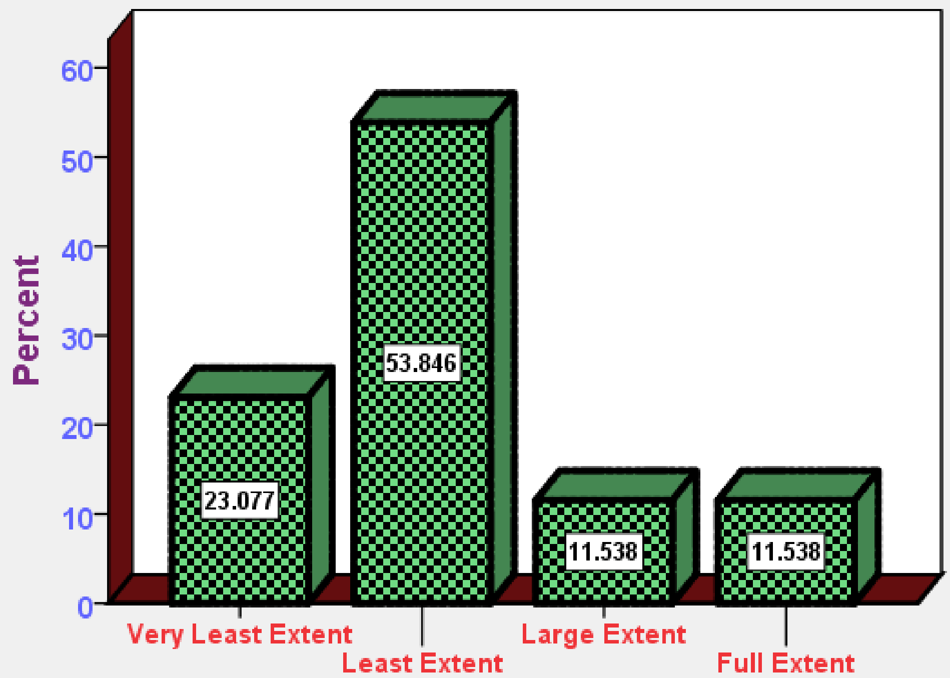


Fig 4.1. Extent of Pre-Shipment Export Credit Utilization by Exporters

4.3.3 Involvement of Regional Exporters

The recent Ethiopian overall economic growth leads to massive expansion of local financial institutions including commercial banks. Commercial banks are increasing in number and there is massive expansion of branches for existing banks in order to reach and serve urban, rural and regional customers. The massive expansion of banks helps to enable the mobilization funds from different parts of the country. In addition, the involvement of regional based exporters in to pre-shipment export credit services will further enhance the export capability of the country. Therefore, the following table 4.4 examines respondents' opinion regarding the involvement of regional based exporters in to pre-shipment export credit.

Table 4.4 Involvement of Regional Exporters			
Items	**Description**	**Frequency**	**Percentage (%)**
Involvement of regional Exporters in to Pre-Shipment Export Credit Service	Very Low	28	53.8%
	Moderately Low	11	21.2%
	Moderately High	7	13.5%
	Very High	6	11.5%
	Total	**52**	**100%**

Source (Survey Questionnaire, 2017)

The above result in the table 4.4 clearly indicates that most of the responding employees believed that the involvement of regional based exporters in to utilizing of the pre-shipment export credit is very low and moderately low and it's evidenced by majority, 28(53.8%) and 11(21.2%) of respondents. While, only 7(13.5%) and 6(11.5) of respondents were believed that the involvement of regional based exporters in to the pre-shipment export credit was moderately high and very high respectively.

Therefore, the above result clearly reveals the fact that more than seventy percent i.e. 53.8% and 21.2% of respondents were indicate that the involvement of regional based exporters in to the pre-shipment export credit service was very low or moderately low. This is may be due centralization of some of important functions of banks at head offices and main branches and absence of awareness regarding the export credit service by regional traders and manufacturers. In addition, the low involvement of regional based exporters into the pre-shipment export credit service in the sampled banks can also be related with the low involvement of regional based manufacturers or traders in to international trade. The following fig.2 shows the respondents opinion regarding the involvement of regional based exporters in to pre-shipment export credit by exporters.

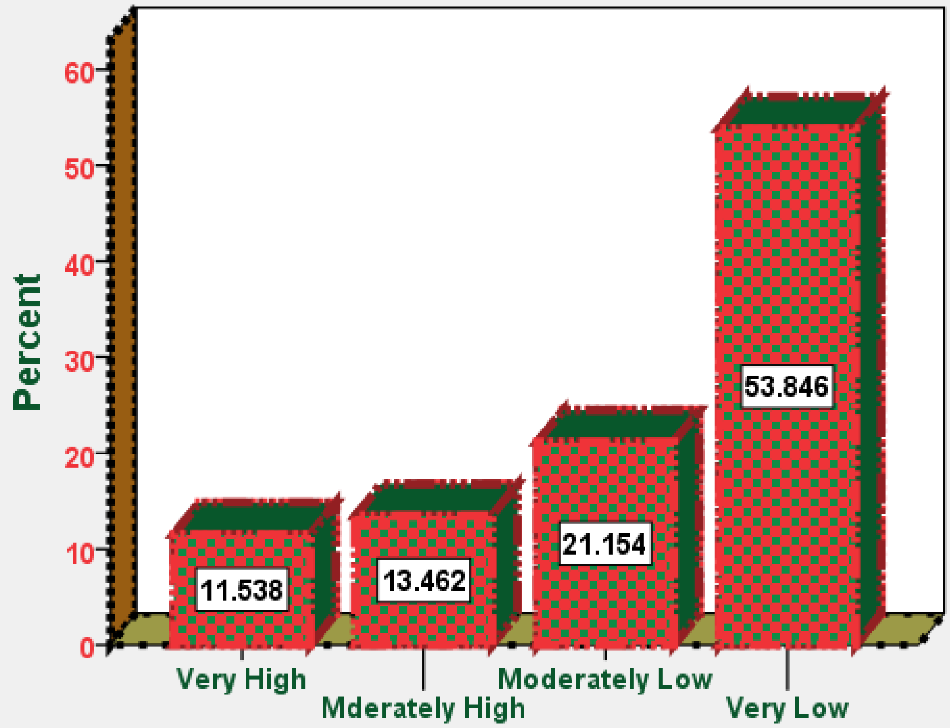


Fig 4.2. Involvemnt of Regional Exporters in Pre-Shipment Export

4.3.4 Pre -Shipment Export and Other Types of Credits

The following table 4.5 summarizes the comparison pre and post-shipment export credit request by exporters. Hence, the result with regard to the pre-shipment export credit as request as compared to the post-shipment request and other types of requests is very low or moderately very low. Since, majority, 28(53.8%) and 11(21,2%) of respondents were reported that the pre-shipment request as compared to post-shipment and other types of credit requests was very low and moderately low respectively. Whereas, the remaining, 7(13.5%) of respondents were replied that the pre-shipment export credit request by exporters was moderately high and 6(11.5%) of them considered the request as very high. However, in relation to the rejection of the pre-shipment export credit by the bank before further advancement of the process majority, 50(96.2%) of respondents were replied that they are rejected the pre-shipment export credit request by exporter in the last two years for many reasons and only 2(3.8%) of respondents were said that they never rejected the pre-shipment export credit request in the last two years.

Table 4.5. Comparison of Pre-Shipment Export Credit Request			
Items	**Description**	**Frequency**	**Percentage (%)**
How do you compare the pre-shipment request as compared to other types of credit requests?	Very Low	28	53.8%
	Moderately Low	11	21.2%
	Moderately High	7	13.5%
	Very High	6	11.5%
	Total	**52**	**100%**
Have you ever rejected pre-shipment export credit request?	Yes	50	96.2%
	No	2	3.8%
	Total	**52**	**100%**

Source (Survey Questionnaire, 2017)

From the above data analyses we may conclude that the utilization of pre-shipment export credit as compared to other credit services of banks were relatively low. The low request of the service may be related with the low participation of traders and manufacturers at international trade in the country and at the same time it shows the participation of the country in the international trade. Mekbib (2008) has conducted a study on pre-shipment loan utilization in exporting agricultural products in Ethiopia and he came up with the same conclusion. According to him even though the provision of pre-shipment working capital loan increases more than 100% annually, it still constitute small percentage of the total loan provided by commercial banks. Moreover, large part of the pre-shipment export loan is taken by large exporters who have strong capital basis, better experience in international business, and who already maintains good relationship with the commercial banks.

4.3.5 Stages of Pre-Shipment Request

Manufacturers and exporters in developing or least-developed countries need to have access to affordable flows of trade financing and insurance to be able to import and export, and hence integrate in international trade. According to Vasanthi and Sundari (2015) pre-shipment credit is advanced only on receipt of an export order. To obtain the loan, the exporter should deliver to the bank either a letter of credit established in his favor or a confirmed export order. However, the letter of credit or the confirmed export order is yet to be received, relevant evidence in the form of a cable, letter etc. is acceptable, provided such cable, letter, etc. should contain information regarding the value of the order, the quantity and particulars of goods, date of shipment and the buyer. All the packing credit advances must be repaid from the proceeds of the relative export bills negotiated or from the remittances received from abroad for the relative goods. One of the key reasons for pre-export financing is that the borrower has sufficient liquidity to maximize production.

Exporters may possibly request pre-shipment export credit at any stage during the manufacturing process to fulfill the export order and it can be range from the initial period of receiving the order to transportation of the finished goods to the buyer based on the capability of the exporter. Questions were also asked of the respondents concerning the stages at which pre-shipment export credit is mostly requested by exporters. The response clearly indicates that majority, 48(92.7%) of respondents replied that most of exporters request the pre-shipment export credit at the stage of procurement of raw materials and only 4(7.3%) of respondents agree that the request from exporters concerning pre-shipment credit export comes at the later during the production process. The following table 4.6 details the results related to the stages of the pre-shipment export credit request by exporters.

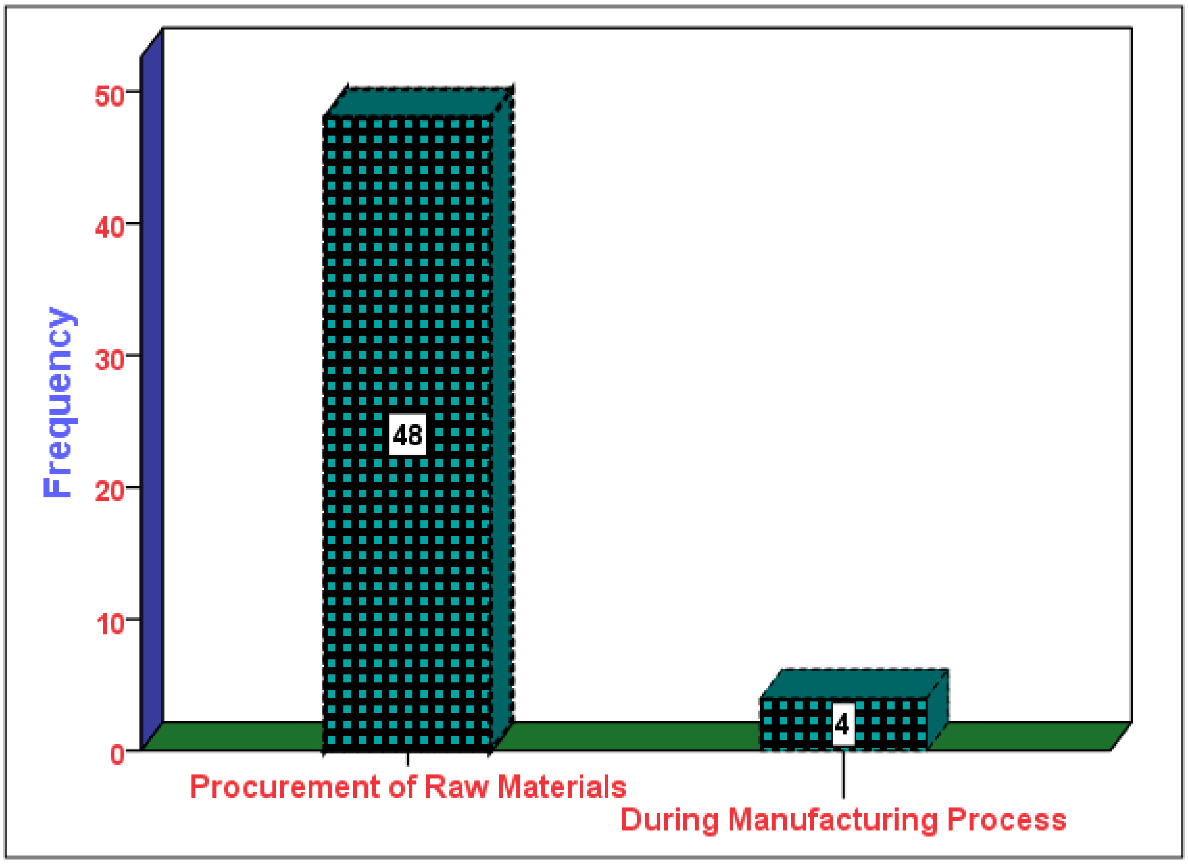
Table 4.6. Stages of Pre-Shipment Request

Items	**Description**	**Frequency**	**Percentage (%)**
At which stage did mostly pre-shipment export credit requested by customers?	Procurement of Raw Material	48	92.3%
	Production Process	4	7.7%
	Total	**52**	**100%**

Source (Survey Questionnaire, 2017)

The pre-shipment export credit is a loan granted to exporters starting from the procurement of inputs until the date of shipment of goods against the guarantee given by export guarantee programs. Even though, it’s possible to request the pre-shipment export credit at various stages, according to the results of the survey in the two banks indicates the fact that most of exporter’s request the service at the earliest stage of the export order that is at the procurement of raw materials. The following fig.2 shows the respondents opinion regarding the involvement of regional based exporters in to pre-shipment export credit by exporters.

Fig.4.3. Stages of Pre-Shipment Export Credit Requested by Customer



4.3.6 Comparison of Stages of Pre-Shipment Request

Table 4.6 provided a summary of the survey results of stage of the pre-shipment export credit request in two banks. It's true from the above discussion that majority, 48(92.3%) of exporters made the pre-shipment export credit request at the earliest stage during the procurement of raw materials. However, when we further examine and compare the result of the two banks; there is no significant difference in terms of exporter's stage of the pre-shipment export credit request. Since, more than 80% of exporters made the pre-shipment export credit request in the two banks at the same stage i.e. during the procurement of raw materials as detailed in table 4.7 below. This is may be because of the same characteristics of exporters or businesses including stage of development or size and type of the product exported.

Table 4.7 Comparison of Stages of Pre-Shipment Request by Bank			
Stage of Request	Name of the Bank		Total
	CBE	Awash	
Procurement of Raw Material	38(95)	10(83.3)	**48(92.3)**
Production Process	2(5)	2(16.7)	**4(7.7)**
Total	**40(100)**	**12**	**52(100)**

Note: (figures in parent sis are pourcentages) Source (Survey Questionnaire, 2017)

4.4. Sanctioning Pre-Shipment Export Credit Request

Basically, before making any allowance for credit facilities banks need to check the different aspects of the request by the customer like product profile, the request proposal, political and economic details about exporting country. Apart from these things, the bank also looks in to the status report of the prospective buyer, with whom the exporter proposes to do the business. Questions were also asked of the respondents concerning the factors considered while evaluating the pre-shipment export credit request by the exporter. The response clearly reveals the fact that the proposal and integrity of the exporter and side income and capacity of exporter was ranked first and second with 92.3% and 78.8% by respondents respectively. While, capacity of exporter in execution of the order with in the stipulated time ranked third with 65.4% of respondents. However, according to respondents' regulations, political and financial conditions of the buying country and methods of Payment Instruments i.e. L/C, CAD, etc. ranked fourth and fifth with 57.8% and 44.2% respectively. The following table 4.8 details the results related to the factors considered while evaluating pre-shipment export credit request by customers.

Table 4.8 Sanctioning Pre-Shipment Export Credit Request		
Factors	**Percentage (%)**	**Rank**
Proposal and integrity of the exporter	92.3	1
Side income and capacity of exporter	78.8	2
Capacity of Exporter in Execution of the Order With in the Stipulated Time	65.4	3
Regulations, Political and Financial Conditions of the Buying Country	57.8	4
Methods of Payment Instruments i.e. L/C, CAD, etc.	44.2	5

Source (Survey Questionnaire, 2017)

The above result is consistent with the findings of a study conducted by Vasanthi and Sundari (2015) on garment exporters' opinion on commercial bank's export support in Tirupur in India, were proposal and integrity of the exporter has been considered as the main factor and ranked first in evaluating and considering the pre-shipment export credit by customers and regulation, political and financial condition of the buying country is the least considering factor in evaluating and considering the pre-shipment export credit by customers .

4.4.1 Challenges of Pre-Shipment Export Credit

There are a number of problems related with the effective provision and utilization of pre-shipment export credit. Some of these are lack of consistent monitoring standards by banks, poor document handling and financial management system by exporters, strict requirements of both commercial banks and export credit guarantee scheme; and limited access or unavailability of other financing mechanisms. In order to examine the challenges related to successful provision of the pre-shipment export credit respondents were asked questions related problems related with pre-shipment credit service. As summarized in the table 4.9 below on average all the factors listed were considered as the challenges of pre-shipment export credit service since, the overall mean average of all factors is positive 3.5 on five point linkert scale. However, among the factors the main challenges related to the provision of the pre-shipment export credit is lack of effective monitoring the loan by banks with a mean of (3.92) and standard deviation of (0.882) which is followed by customers request for loan diversion with a mean of (3.92) and a standard deviation of (1.002) and lack of information on the borrower with a mean of (3.90) and standard deviation of (0.748) respectively. In addition, other factors significantly influence the pre-shipment export credit service are, the honesty and integrity of the borrower with a mean of (3.71) and standard deviation of (1.035), lack of sound evaluation of customers credit request in the bank with a mean of (3.67) and standard deviation of (1.167), the problem of non-performing loans with a mean of (3.5) and standard deviation of (0.980), the risk that the foreign buyer does not pay exporters with a mean of (3.46) and standard deviation of (0.813), the collateral requirement of the bank with a mean of (3.42) and standard deviation of (1.289), the problem related to transport/logistics with a mean of (3.40) and standard deviation of (1.125), and longer delivery and payment time frames with a mean of (3.27) and standard deviation of (1.173) respectively. The following table 4.9 details the summary of the above result.

Table 4.9. Challenges of Pre-Shipment Export Credit (Average Mean = 3.5)

Challenges	N	Mean	SD
Lack of effective monitoring the loan	52	3.92	0.882
Customers request for loan diversion	52	3.92	1.007
Lack of information on the borrower	52	3.90	0.748
The honesty and integrity of the borrower	51	3.71	1.035
Lack of sound evaluation of customers credit request in the bank	52	3.67	1.167
The problem of non-performing loans	52	3.50	0.980
The risk that the foreign buyer does not pay exporters	52	3.46	0.813
The collateral requirement of the bank	52	3.42	1.289
The problem related to transport/logistics	52	3.40	1.125
Longer delivery and payment time frames	52	3.27	1.173
The problems that the exporter will not fulfill the export order	52	3.19	1.121
Exchange rate fluctuations and high exchange controls	52	3.15	0.937
Lack of loan officers/employees experiences	52	3.08	1.122

Source (Survey Questionnaire, 2017)

However, the last factor which has relatively small influence on the pre-shipment export credit provision is lack of loan officers/employees experiences with a mean of (3.08) and standard deviation of (1.122) which is followed by exchange rate fluctuations and high exchange controls with a mean of (3.15) and standard deviation of (0.937) and problems that the exporter will not fulfill the export order with a mean of (3.19) and standard deviation of (1.121) respectively. Generally, from the above discussion we may conclude that, the two top main problems related to the pre-shipment export credit service provision and utilization according to respondents is related to both customers and banks. Since, the first main problem i.e. lack of effective monitoring of the loan is banks internal problem whereas, loan diversion is customer related problem.

4.4.2 Pre-Shipment Export Credit Request Appraisal

The following table 4.10 summarizes the easy or difficulty of the pre-shipment export credit request appraisal process. Hence, the result with regard to how easy or difficult the pre-shipment export credit request evaluation process as indicated by almost 70% of respondents was not easy. Since, majority, 26(50.0%) and 10(19,2%) of respondents were replied that customers pre-shipment export credit request evaluation or sanctioning process is very difficult or moderately difficult respectively. Whereas, the remaining, 11(21.2%) of respondents were replied that the pre-shipment export credit request evaluation process is moderately easy and 5(9.6%) of them considered the process as very easy.

Table 4.10. Pre-Shipment Export Credit Appraisal Process

Description	Items	Frequency	Percentage (%)
How do you evaluate the pre-shipment export credit appraisal process?	Very Difficult	26	50.0%
	Moderately Difficult	10	19.2%
	Moderately Easy	11	21.2%
	Very Easy	5	9.6%
	Total	**52**	**100%**

Source (Survey Questionnaire, 2017)

4.4.3 Difficulties of Appraisal Process

The effectiveness of the credit appraisal process has a significant impact the performance and repayment of the loan on time. Therefore, the any credit appraisal process determines the repayment of the loan and it have to be taken seriously by credit request appraisals in the bank. Because, poor credit appraisal of credit requests by credit officers result in wrong credit approval decision that lead to loan repayment problem. The reason is that ineffective analyses of financial ratios, cash flow statements, credit risks grading among others, usually give misleading information to the approving authority on the customer's financial position and ability to repay the loan.

Table 4.11 Difficulties in the Appraisal Process (Average Mean=3.33)			
Difficulties	**N**	**Mean**	**SD**
Honesty and integrity of the borrower	52	3.85	1.440
Incomplete and false document provision by the borrower	52	3.77	1.059
Difficulty and/or easy accessibility of customers business for observation	52	3.40	1.225
Banks rigid credit appraisal procedures	52	3.23	0.983
Banks restricted collateral requirement policy	52	2.98	1.244
Lack of experienced staff in the bank	52	2.73	1.330

Source (Survey Questionnaire, 2017)

As indicated in the table above 4.11, the results shows that the factor which makes difficult the pre-shipment appraisal process is honesty and integrity of the borrower with a mean of (3.85) and standard deviation of (1.440) which is followed by incomplete and false document provision by the borrower with a mean of (3.77) and standard deviation of (1.059) and cancellation of contracts and refusal of payment after delivery with a mean of (3.40) and standard deviation of (1.225) respectively. However, the last two factors which have relatively small influence on making difficult the pre-shipment appraisal process are the experience of the employees in the bank with a mean of (2.73) and a standard deviation of (1.330) and banks restricted collateral requirement policy with a mean of (2.98) and standard deviation of (1.244) respectively this is mainly due the fact most both banks, i.e. CBE & AIB have clean loan facility for pre-shipment export loan.

4.5 Non-Performing Loans

There are a number of factors identified by different researchers regarding the causes accounted for non-performing loans with regard to pre-shipment export credit service in banking industry. The main causes which are associated with causes of nonperforming loans includes ineffective monitoring of the loan, diversion of loans, volatility in international markets, poor credit appraisal system, lack of ample experience by credit officers and others.

The following table 4.12 summarizes the results related to causes of non-performing loans specifically in pre-shipment export credit.

Table 4.2. Causes of Non-Performing Loans in Pre-Shipment (Average Mean =3.71)

Causes	N	Mean	SD
Bankrupt of the business or exporter	52	3.87	0.908
Cancellation of contracts and refusal of payment after delivery (buyer risk)	52	3.85	0.751
Diversion of loans by exporters to other business activities	52	3.84	0.946
Ineffective monitoring of the loan	51	3.73	1.143
Lack of business management knowledge on the part of exporters	52	3.70	1.015
Transportation and/ logistics problems (third party risk)	52	3.65	1.153
Changes in international/domestic financial market regulations	52	3.58	0.825
Unselective and inadequate poor credit assessment	52	3.46	1.111

Source (Survey Questionnaire, 2017)

As indicated in the table above 4.11 overall, the results shows that the main causes which leads the pre-shipment export credit to nonperforming loan is bankrupt of the exporter business with a mean of (3.84) and standard deviation of (0.908) which is followed by cancellation of contracts and refusal of payment after delivery which we call it a buyer risk with a mean of (3.85) and a standard deviation of (0.751). The third and the fourth important factor which diverts the pre-shipment export credit to nonperforming loan are diversion of loans by exporters to other business activities with a mean of (3.84) and standard deviation of (0.946) and ineffective monitoring of the loan by the bank with a mean of (3.73) and a standard deviation of (1.143) respectively. The other causes accounted to nonperforming loan related to pre-shipment export credit is lack of business management knowledge on the part of exporters with a mean of (3.70) and a standard deviation of (1.015). However, the last factor which has relatively small influence on changing the pre-shipment export credit into nonperforming loan is related to unselective and inadequate poor credit assessment with a mean of (3.46) and standard deviation of (1.111) which is followed by and changes in international/domestic financial market regulations with a mean of (3.58) and standard deviation of (0.825) and transportation and/ logistics problems which we call it third party risk with a mean of (3.65) and standard deviation of (1.153) respectively.

CHAPTER FIVE

CONCULUSION AND RECOMMENDATION

Chapter four offered the outcomes and analysis of the findings that resulted from conducting the study with the purpose of determining the practice and challenges of the pre-shipment export credit in CBE and AB. This chapter provides the findings of the study with clear conclusions and recommendations.

5.1 Summary of key findings

The main purpose of this study is to assess the overall challenges faced by commercial banks. The study conducted in one state owned bank and one private owned commercial banks i.e. Commercial Bank of Ethiopia (CBE) Awash Bank (AB).

The study tries to evaluate the challenges faced by commercial banks in financing exporters and getting back adequate benefit from exporters.

- When we examine the composition of employee all of them are first and second degree holders. And direct experience in pre-shipment export credit area between 4-9 years.
- Sole traders were the first with among other type of biasness organizations in utilizing pre-shipment export credit service in the banks which is followed by Private Limited Company.
- Utilization of pre-shipment export credit by exporters was very low. The involvement of regional based exporters in to utilizing of the pre-shipment export credit is very low.
- Pre-shipment credits as request as compared to other types of requests are very low or moderately very low and of exporters request the facility at stage of procuring row materials.
- Proposal, integrity of the exporters and side income & capacity of exporters are most important factor while sanctioning the pre-shipment request.
- Lack of effective monitoring the loan by banks, loan diversion and lack of information on the borrower are the main challenges related to pre-shipment export credit.

- Honesty and integrity of the borrower, incomplete and false provision and cancelation of contracts and refusal of payments after delivery are factor which make the credit appraisal process difficult.
- Bankrupt of exporters business, cancelation of contacts and refusal of payments after delivery, diversion of loans by exporters to other business activities and ineffective monitoring of the loan by the bank are the main causes for non-performing loans.
- From questioner and interview we can conclude that the existing practice has no means of follow-up and controlling mechanism to already disbursed loans which helped the borrowers to divert the found easily and dragged the banks engage economic sector which are not in their budget. Moreover, exporters uses one's banks resource to repay the other bank loan.

5.2 Conclusions

The most obvious finding being is that all of sampled employees were first and second degree holders and they were from departments and positions related to pre-shipment export credit area. In addition, the finding also reveals that most of employees working in the sampled departments have generally rich experience in the banking sector and specifically in the pre-shipment export credit areas. And both Commercial Bank of Ethiopia and Awash Bank provides the pre-shipment export credit service to its customers. Even though, the two giant commercial banks in the country provides the pre-shipment export credit service to all of customers with no regard to the type of business sole traders (individual exporters) and private limited companies were the top users of the service among other types of businesses settings and unions and cooperatives are the least users of the pre-shipment export credit service.

The finding of study indicates that the involvement of regional based exporters in to the pre-shipment export credit and the degree of pre-shipment export credit utilization as compared to other types of credit services is very low or moderately low. Further, most of exporter's request the service at the earliest stage of the export order i.e. at the procurement of raw materials and there is almost no difference among the two banks in terms the stage of the service request by customers.

Further, the findings of the study indicates that employees largely rely on the proposal and integrity of the exporter and side income and capacity of exporter while appraising and approving the pre-shipment export credit request by customers. Lack of effective monitoring for already approved and disbursed loan by banks, high customers loan diversion, the honesty and integrity of the borrower and lack of sound evaluation of customer's credit request in the banks are the main challenges which influences successful delivery of the pre-shipment export credit to its customers. However, honesty and integrity of the borrower, false document provision by the borrower, and cancellation of contracts and refusal of payment after delivery by the buyer are pointed out as the main factor which makes difficult the pre-shipment credit appraisal process. Finally, bankrupt of the exporter business, cancellation of contracts and refusal of payment after delivery, diversion of loans by exporters to other business activities and ineffective monitoring of the loan by the bank are factors which diverts the pre-shipment export credit to non-performing loan.

5.3 Recommendations

Based on the conclusions of findings of the study, the following recommendations are made to improve access to finance for exporters, enhance the Bank's delivery of credit facilities to exporters, and to address the problem of low usage of pre-shipment export credit services.

- One way of accelerating the involvement and utilization of pre-shipment export financing credit is encouraging and supporting commercial banks to provide the loan to small and medium emerging exporters who have little experience and knowledge about foreign trade and decentralizing the pre-shipment credit service to more of its branches across the regions. Therefore, in order to solve the problems related with low degree of pre-shipment credit utilization and participation of regional based exporters in to the international trade commercial banks should design a specific program to encourage new and emerging exporters and through delivering the pre-shipment export credit service in main regional branches or regional districts.
- In order to solve the problems related to pre-shipment export credit request appraisal banks should place standardized regulations and working manuals including investigating the exporters past transactions, credibility of the request and documents status of buying company before approving the request.
- Non-performing loan is one of the most serious risks related to any credit and one of the most important ways of minimizing non-performing loan is through regular monitoring and supervision of loan facilities. Banks should introduce appropriate decision-making and control mechanisms supported by management information

systems and information technology to help manage and control the outstanding pre-shipment loan.

- A rigorous effort should be made by the banks with cooperation of National Bank of Ethiopia for reliable information delivery which will create coherence in information supply.
- One way to minimize pre-shipment loan diversion is by introducing central management information systems and information technology by National Bank of Ethiopia for registration of every sales contract used for loan disbursement. Moreover, National Bank of Ethiopia should consider the use of information technology for evolution of all pre-shipment loan performance.
- Developing countries like Ethiopia on edge of growth has concentrated more on enhancing the value and volume of the export turnover in order to attain better economic stability and development, which enables country to generate better employment opportunities leading to optimum utilization of available resources and it has also extended its support to finance all sorts of exports. Therefore, to improve and promote the export turnover and to harvest its benefit at large the federal government should consider the establishment of independent specialized export import (EXIM) bank for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country’s international trade.

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Annex

St. Mary University

Faculty of Business Administration

Department of Management

(Challenges of Pre-Shipment Export Credit Survey Questionnaire)

Dear Respondents;

The ultimate objective of this survey questionnaire is to gather data on the "***Challenges of Pre-Shipment Export Credit Financing from Commercial Bank of Ethiopia and Awash Bank".*** Therefore, respondent's view in this questionnaire shall not be, in any way, used for any other purpose rather than for the advancement of this study. Therefore, your genuine responses contribute a lot to the accuracy of this research finding.

- ✓ This questionnaire has two parts. The first part includes questions related with background profile of respondents. The second part involves questions related to practices and challenges of pre-shipment credit finance.

General Instructions:

1. Please put (√) mark in appropriate boxes as provided.
2. Write in the spaces provided where appropriate.
3. When appropriate don't hesitate to select more than one alternative.

From this Place I Would Like to Express my Utmost Gratitude for your Cooperation!!!

Part I: Respondents Background Profile

1. Name of the Bank Awash ☐ CBE ☐
2. Gender Male ☐ Female ☐
3. Education level

   Diploma ☐ First Degree ☐ Second Degree ☐ Other, Specify ………
4. Department

   Customer Relationship Department ☐ Credit Analysis Department ☐

   International Banking Department ☐ Other, Specify … …………………
5. Position

   Customer Relationship Manager ☐ Department Head/Team Leader ☐

   Credit Analyst ☐ Loan officer ☐ Portfolio officer ☐

   Other, Specify……………

6. Experience in the Banking Industry

   Less than 1 year ☐ Between 1-3 years ☐ Between 4-6 years ☐

   Between 7-9 years ☐ Above 10 years ☐

7. Work experience in foreign trade/credit department in the bank?

   Less than 1 year ☐ Between 1-3 years ☐ Between 4-6 years ☐

   Between 7-9 years ☐ Above 10 years ☐

Part Two: Practices and Challenges of Pre-Shipment Export Credit

1. Does your bank offer pre-shipment export service for customers?

   Yes ☐ No ☐

2. If yes, Which type of business organizations are mostly applies for pre-shipment export credit?

   Sole trader ☐ Unions and Cooperatives ☐

   Partnership ☐ Private limited company ☐

3. How do you evaluate the extent of utilization of the pre-shipment export credit by exporters?

   Very Least Extent ☐ Least Extent ☐ Large Extent ☐ Full Extent ☐

4. How do you evaluate the involvement of regional based exporters in pre-shipment export credit?

   Very High ☐ Moderately High ☐ Moderately Low ☐ Very Low ☐

5. What are the most important factors considered by the bank while appraising the export pre-shipment credit? *(you can select more than one)*

   Proposal and integrity of the exporter ☐

   Capacity of the exporter in execution of the order within the stipulated time ☐

   Availability of side income or financial position of the exporter ☐

   Regulations, political and financial conditions of the buying country ☐

   Methods of Payment Instrument i.e. L/C, CAD or Others ☐

   Others if any, Specify……………………………………………………………………..

6. How do you compare the pre-shipment request as compared to other export credited facility?

   Very High ☐ Moderately High ☐ Moderately Low ☐ Very Low ☐

7. Have you ever rejected any type of pre-shipment export credit request previously?

Yes ▭ No ▭

8. If 'yes' for the question no "8" what is/are possible reasons? …………………………
……………………………………………………………………………………………
……………………………………………………………………………………………

9. At which stage did mostly pre-shipment export credit requested by customers?

At procurement of raw materials ▭ At processing and packing the goods ▭

During manufacturing process ▭ At shipping the goods to the buyer ▭

10. Challenges/constraints for effective pre-shipment export credit?

Please indicate to what extent the following factors hinder or affect the performance/quality and effectiveness of pre-shipment export credit in your bank.

(1= Not at All 2= Very Little 3= Slightly 4= Great Extent 5= Very Great Extent)

S.Nº	Statements	1	2	3	4	5
1.	Lack of sound evaluation of customers credit request in the bank					
2.	Lack of effective monitoring method of the loan					
3.	The problem of non-performing loans					
4.	Lack of loan officers/employees experiences					
5.	Longer delivery and payment time frames					
6.	The collateral requirement of the bank					
7.	Customers loan diversion behavior					
8.	Exchange rate fluctuations and high exchange controls					
9.	The honesty and integrity of the borrower					
10.	Lack of information on the borrower					
11.	The risk that the foreign buyer does not pay exporters					
12.	The problems that the exporter will not fulfill the export order					
13.	The problem related to transport/logistics					
14.	Others, please specify………………………………………………………					

11. How do you evaluate the pre-shipment export credit appraisal process?

    Very Easy ☐ Moderately Easy ☐ Moderately Difficult ☐ Very Difficult ☐

12. If it's difficult, what makes the pre-shipment credit export appraisal process difficult?

    ____

Please indicate to what extent the following factors influence the pre-shipment export credit appraisal process.

(1= Not at All 2= Very Little 3= Slightly 4= Great Extent 5= Very Great Extent)

S.Nº	Statements	1	2	3	4	5
1.	Honesty and integrity of the borrower					
2.	Incomplete and false document provision by the borrower					
3.	Banks rigid credit appraisal procedures					
4.	Banks restricted collateral requirement policy					
5.	Lack of experienced staff in the bank					
6.	Difficulty and/or easy accessibility of customers business for observation					
7.	Others, please specify…………………………………………………………					

13. In your opinion, which of the following factors account for non-performing pre-shipment loans? *Please indicate to what extent the following factors account for* non-performing pre-shipment loans?

(1= Not at All 2= Very Little 3= Slightly 4= Great Extent 5= Very Great Extent)

S.Nº	Statements	1	2	3	4	5
1.	Unselective and inadequate poor credit assessment					
2.	Ineffective monitoring of the loan					
3.	Changes in international/domestic financial market regulations					
4.	Diversion of loans by exporters to other business activities					
5.	Bankrupt of the business or exporter					
6.	Cancellation of contracts and refusal of payment after delivery (buyer risk)					
7.	Transportation and/ logistics problems (third party risk)					

8.	Lack of business management knowledge on the part of exporters					
9.	Others, Specify…………………………………………………………					

14. What do you suggest to improve the pre-shipment export credit service of the bank?
……………………………………………………………………………………………
……………………………………………………………………………………………
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Thank You Again