

**AN ASSESMENT OF
CHALLENGES OF INTERNATIONAL BANKING
OPERATION IN THE CASE OF UNITED BANK S.C**

BY

DANIEL GETACHEW

**A SENIOR ESSAY SUBMITTED
TO THE DEPARTMENT OF MANAGEMENT
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**IN PARTIAL FULFILMENT OF THE REQUIRMENTS FOR THE DEGREE
OF BACHELOR OF ARTS IN
MANAGMENT**

JUNE 2010

SMUC

ADDIS ABABA

**ST MARRY'S UNIVERSITY COLLEGE
BUSSINESS FACULTY
DEPARTMENT OF MANAGEMENT**

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**FACULTY OF BUSINESS
DEPARTMENT OF MANAGMENT**

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DECLARATION

I ,the undersigned, declar that this sinior essay/project is my original work,prepared under the guidance of Ato Aschalew .All sources of materials used for the manuscript have been duly acknowleged.

Name Daniel Getachew

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Place of submission At ST Marry's University College

Date of submission 22 June 2010

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CHAPTER-ONE

1. Introduction

1.1 Background of the study

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

Banks being one of the financial institutions facilitate payment for merchandise shipped and a service rendered layout funds for buyer and seller and gives its professional advices to the traders.

1.2 Background of the Organization

United Bank is a Share Company established in September 1998 G.C. with an authorized capital of Br.100,000,000(one hundred million),out of which Br.20,863,100.00 was subscribed and paid up in cash by 335 founder shareholders. Following the decision of the 3rd extraordinary general meeting of the shareholders held on 7 December 2002, the capital of the bank was increased to Br.200 million, which was fully subscribed and paid on 14th day of March 2007. On the general meeting held on 19 April 2007 it was planned to increase the authorized capital to be Br. 500,000,000.00 as well as the paid up shares capital of the Bank shall be increased from Br.200 million to Br. 400 million in five years time. Currently, United Bank is a full service Bank that offers a full range of commercial banking service with its 41 branch offices (out of which 26 branch offices are located in Addis Ababa and the other 16 Branches are in major towns of the country). . The bank is currently using modern computer facilities to facilitate quality services to customers, in this course; it has successfully transforms its past data from Fox to flex cube computer system. The international banking service provided at various branches with different level of authority, for larger branches the service is provided at section level and for the smaller branches the service is provided by supervisor or junior officers. Currently the bank has wide network around the world to facilitate transactions to its customers.

1.3 Statement of the problem

The main features of international banking services is facilitating the communication between the import and export of goods and services and effecting payment to one party on behalf of the other party involved.

In the process of international banking transactions many parties are involved importers, exporters, importer's banks, exporter's bank and international governing bodies. Since the involved parties are many in number, every action of one party has a positive or negative impact on the other.

An international banking operation faces different kinds of challenges particularly in developing countries where united Bank exist various rules and regulations that restrict foreign currency spending, shortage of foreign currency.

1.4 Basic Research Questions

1. What are the impacts of the rules and regulations designed by the government on foreign currency spending in the Bank?
2. What are the impact of the rules and regulations designed by National banks on international banking operations?
3. How shortages of foreign currency affect the international banking service in the case of aforementioned bank?

1.5 Objectives of the Study

➤ General objectives

The main objective of this research is investigating the existing international banking operation challenges that are restricting the smooth functioning of the sector and forwarding possible solutions that could help to overcome these challenges.

➤ Specific objectives

- a. To assess the impact of some specific rules and regulations those are designed by the government, on the international banking operations.
- b. To point out the impact of rules and policies those are designed by National bank on international banking operations.
- c. To discuss and analyze the effect of international situation on international banking operations
- d. To suggest important solutions that may help to mitigate the existing challenges.

1.6 Significance of the Study

Besides the academic benefit to the researcher, the student researcher believes that the paper can be:-

- Used as a base for further study for researchers who are interested in the area of international banking operations?
- It may help the organization under study to improve its service on the area of international banking operations.
- It may assist also other commercial banks.

1.7 Scope (delimitation) of the Study

The study could have been more fruitful if it could be able to see all banks in Ethiopia, however the student researcher found it unmanageable. Thus this research is delimited to access challenges in international banking operation services in the case of United Bank s.c covering 26 branches and the head office only and it tries to see two years trend.

1.8 Methodology of the Study

1.8.1 Research Design

Collected data are presented using descriptive techniques this method is used since the researcher found it very convenient to describe all things as they are.

1.8.2 Population and Sampling Techniques

The population of the study is 40 employees of united bank, four from international banking department (IBD) at head office, and 36 from the 26 branches handling international banking operations.

Since the number of population is limited to the above level the study employed census. From these 40 employees 36 fill and returned the questionnaire but the rest 4 didn't return despite the repeated telephone call made by the student researcher.

1.8.3 Types of Data Collected

In order to address the stated research questions and objective primary and secondary data were used

1.8.4 Data Collection Method

While collecting the primary data, questionnaires were used since it gives respondents sufficient time to answer adequately and freely. The questionnaires included important elements about the present situations of international banking operations in the bank, rules and regulations of the country, important international regulations and improvement opinions and unstructured interview was also used. The secondary data were collected by reviewing relevant research documents that has been done earlier and other relevant documents of the bank that are used as a guidance, policy, different websites, manuals and books.

1.8.5 Data Analysis Method

Theoretical data and experience of the employee's quantitative data interpretation of questionnaires are used as an input for the assessment and evaluation of challenges in international banking operations. In order to arrive at a convinced conclusion, data are edited, coded and tabulated.

1.9 Limitation of the paper

Due to their personal problem and in some cases due to carelessness it was not possible to collect and include views of 4 respondents and to some extent their view have lessen the output of this study besides to this the researchers being day time worker and night time student creates a time limitation in studying the case much more fruitfully.

1.10 Organization of the Paper

The paper holds four chapters ,the first embrace background of the study, statement of the problem, objective of the study, significance of the study ,limitation of the study and methodology which all account for the introduction part. The second chapter deals with review of related literatures, chapter three holds finding of the study and the last chapter (chapter four cover the conclusion and recommendation part.

CHAPTER TWO

2. REVIEW OF RELATED LITRATURE

2.1 Overview of International Trade

Trade is the movement of goods and services that develops from a business transaction between a seller and a buyer. Import and export of goods and services characterizes international trade. (Sylvestre, 2007:page43)

Establishment of Basel Committee

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

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

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

The committee does not possess any formal supranational supervisory authority. Its conclusions do not have, and were never intended to have, legal force. Rather, it formulates broad supervisory standards and

guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements, which are best, suited to their own national systems. In this way, the committee encourages convergence towards common approaches and common standards without attempting detailed harmonization of member countries supervisory techniques.

The two important objectives of the committee are: no foreign banking establishment should escape supervision; and supervision should be adequate. (History of the Basel Committee and its Membership 2007: page 3)

Core principles of the Basel Committee

The core principles are framework of minimum standards for sound supervisory practices and are considered universally applicable. The committee drew up the core principles and the methodology as its contribution to strengthening the global financial system. Weaknesses in the banking system of a country, whether developing or developed, can threaten financial stability both within that country and internationally. The committee believes that implementation of the core principles by all countries would be a significant step towards improving financial stability domestically and internationally and provide a good basis for further development of effective supervisory systems. The core principles are 25 in number. (History of the Basel Committee and its Membership- 2007: page 10)

2.2 Challenges of International Banking

There are various challenges facing the banking sector:

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

2.2.1 Trade Finance Challenges

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

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

Asked what they look for when choosing a bank for their financing needs, importers and exporters increasingly cite one key factor (sometimes about price)-market knowledge. Knowing your customer means understanding its business from a global perspective. That means an awareness of how a production slow-down in China impacts its African operations, how a hurricane in the US affects its shipping orders, and how legislative change in Eastern Europe affects the enforceability of its contracts. (Hebron, 2006 page 25)

2.2.2 The Challenges of Convergence

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

Banks could leverage on their size and local knowledge to dominate their domestic markets. They didn't feel serious competitive pressure from outside their industry. However, this situation has changed drastically in recent years.

Several factors have contributed to this change: the liberalization and deregulation of the financial sector; the greater use of financial engineering techniques and models; significant advances in information technology and telecommunications; and growing consumer demands for better pricing as Internet enhanced consumer information. The result has been greater competition and finer pricing. As a consequence, banks have had to review their strategies for generating more fee-based income, and income from non-traditional sources.

The intense and accelerating competition has driven banks to seek new business models and laid the groundwork for growing convergence among the various firms but also their regulators. This convergence is for banking securities and insurance. (Palmer,2002:31)

2.2.3 Global Challenges in Banking

Financial sector reforms in any country will bring about revolution in the structure of banking environment. While deregulation has opened up new opportunities for banks, liberalization has intensified competition in the banking industry by opening the market to new foreign and private banks. Declining interest rates and reduced lending margins have thrown up new challenges to banks, particularly public sector banks. Banks need to equip themselves sufficiently to operate in such a competitive environment.

- ❖ Enhancement of customer service
- ❖ Innovations in technology
- ❖ Improvement of risk management systems
- ❖ Diversifying products (Viswanathan, 2008::page 9)

2.3 Rules and Regulations Related to International Banking

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

country, or the individual business objectives of the concerned. (Stenber, 1976: page 11)

The Impact of Government Policy and Regulations on Banking

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

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

Why are most banks so closely regulated? There are a number of reasons for this heavy burden of government supervision, some of them centuries old. (S.Rose, 2002: page 57)

The Principal Reasons Banks are subject to Government Regulation

- ❖ To protect the safety of the public's savings.
- ❖ To control the supply of money and credit in order to achieve a nation's broad economic goals (such as high employment and low inflation).
- ❖ To ensure equal opportunity and fairness in the public's access to credit and other vital financial services.

- ❖ To promote public confidence in the financial system, so that savings flow smoothly into productive investment and payments for goods and services are made speedily and efficiently.
- ❖ To avoid concentrations of financial power in the hands of a few individuals and institutions.
- ❖ To provide the government with credit, tax revenues, and other services.

To help sectors of the economy that have special credit needs (such as housing, small business, and agriculture). (S.Rose, 2002:page 61)

The Impact of Regulation on Banks

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

There is an ongoing struggle between regulated firms and the regulators, called the regulatory dialectic. This means that once regulations are drafted and set in place, bankers will inevitably search to find ways around the new rules through innovation to maximize the value of each banking firm. This struggle between regulated firms and regulators goes on indefinitely. (S.Rose, 2002: page 69)

Banking's Principal Regulatory Agencies and Their Responsibilities

Federal Reserve System

- Supervises and regularly examines all state-chartered member banks and holding companies operating in the United States and acts as the "umbrella supervisor" for financial holding companies that are now allowed to combine banking, insurance and securities firms under common ownership.
- Imposes reserve requirements on deposits (Regulation D).
- Must approve all applications of member's banks to merge, establish branches, or exercise trust powers.
- Charters, supervises and examines international banking corporations operating in the United States. (S.Rose, 2002: page 75).

Comptroller of the Currency

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

Must approve all national bank applications for new branch offices, trust powers, mergers, and acquisitions. (S.Rose, 2002: page 113)

Federal Deposit Insurance Corporation

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

Securities and Exchange Commission

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

State Banking Boards or Commission

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

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

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

The nations belonging to the new European Union also have a central bank, the European Central Bank or ECB, which is relatively free and independent of government control as it pursues its main goal of

avoiding inflation. In contrast, central banks in Japan, China and other part of Asia are generally experienced higher inflation rates, volatile currency prices and other significant economic problems in recent years.

In addition to regulatory agencies changes in government spending, taxes budget deficits, and borrowing, often called fiscal policy, have impact on banks and other institutions operating in the financial markets. (S.Rose, 2002: page 23)

National Bank Regulation

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

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

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

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

Types of Acceptable Credit Cards

- American Express
- Visa Card
- Master Card
- Euro Card
- Diner Club Card
- Cart Blanche (National bank Revised Directive No. FXD/21/2003)

Foreign Currency Holding Limit

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

Eligible Foreign Currency Accounts for Diaspora

In this country foreign currency accounts are restricted to the following types of currency:

- i) The US Dollar
- ii) Pound Sterling
- iii) Euro
- iv) Japanese Yen (National bank Directive No FXD/25/2004)

International Banking Operations Rules

In handling International Banking operations the following rules are indispensable.

UCP 600

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

ICC/URC

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

Incoterms (International Commercial Terms)

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

Some of the Incoterms used in United Bank are:-

- ✓ Free on board (FOB)
- ✓ Ex-works
- ✓ Cost and Freight (CFR)
- ✓ Cost, Insurance and Freight (CIF) (international banking Manual, 2007:page 33)

2.4 International Banking

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

The main International Banking services given by United Bank are:

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

2.5 International banking services provided in United Bank

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

The major International Banking services provided in United Bank are:

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

2.5.1 Import

Letter of Credit

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

It has been used for centuries to facilitate the worldwide exchange of goods and services. They have played a significant role in the expansion of trade. It reduces payment risk by providing an efficient method for arranging settlement for goods and services. This method of payment is the most secure means for all the parties involved. (IB Manual, 2007: page 27)

Types of letter of credit

- ✚ Revocable L/C – an L/C that can be cancelled or amended by issuing Bank at any time without prior notice or arrangements from the exporter. (Not applicable in United Bank)
- ✚ Irrevocable L/C – an L/C that is definite commitment by the issuing Bank to pay, it cannot be amended or cancelled without the consent of all parties involved.
- ✚ Confirmed L/C – an irrevocable undertaking of the confirming Bank to honor or negotiate that compliance with the terms and conditions.
- ✚ Unconfirmed L/C – a credit, which doesn't assume the importers country risk. (IB Manual, 2007:page 27)

Cash against Document (CAD)

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

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

Commercial documents mean invoice, shipping documents or documents of title. (IB Manual, 2007: page 28)

Cash in Advance (TT)

This is a type of payment methods by which the seller receives cash from the buyer prior to shipment. Mail, telex, swift, draft etc can effect such kind of payment. (IB Manual, 2007: page 28)

2.5.2 Export

ODBP

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

The Bank then sends the document to the Bank of the importer abroad. The importer's Bank then presents the document to the importer abroad and the collection is settled by reimbursing the exporters Bank. (IB Manual, 2007: page 29)

Consignment

This is another type of payment method used in United Bank by which the seller ships the goods to the exporter known as consignee whilst retaining the ownership. The consignee is the agent responsible for paying the supplier if and when the goods are sold. (IB Manual, 2007: page 29)

2.5.3 Other services provided in United Bank

Outgoing International Bank Guarantee

A) Bid Bond (Tender Bond) Guarantee

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

part (Beneficiary) in equivalent hard currency amount in case the local customer (Principal) wins the bid bond. (IB Manual, 2007: page 31)

B) Repayment (Advance Payment) Guarantee

It is kind of guarantee (undertaking to pay) by United Bank (Issuing Bank) for the account of local customer (Principal) in order to secure the payment made in advance by foreign counter part (Beneficiary), if the principal fails to fulfill it's contractual obligation and unable to reimburse the beneficiary. (IB Manual, 2007: page 31)

C) Performance Bond Guarantee

This kind of assurance is issued by United Bank to foreign counter part (Beneficiary) on behalf of local customer (Principal) for completion of a specific task. The Bank collects money from the local customer in local currency and provides guarantee for the foreign counter part in equivalent hard currency amount and assures the foreign counter part for the payment in case the local partner fails to complete the job. (IB Manual, 2007: page 31)

D) Retention Guarantee

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

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

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPERTAION

This chapter is committed to the data analysis and interpretation. It deals with collected data through questionnaire, telephone interview analyzed using tables and interpreted based on the data obtained.

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

3.1. Characteristics of the Respondents

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

Table 1: Personal information

Item	Level of Education	Number	Percentage
1	B.A Degree	20	56
	Diploma	16	44
	Below Diploma	0	0
Total		36	100
2	Year of Experience		
	Less than two years	6	17
	Greater than two and less than four	14	39
	Greater than four years	16	44
Total		36	100

Table 1 item 1 shows that 20 (56%) of the respondents are degree holders, 16 respondents (44%) are diploma holders and it shows that there is no respondent having a qualification below diploma and above B.A. degree. Regarding years of experience table 1 item 2 states 6 respondents (17%)

have less than two years experience, 14 (39%) have experience greater than two years and less than four years, and 16 of the respondents which are 44% of the respondents have more than four years experience.

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

3.2. Analysis of Findings of the Study

Table 2

Item	Is your branch or work unit facing any challenge in relation to international Banking services?		
		Number	Percentage
1	Yes	30	83
	No	6	17
Total		36	100

Among the respondents 30(83%), feel that their work unit is facing challenges with regard to international banking operations, the rest of the respondents six in number (17%) feels that their work unit is not facing any international banking challenges. Specifically, 22 of the respondents (61%) feels that some regulations designed by the National Bank of Ethiopia are their major challenges, 10 of the respondents (27) feel that the regulation designed by some government bodies create more challenges, 2 of the respondents (6%) feels that, of all the regulations, the most challenging one are designed by the commercial banks, the remaining 2 (6%) of the respondents feel that internal regulations by the bank are the main challenges for international banking operations.

In relation to National bank regulations, 16 of the respondents (44%) feel that National bank directives are big challenges for international banking, and 4 of the respondents (11%) the respondents feel the National bank controlling procedures are more challenging for international banking

operations, 6 of the respondents (17%) feel that the National bank reserve requirement is a big challenge for international banking operations, 10 of the respondents (28%) feel that National bank's foreign currency usage policy is the major challenge for international banking operations.

On government regulations, 13 of the respondents (36%), thinks that regulations that restricts import of some kind of goods is the major challenge for international banking operations, 17 of the respondents (47%), thinks that regulation that restricts export of some kind of goods is a major challenge for international banking operations, 1 of the respondents (3%) thinks that regulations designed to encourage some other sectors brings challenge to international banking operations, 5 of the respondents (14%), thinks that regulations related to custom clearance creates a big challenge for international banking operation.

With regard to commercial banks policy, 9 of the respondents (25%), thinks that financing regulations are a major challenge for international banking operations, 21 of the respondents (58%) thinks that commercial banks foreign currency usage policy is a major challenge for international banking operations, 2 of the respondents (6%) thinks that the banks choice of international communication choice can create a challenge for international banking operations, 4 of the respondents (11%) thinks that retention account utilization policy creates a challenge for international banking operations.

Table 3

Table 3 states about import, export & bank guarantee facility capacity and adequacy, knowledge regarding international trade and regulations.

Item	Do you think the import capacity of your organization is sufficient for customers?		
		Number	Percentage
1	Yes	25	70
	No	11	30
Total		36	100
	Do you think the export financing capacity of your organization is sufficient for customers?		
		Number	Percentage
2	Yes	30	83
	No	6	17
Total		36	100
	Do you think the various kinds of international bank guarantees issued by your bank are satisfactory for customers?		
		Number	Percentage
3	Yes	25	69
	No	11	31
Total		36	100
	Do you consider lack of international trade knowledge by customers could be a setback for processing their orders?		
		Number	Percentage
4	Yes	34	94
	No	2	6
Total		36	100
	Do you think lack of knowledge of some regulations by the participating parties could create problem in the international banking operations?		
		Number	Percentage
5	Yes	36	100
	No	-	-
Total		36	100

As indicated in this table 3 item 1, 25 (70%) of the respondents said the import financing capacity of United Bank is sufficient for customers. 11 respondents (36%) who said the import financing capacity of the bank is not sufficient for customers suggested a few reasons, which are categorized as follows:

- a) The current global financial crisis which lessens export trade and major foreign currency gain from export transaction
- b) Focus on export financing
- c) Authorization problem by government Even if the bank can expand its capacity,

Table 3 item 2 explains that except 6 respondents, the rest 30(83%) respondents think that export financing capacity of United Bank is sufficient for customers like import financing. The reasons and solutions given by respondents who said export financing capacity is not sufficient is that related authorities did not authorize for expansion or improvement of capacity even if the capacity of United Bank is enough and making serious discussion with the concerned party (the government) might be a solution.

According to table 3 item 3, 25 (69%) employees or respondents believe that the service given by the bank under the international bank guarantee is satisfactory. However, the remaining 11 (31%) respondents distrust the service given under international bank guarantee is satisfactory. In other words, they believe that the service is unsatisfactory for their customers.

It is clear from table 3 item 4 that 34 (94%) almost all believe there is a high degree of lack of international knowledge by customers coming to their department and this resulted in a strong setback for processing their orders.

From table 3 item 5 one can clearly see that the lack of knowledge of some regulations by participating parties have created a major problem in handling smoothly the international banking operations.

Table 4

Table 4 is regarding challenges related to recent technology, qualified professionals, partial shipment, transshipment, bank charges and scarcity of foreign currency

Item	Do you think employing the recent technology make international service better?		
		Number	Percentage
1	Yes	36	100
	No	-	-
Total		36	100
	Do you think your organization has qualified professionals to satisfy international banking operations?		
		Number	Percentage
2	Yes	36	100
	No	-	-
Total		36	100
	Do you think of any kind of problem exist due to partial shipment of goods from abroad?		
		Number	Percentage
3	Yes	36	100
	No	-	-
Total		36	100
	Do you think any kind of problem exist due to transshipment of goods?		
		Number	Percentage
4	Yes	29	81
	No	7	19
Total		36	100
	Do you think that international regulations about various kinds of bank charges against the interest of local parties?		
		Number	Percentage
5	Yes	18	50
	No	18	50
Total		36	100

Do you think that scarcity of foreign currency makes a dalliance in the service operation of international banking?			
		Number	Percentage
6	Yes	36	100
	No	-	-
Total		36	100

Table 4 states Challenges Related to Technology, Professional, Partial Shipment, Trans-shipment, bank charges and scarcity of foreign currency.

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

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

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

With regard to questions asked about trans-shipment of goods, 29 of the respondents (81%) think that there is no challenge in partial shipment of goods. However, 7 of the respondents (19%) think that partial shipment of goods could create challenge for international banking operations.

In respect of regulation on bank charges We see in table 4 item 5 that the respondents have equal in number in favor and against this particular question.

Table 4 item 6 declares that 36 (100%) of the respondents feel that foreign currency scarcity make a dalliance on the service operations of

international banking, and the customers are forced to wait for a longer period in order to fulfill their foreign currency needs for payment to be made abroad for the purpose of import of goods and services.

The respondents suggest possible solutions to decrease foreign currency scarcity on open ended questions as follows:-

- a. as mentioned in the above part this bank have only two agents international money transfer but if this bank increase or adds additional international money transfers this might help to accumulate the foreign currency .
- b. To facilitate the exporter to use united bank by giving an attracting service starting from the counter.

3.3. Additional comments obtained from respondents using open ended questions.

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

The major problem sited by the respondents is the lack of good communication system between different government bodies. The communication problem between this government bodies create inconvenience for the customer to process their timely. Some of the major government bodies that lack a good communication system are National Bank of Ethiopia, Ethiopian Customs Authority, Ministry of Trade and

Industry and Ethiopian Quality and Standard Authority. This communication problem could create a major problem when one government body design and disseminates procedures and rules; the other government body could override this procedure and rules.

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

The other issue rose by the respondents is that the risk aversion tendency by the management of the organization. The respondents argue that most of the international banking rule around the world is applied almost every part of the world. And also the locally designed policies and procedures are designed for every participating bank and other bodies. However, the interpretation of these international and local rules and procedures are implemented as per the understanding, attitude and ability of the management of the organization. So that, management attitude towards risk management determines the interpretation of the rules and procedures. In turn, highly risk averting mangers are creating challenges for international banking operations.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter holds summarized findings of the study, conclusions and recommendation.

4.1 Summary

This research is conducted with the objective of assessing challenges of international banking operations in the case of united bank s.c. The study was conducted using questionnaire, interview. Different books and references were also reviewed to enrich the literature part.

The population of the study was 40, since the population is limited to the stated number the study employed census. The student researcher was able to gather 36 questionnaires out of the forty questionnaires.

Major Findings of the Study are presented as Follows

Among the studied respondents the majority, feels that their work unit is facing challenges with regard to international banking operations. This proves the existence of challenge.

While analyzing the specific rules the respondents assume that, regulations designed by the National Bank of Ethiopia (regulatory bank) and regulations designed by government bodies and commercial banks policy are major challenges.

Among the National Bank regulations, majority of the respondents proved that National Bank Directives are creating a big challenge for international banking operations and most of the respondents felt that National Bank foreign currency usage policy is a major challenge for international banking operations and some felt that National Bank reserve requirement

and controlling procedure are more challenging for international banking operations.

On government regulations, majority of the respondents thinks that regulations that restricts export of some kind of goods are a major challenge for international banking operations, regulations that restricts import of some kind of goods are set as major challenges for international banking operations by most of the respondents some of the respondents thinks that regulations related to custom clearance creates a big challenges for international banking operations.

On commercial banks policy, majority thinks that commercial banks foreign currency usage policy is a major challenge for international banking operations and some of the respondents think that financing regulations are major challenges for international banking operations.

Related to financing capacity majority of the respondents confirms that there is no sufficient capacity of import and export financing. These are the results of incapability to use the whole capacity of the bank because of the government restriction of a capacity to a certain level. There is also a debating issue that the bank focuses on export financing than import financing.

Regarding international bank guarantees it is observed that more than two-third of the respondents have the same opinion that the international bank guarantees issued by united bank are sufficient.

With regard to lack of international trade knowledge by customers, almost the entire respondents expressed that customers have a high degree of unawareness about it and this resulted to the banks operation as one area of challenge.

When we see to the customers knowledge of some international regulations, all respondents agree on that almost all customers do not

have enough or no knowledge ,and this has created another challenge and used up unnecessary time wastage.

As approved by the respondents the application of modern technology in international banking operation is enabling customers of the bank to a better service in international banking operations and the bank has qualified professional to provide services for its international banking operations.

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

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

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

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

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

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

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

4.2 CONCLUSSION

Based on the Analyzed Data the Following General Conclusions are drawn.

- ✓ International banking operations work unit is facing challenge, and According to the study the major challenges resulted from regulations designed by the National Bank of Ethiopia, regulations designed by government bodies that restricts export and import of some goods, and also commercial bank policy on foreign currency usage and financing regulation.
- ✓ There is a challenge in financing capacity related to import and export financing, This is the result of shortage of foreign currency and existence of a limit set on foreign currency utilization by national bank of Ethiopia even though the bank has a capacity, and this enforces the bank to perform under capacity.
- ✓ The bank is applying modern technology in international banking operations to provide a better service to its international banking customers and even to attract other international banking customers from other competing banks.
- ✓ The bank has some drawbacks in implementing international communication system within the organization and in arranging different kinds of International Banking Seminars to its existing and prospective international banking customers to increase their international banking knowledge that enables them process their orders more smoothly.
- ✓ Necessary care should be taken in handling documents to be processed with a UN or USA trade sanctioned countries, since, the consequence of the transaction is uncertain.

4.3. RECOMMENDATIONS

- ❖ The bank should give the required emphasis or focus both to export or import financing, in fact if possible equal treatment or a financing capacity allocation to export and import on the basis of demand of customers.
- ❖ The bank should dig for different sources of foreign currency to satisfy its customers' needs to boost its income from foreign banking operation even more.
- ❖ The bank should implement international communication system within the organization to provide efficient and effective services to its international banking customers.
- ❖ The bank should continue in employing and educate its employee to better exploit their ability for better banking services to its international banking operations.
- ❖ The bank should provide various training and seminar to its management members in order to create more awareness and confidence about various regulations designed by different agencies.
- ❖ The bank should arrange different kinds of International Banking Seminars to its existing and prospective international banking customers to increase their international banking knowledge that enables them process their orders more smoothly.
- ❖ The bank's employees who are handling international banking operations should take a necessary care in handling documents to be processed with a UN or USA trade sanctioned countries, since, the consequence of the transaction is uncertain.

Questionnaires to be filled by employees of united bank. Sc. Working on international banking operations

1. Topic: - Challenges in international banking operation services in case of united bank s.c

2. Confidentiality: - We want to assure that the data you will furnish is kept and use with strict confidentiality. No need to mention your name.

3. General instruction: - Your are kindly requested to make a tick mark on your choice and write any additional information if any.

Part I

General information

1. Educational Back ground

Above B.A degree

B.A degree

Below Diploma

Diploma

2. Years of experience in international banking operations.

Two years and less

Above two years and below four years

Above four years

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

Yes

No

If yes, which is the most common one?

- A. National bank regulations
- B. Government regulations
- C. Commercial bank regulations
- D. Internal regulations
- E. Other. _____

2. Among the following national bank regulations, which one do u think is a major challenge for international banking operation?

- A. National bank directives
- B. National bank controlling procedure
- C. National bank reserve requirement
- D. Pre shipment inspections
- E. National bank foreign currency usage
- F. any other _____

3. Among the following Government regulations, which one do u think is a major challenges for international banking operations?

- A. Regulations that restricts import of some kind of goods
- B. Regulations that restricts Export of some kind of goods
- C. Regulations that are designed to encourage some other sectors
- D. Regulations that is related to custom clearance
- F. any other _____

4. Among the following Commercial banks polices and regulations, which one do you think are the major challenges of international banking operations?

- A. Financing regulations
- B. Foreign currency utilization policy
- C. International communication media choice
- D. Retention accounts utilization policy
- F. any other policy _____

5. Do u think that the shortage of foreign currency in current situations would be have an impact on foreign banking operation.

6. Do you think the restriction to use Ethiopian shipping lines for import purpose is placing a challenge for international banking operations?

Yes

No

If yes, what do u think should be done?

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

Yes

No

If no, what solution do you suggest?

8. Do you think the export financing of your organization is sufficient for customers?

Yes

No

If no, what solutions do you suggest?

9. Do you think the various kinds of international bank guarantee issued by your bank are satisfactory for customers?

Yes

No

If no, why do you think it is not satisfactory?

10. Do you consider lack of international trade knowledge by customers could be a set back for processing their orders?

Yes

No

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

Yes

No

12. Do you think the employing the recent technology make international service better?

Yes

No.

If no, what are the reasons?

13. Do you think your organization has qualified professionals to satisfy international banking operations?

Yes

No.

14 Do you think of nay kind of problem exist due to partial shipment of goods from abroad?

Yes

No

15. Do you think any kind of problem exist due to transshipment of goods?

Yes No

16. Do you think that international regulation about various kind of bank charges are against the interest local parties?

Yes No.

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

Yes No

If the answer is yes how long do think?

18. What possible solutions do you suggest to decrease foreign currency scarcity in case of united bank S.c?

19. Do you think that the contribution of international banking department to the over all income of the origination is significant?

Yes No.

10. Please suggest, if you face any king of international banking challenges that is not addressed in this questionnaires?

**ST MARRY'S UNIVERSITY COLLEGE
BUSSINESS FACULTY
DEPARTMENT OF MANAGEMENT**

Interview question

**Number of employees who are working on International banking department
and their positions?**