

ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

**INTERNATIONAL BANKING OPERATIONS AND
ITS CHALLENGES IN CASE OF
BERHAN INTERNATIONAL BANK S.C**

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February, 2014

ST. MARY'S UNIVERSITY

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ITS CHALLENGES IN CASE OF
BERHAN INTERNATIONAL BANK S.C**

**A SENIOR RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING**

BUSINESS FACULTY

ST. MARY UNIVERSITY

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DEGREE OF BACHELOR OF ARTS IN ACCOUNTING**

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IN ST.MARY UNIVERSITY

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FACULTY OF BUSINESS

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Acronyms

❖ G-10	Group 10
❖ MOUs	Memorandums of Understanding
❖ EU	European Union
❖ APRNZ	Australian Prudential Regulation Authority
❖ RBNZ	Reserve Bank of New Zealand
❖ IMF	International Money Fund
❖ NBE	National Bank of Ethiopia
❖ L/C	Letter of Credit
❖ CAD	Cash against Document
❖ TT	Telegraphic Transfer
❖ ODBP	Outward Documentary Bills Purchased
❖ B/L	Bill of Loading
❖ SMS	Short Message System
❖ ATM	Automated Teller Machine
❖ ATS	Automatic Transfer System
❖ IBD	International Banking Department

Abstract

This paper attempts to evaluate the practice of international banking operation and its challenge in case of Berhan Bank. The paper attempts to address research question raised in statement of the problem and objective of the study. Thus, the general objective of the paper is to describe the procedure of International banking operation and its challenge in case of Berhan International Bank.

In conducting the study the research used primary and secondary data. The collected data are analyzed interpreted using qualitative and quantitative method to present the findings. Data collected from secondary sources are analyzed by percentage, tabulation, description .Base on the study summary of findings were written, conclusion were drawn and finally recommendations were made that supposed to be important to solve the existing problem of international banking operation and its challenge in case of Berhan International Bank.

Table of Contents

	Page
Acknowledgments	I
Acronyms	II
Abstract	III
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 Background of the Organization	2
1.3 Statement of the Problem	3
1.4 The Objectives of the Study	4
1.5 Significance of the Study	4
1.6 Research Design and Methodology	5
1.6.1 Research Design	5
1.6.2 Population and Sampling Techniques	5
1.6.3 Sample Size	5
1.6.4 Data Collection Methods	5
1.6.5 Method of Data Analysis	6
1.7 The Scope of the Study	6
1.8 Limitation of the Study	6
1.9 Organization of the Study	6
CHAPTER TWO	8
REVIEW OF RELATED LITERATURE	8
2.1 General Overview	8
2.2 A Short History of Modern Banking Regulation	9
2.3 Regulatory Responses Around the Globe	10
2.4 Basel Committee on Banking Supervision	10
2.5 Memorandums of Understanding Between Regulators	11
2.6 Legislative Frameworks	11
2.7 The Future of Cross-Border Banking Supervision	12

2.8 International Standards and Codes	13
2.9 Practical Integration Issues	14
2.10 National Bank Regulation	16
2.11 International Banking	18
2.12 International Banking Services Provided in Berhan Bank	18
2.12.1 Import	18
2.12.2 Export	20
2.12.3 Other Service Provided in Berhan Bank	20
CHAPTER THREE	22
DATA PRESENTATION, ANALYSIS AND INTERPRETATION	22
3.1 Background Information	22
3.2 Analysis of the Questionnaires	23
3.2.1 Rules and Regulations of NBE	23
3.2.2 International Regulation of the Bank	23
3.2.3 International Regulation and Rules	24
3.2.4 Restrictions to use Ethiopian Shipping Lines and Logistics Services	25
3.2.5 Import Financing Capacity	25
3.2.6 Export Financing Capacity	26
3.2.7 Issuance of International Bank Guarantee	26
3.2.8 Lack of International Trade Knowledge	27
3.2.9 Lack of Knowledge of Some Regulations	28
3.2.10 Challenges Related to Technology Professional	28
3.2.11 Scarcity of Foreign Currency	28
3.2.12 Level of Contribution	29
CHAPTER FOUR	30
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	30
4.1 Summary	30
4.2 Conclusions	31
4.3 Recommendations	32
References	
Questionnaire	

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The International banks operate on a narrow spread as compared to the domestic banks. This means that the spread between the credit and the deposit is very slender. The higher interest on deposits and the lower rate of interest on the credit portfolio attracts both the depositors and the borrowers not only from the domestic sector but also from other countries as well that in turn motivates the banks in going international. (IC, Delhi)

Internationalization of banks is not a new phenomenon. The history of international banking starts with the banks of ancient times, moves to the rise of the Italian merchant –bankers in the late middle ages. In 1913 there were approximately 2,600 branches of foreign banks worldwide. International banking has been and still is closely linked to the development of world trade, the process of urbanization, and the rise of the nation-state, (T.N.Hajela)

Let us see the definition of International banking provided by various authors as follows

-Any financial transformation that has a cross currency/country, (Barger,H)

-A bank that owns and controls banking activities in two or more countries, (Edward and Cotter)

-A multi national bank having branches in one or more foreign countries, (K.C Shekar)

1.2 Background of the Organization

Berhan international bank is share company established by more than 6,700 share holders, with a paid up capital of Birr 95million and approved capital of birr 300million.with the purpose of enhancing the strength and competitiveness, the bank has raised its authorized capital to birr 313million as at June 30,2013in this regard the bank has scored an annual growth of 58.7% for the last four years.

The board of directors of the bank is comprised of renowned scholars and successful business persons. It is working with passion to achieve the banks vision.

Berahan international bank is full-fledged banking products and services both in domestic and international banking operation with its 27 branches (out of which 20 branches are located in Addis Ababa and the rest are in the major town of the country).

The bank is currently applying core banking solution (Rubicon).The technology allows the bank to provide the following services

- SMS message on each account transaction.

- Operating an account at any of our branches

Through this technology the bank is under way to provide SMS banking, internet banking, ATM and ATS services.

Berhan international bank has its own **Vision, Mission and Values**

Vision

- ✓ To be a radiant and trustworthy bank in excellence

Mission

- ✓ Committed to provide diverse financial products by, deploying motivated and qualified human resources as well as state -of the art technology, with highest ethical standard to create maximum value to stakeholders.

Values

- ✓ Quality service
- ✓ Utmost respect to customers
- ✓ Innovation, Excellence and progress
- ✓ Professionalism and team spirit
- ✓ Integrity and Loyalty
- ✓ Collaboration and partnership
- ✓ Public confidence, trust and fairness. (Magazine of Berhan International Bank 2013)

1.3 Statement of the problem

International banking service is the type of banking service which facilitates the transfer of goods and services from one part of the world to the other. The main features of international banking service 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. (T.N.Hajela)

In the process of international banking transactions many parties are involved importers, exporters, importers, bank, exporter bank and international governing bodies. Since the involved parts are many in numbers, every action of one party has positive or negative impact on the other. However the international banking operation challenges are not limited to the parties indicated above. (Ibbid)

An international banking operation faces different kinds of challenges particularly in developing countries: this is mainly due to the trade deficit. The export commodity is limited to cheap agricultural products and their import machineries, petroleum and other expensive commodity; this resulted in a high trade deficit. The resulted trade deficit forces these developing countries to develop and implement various rules and regulating that enable them to restrict their foreign currency spending. Due to these facts the rule s and regulations and other factors create challenges to international banking operation in this developing countries.

1.4 The objectives of the study

- ✓ To asses international banking operations and its challenges in case of Berhan International Bank
- ✓ To analyze the effect of international situation on international banking operations
- ✓ To suggest solutions that may help to mitigate the existing challenges.
- ✓ To point out the challenges of international banking
- ✓ To asses international banking operational Practices
- ✓ To assess the impact of some specific rules and regulation those are designed by the government.

1.5 Significance of the study

- ✓ It can be used as bases 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.

1.6 Research Design and Methodology

1.6.1 Research Design

The student researchers used questionnaires for each employees of Berhan International Bank especially working in department of international banking (IBD) and 6 selected branches(Kera, Genet, Legehar, Amede, Megenagna and Bole)including managers out of 27 branches and also personal observation made by the student researchers.

1.6.2 Population and Sampling Techniques

The student researchers, using simple random sampling technique among the 40 of 84 employees of the bank to gather the data necessarily to establish valid conclusion.

1.6.3 Sample Size

Since the target population on this study was employees of Berhan international bank, the student researchers used 40 of 84 employees as respondent to collect primary data through questionnaires. Regarding sampling technique, simple random sampling technique were used to select the required sample for the study and 40 questionnaires were distributed to those employees randomly selected respondents to gather relevant data for the study.

1.6.4 Data Collection Methods

The student researchers used questionnaires for each employees of the organization and personal observation is made by the student researchers. The other data collection method was secondary data by referring the bank. Secondary sources include the manual of the bank, magazines, and related literature found in different

sources, whereas primary data was collected from employees and management through questionnaires.

1.6.5 Method of Data Analysis

The collected data were presented using statement type of data presentation, percentage, tables and description method of data analysis techniques were applied in this study.

1.7 The scope of the Study

The research covers international banking operation and its challenges in case of Berhan international bank S.C. Actually most of the practices of the bank are as per the international standard. This research undertake in department of international banking and selecting 6 sample branches in the boundary of Addis Ababa. This is because most international banking operations take place in the capital city of the country.

1.8 Limitation of the Study

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

1.9 Organization of the Study

The research deals with the assessment of international banking operation and its challenges in case of Berhan international bank and this study is subdivided into four chapters. In first chapter, the introduction consists of background of the study,

statement of the problem, objectives of the study, significance of the study, scope and limitation of the study and research methods are included, in second chapter literature review which describes the concept of international banking and its operation were collected from internet, manuals, official documents, books and other material. The third chapter data presentation and analysis and the fourth chapter includes summary of findings, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 General Overview

A major issue being faced by banking regulators in many parts of the world is how to marry their domestic policy responsibilities with the increasingly international activities of large banks. (Damien White)

In common with most industries, retail banking began as a primarily domestic activity. Banking regulation for the most part also grew with a domestic focus—principally protecting domestic depositors and maintaining domestic financial stability. Often this regulation contained strict rules governing—and in many cases essentially banning foreign entry to banking systems. (Ibid)

However, over time, there has emerged increasing international integration in the banking industry. In some cases this has been aided by governments recognizing the benefits of competition in banking and liberalizing entry into their domestic markets. And, most recently, banks ‘off shoring’ functions has created further internationalization within banks – even in those that only offer services in a single country. (Ibid)

While this has been occurring, most countries have retained a strong domestic focus in their prudential regulation. As a result, some pressures have arisen in the domestic regulation of banks and in how best to maintain domestic financial stability as risks from banks based in, or with operations in, other countries increase. The challenge is, how can we benefit from the efficiencies in the banking sector that arise from international trade in financial services and capital flows while still maintaining the appropriate level of safety in the domestic banking system? Another way of putting this is that it is not simply sufficient to open your

borders; you must also examine how your domestic regulatory frameworks interact with those of other countries. (Damien White)

2.2 A short history of modern banking regulation

Modern banking regulation began with the introduction of banking legislation in 1945 that introduced strict quantitative and qualitative controls, interest rate controls and lending directives, in addition the system was not open to foreign bank entry and offshore transactions. (Edey and Gary, 1996)

Over the intervening decades banking regulation has moved away from such quantitative rules towards a system of risk-based regulation. This has recognized that overly constrictive regulation inhibits competition, innovation and efficiency and that allowing financial institutions more freedom, while still managing risks, benefits the whole economy. In the process, regulation to address financial stability has become increasingly concerned with cross-border issues. (Edey and Gary, 1996)

Liberalization started with some tentative reform in the 1970s, with more substantial reform following the Campbell Inquiry in 1979. Reform was aimed at improving efficiency and stability in the tightly controlled banking sector, which in the 1960s and 1970s had lost market share to less regulated non-bank financial intermediaries. By the mid-1980s interest rate controls and credit directives had been removed and the licensing of foreign banks had been introduced. Foreign banks were initially only allowed to operate as local subsidiaries of their foreign parents. Foreign branch operations were allowed following a further relaxation of the regulation in 1992. (Damien White)

Financial deregulation in the 1970s and 1980s facilitated significant change in financial system over the next decade, with a large increase in banking assets and

the development of new products, some of which were complex and risky. The trend towards product proliferation and the blurring of traditional institutional boundaries created new risks and challenges for regulators and again gave impetus for further reform of the regulatory system. (Grenville, S)

2.3 Regulatory responses around the globe

The increased development of cross-border banking brings new dimensions to the issues facing governments and regulators and regulating banks. The questions expand from simply how to get the best outcome for your country to include: will foreign regulators' actions affect us; could we meet our domestic responsibilities and get the best outcome for two or more countries by choosing a different course of action; and how much reliance can be placed on systems and infrastructure located in other jurisdictions? (Damien White)

2.4 Basel Committee on banking supervision

An early response was the setting-up in 1974 of the Basel Committee on Banking Supervision by the G-10 Countries' central banks following serious disturbances in international currency and banking markets. Initially it discussed international cooperation to close gaps in the supervisory net. Gradually it has moved on to improving international supervisory standards by issuing core principles for banking supervision and developing a consistent capital adequacy framework. (Ibbid)

The core principles address supervision of international banks with the aim that the local and foreign operations of international banks are sufficiently supervised by the home-country and host-country regulators in a consolidated fashion, while ensuring the compliance costs that could result from being supervised by multiple regulators are minimized. (Ibbid)

The Basel Capital Accord aims to create convergence in international capital adequacy requirements. The committee considered that this would strengthen the stability of the international banking system and remove competitive inequality arising from difference in national capital requirements. (Damien White)

2.5 Memorandums of understanding between regulators

Another response, which has been development by regulators dealing with cross-border issues, is the use of practical expressions of intent in the form of memorandums of understanding (MOUs) with other regulators. These MOUs generally set out the responsibilities of different supervisors and contain protocols for effective information sharing and, more recently, cover responsibilities in a crisis situation.

Home regulators with banks which engage in cross-border activities often sign MOUs with host regulators in countries where the banks have significant operations. (Ibbid)

2.6 Legislative frameworks

The use of MOUs is a welcome development but regulators themselves can only do so much unless there are regulatory frameworks that facilitate cross-border coordination. This is usually the province of governments.

The EU is at the forefront of this issue as it is trying to integrate its member nations. The single banking market has been in place since 1993. The approach adopted involves three pillars:

- Harmonization of particular regulatory laws and practices;
- Home-country control of banks, reinforced through cooperation between national regulators – which means that a bank operating as a branch in other

member states will be supervised by the regulator in the country of origin;
and

- Mutual recognition by national supervisors of the rules and regulations in the countries of origin of foreign bank branches operating in their territory.(Damien White 2006)

2.7 The future of cross-border banking supervision

A number of mechanisms are being developed to promote convergence of regulation and cooperation in cross-border supervision. But in many ways the world is still in the early stages of deciding how best to achieve the balance between allowing banks more freedom to operate internationally and maintaining safety and stability. (Grenville, S)

The approaches taken to date tend to emphasise harmonized minimum standards and coordination and cooperation between national supervisors. The Basel Committee has high-level principles relating to cross-border supervision. The EU model has harmonization of certain rules and mutual recognition while maintain separate country supervisors. The trans-Tasman model is promoting coordination between APRA and the RBNZ but still allows for different regulatory frameworks and rules. (Merrett, D)

These are all significant steps towards addressing cross-border supervisory issues and will generate real benefits for the banking industry, consumers and regulators. But is it possible to achieve greater efficiency gains and promote greater safety and stability? If this is our goal, there are a number of difficult issues to address and significant hurdles to negotiate. It will be how these issues and hurdles are resolved, including the weighing-up of benefits and costs that will determine the future path of regulation and the banking business environment. (Damien White)

2.8 International Standards and codes

In recent times, significant effort has been devoted to the adoption and implementation of international standards. Many of the international standards have been adopted by the IMF and World Bank, which measure countries against them as part of their regular assessments. These standards have an important influence on harmonizing cross-border regulation. (Damien White)

In Treasury, we have begun thinking about two high-level issues relating to ensuring that international standards are of the best quality possible. (Damien White)

The first is how appropriate are the processes and mechanisms for setting international standards?

A number of international standards – including the Basel Core Principles and capital accord – have been developed by international committees of national regulators. In many cases these committees were formed to consider a small number of specific issues and from that grew into a role in developing and promulgating standards to their members and other similar organizations. These committees clearly have expert knowledge in their fields and a worldwide range of experience to draw on in developing standards. (Merrett, D)

But given the importance that these international standards are assuming in domestic policy formulation, there is a question of whether policy makers – financial policy agencies like the Treasury and finance ministries – might add value to the process of determining international standards. At the domestic level, policy makers have a key role in developing and deciding on legislation. (Damien White)

The IMF (2004) paper Financial Sector Regulation: Issues and Gaps cover the state of implementation of international standards and raises issues with respect to the design of standards. One policy challenge raised by the IMF is that standard setters can have a narrow or specific focus, rather than financial system-wide view. We think that there is scope to increase the role of policy makers in the specific standards setting bodies including where bodies of regulation set rules. This would bring a broader perspective – not just financial system-wide view but economy-wide – of the standards and should ultimately help to develop better standards. (IMF 2004)

The second high-level issue is the goal of the various international standards. In our view there are two main goals; setting out good regulatory practice to facilitate well-functioning markets (and confidence in those markets); and improving consistency in regulation across countries to assist cross-border and flows, to reduce opportunities for regulatory arbitrage and to monitor contagion risks. (Damien White)

2.9 Practical integration issues

There are also more ‘hands on’ or practical issues that arise in any circumstance where we wish to achieve greater integration of banking regulation across borders particularly if the end goal is complete integration, such as one set of rules or one supervisory approach or, perhaps, one regulator.(Damien White)

Any international regulatory harmonization encounters the issue of governments wanting to protect their sovereignty and national interests. Consequently, regulatory models that require governments to forego independent rule-making ability and independent responses to regulatory matters may not be attractive, and it is often difficult to convince constituents in all participating countries of the benefits (and, indeed, every country may not benefit from particular proposals).

This is particularly so in an area such as banking regulation where the costs associated with a crisis can be substantial. It is here that those with an interest in achieving greater regulatory harmonization have a role in advancing arguments for it and building support. (Damien White)

The issues of sovereignty and national interest often arise because of existing difference between countries, including their political structures and regulatory frameworks and philosophies. To achieve one set of rules there would need to be compromises, on the balance of overall objectives where these differ in existing regulatory frameworks and on the instruments to achieve those objectives. (Ibid)

Even if these issues were overcome, implementing the same rules the same way in different countries can often be a challenge. Any differences that arise in implementation can reduce the benefits achieved from having the same rules. As was noted earlier, this has been an issue in the EU member states. (Ibid)

One method of encouraging consistent implementation is a single multi-country regulator or an overarching body above national regulators. This would require even closer cooperation and commitment between countries than a single set of rules and may only have limited practical applicability - such as in an economic and political union like the EU and, possibly, Australia and New Zealand. Indeed, Australia and New Zealand have started down this path in other areas of regulation with the formation of the Trans-Tasman Accounting Standards Advisory Group and negotiations for a single regulator for therapeutic goods. (Ibid)

Then there are issues regarding governance, accountability and funding. A single set of rules or single regulator raises the governance questions of who the standard setting bodies or regulators are, who the members of the bodies are such that they fairly protect the interests of all countries, who appoints the members, and who resolves disputes. Accountability raises questions of who the bodies are answerable

to that is, can a single body function well if it answers to multiple parliaments or if individual members answer to different parliaments. The funding issues involve deciding who pays for the running costs of the standard setter or supervisor and who bears the potential costs of crisis intervention or failure. (Damien White)

It is also the case that banking, and its regulation, does not operate in vacuum. Other laws, such as taxation, insolvency, corporations and financial reporting, can have a large influence on the operation of banks. It may be that difference in these laws between countries can prevent banking prudential regulation from converging. Requiring other areas of law to converge before you can agree on one set of prudential rules for banking adds substantial complexity to the task. (Ibbid)

2.10 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 of USD 1,000,000.00 and above are subjected to open international competitive bidding backed by relevant documents.

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

- A) Letter of Credit
- B) Consignment (Directive No.FXD/07/1998)

Types of Acceptable Credit Cards

- ✓ American Express
- ✓ Visa Card
- ✓ Master Card
- ✓ Euro Card
- ✓ Diner Club Card (Revised Directive No.FXD/21/2003)

Foreign Currency Holding Limit

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

Eligible Foreign Currency Accounts for Diaspora

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

2.11 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 Berhan International 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

2.12 International banking services provided in Berhan Bank

In Berhan 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 Berhan Bank are:

- ❖ Import
- ❖ Export
- ❖ Others (IB Manual, 2009)

2.12.1 Import

Letter of Credit

It is an undertaking by a bank at 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 service. These methods of payment are the most secure means for all the parties involved. (IB Manual, 2009)

Types of letter of credit

- ❖ Revocable L/C- an L/C that can be cancelled or amended by issuing Bank at any time without period notices or arrangements from the exporter.
- ❖ 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, 2009)

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 means invoice, shipping documents or documents of title. (IB Manual, 2009)

Cash in Advance (TT)

This is a type of payment method by which the seller receives cash from the buyer prior to shipment Mail, Telex; swift, draft etc can affect such kind of payment. (IB Manual, 2009)

2.12.2 Export

ODBP

This is an export method through which the exporter in the country appears on the counter of the Bank and presents the exports 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 importers Bank then presents the document to the importer abroad and the collection is settled by reimbursing the exporters Bank. (IB Manual, 2009)

Consignment

This is another type of payment method used in Berhan Bank by which the seller ships the goods to the exporter known as consignee while retaining the ownership. The consignee is the agents' responsible for paying the supplier if and when the goods are sold. (IB Manual, 2009)

2.12.3 Other service provided in Berhan Bank

Outgoing International Bank Guarantee

A) Bid Bond (Tender Bond) Guarantee

This kind of assurance is issued by Berhan Bank (Issuing Bank) to foreign counter party (Beneficiary) on behalf of local customer (principal) while they participate in international bid bond. The Bank collects money from principal

in local currency in local currency and provided guarantee for the forging counterpart (Beneficiary) in equivalent hard currency amount in case the local customer (principal) wins the bid bond. (IB Manual. 2009)

B) Repayment (Advance payment) Guarantee

It is kind of guarantee (Undertaking to pay) Berhan Bank (Issuing Bank) for the account of local customer (Principal) in order to secure the payment mode in advance by foreign counter part (Beneficiary), if the principal to fulfill its contractual obligation and unable to reimburse the beneficiary. (IB Manual, 2009)

C) Performance Bond Guarantee

This kind of assurance is issued by Berhan 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 customer part in equivalent hard currency amount partner fails to complete the job. (IB Manual, 2009)

D) Retention Guarantee

E) Standby Letter of Credit.

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

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter is committed to data presentation, analysis and interpretation. The questionnaires was prepared and distributed to 40 employees of the bank working at various positions and all questionnaires were filled and returned back which means 100%.

3.1 Background Information

The respondent's background is based on education and years of experience summarized and presented below in the following table.

Table 3.1 Respondents educational level and years of experience

Level of Education	B.A Degree	Below Diploma	Diploma	Above B.A	Total
Number	24	0	16	0	40
Percentage	60%	0%	40%	0%	100%
Years of Experience	Less than Two Years	Greater Than Two and Less Than Four Years	Greater Than Four Years	Total	
Number	10	14	16	40	
Percentage	25%	35%	40%	100	

Source:-Berhan international bank human resource department

The above table shows that 24(60%) of the respondents are degree holders, 16 respondents (40%) are diploma holders there is no respondents having qualifications below diploma and above degree. And also 10 respondents (25%) having less than two years experience,14 respondents (35%) have experience of

greater than two years and less than four years, and 16 respondents which are 40% of the respondents have more than four years of experience. From this we can understand that most of the employees have BA degree and their working experience is more than four years.

3.2 Analysis of the Questionnaires

3.2.1 Rules and Regulations of NBE

Do you think rules and regulations designed by NBE are challenge for the international banking operation?

Table 3.2 Value attached by respondents on rules and regulation

ANSWER	YES	NO	TOTAL
NO.OF RESPONDENTS	26	14	40
PERCENTAGE	65%	35%	100%

Source:-Data questionnaires respond

The above table shows that 26 percent of respondents (65%) feel that the rules and regulations of NBE create challenge but 14respondents (35%) feel that rules and regulations of NBE didn't create a challenge for our international banking operation.

3.2.2 International Regulation of the bank

Is the international regulations designed by the bank challenge of international banking operation?

Table 3.3 Value attached by the respondents on the international regulation

ANSWER	YES	NO	TOTAL
NO.RESPONDENTS	10	30	40
PERCENTAGE	25%	75%	100%

Source:-Data questionnaires respond

The above table indicates that 10 respondents (25%) feel that the internal regulations of the bank challenge the operation where as 30 respondents (75%) feel that internal regulation doesn't create any challenge for the operation.

3.2.3 International regulation and Rules

Do you think international regulations and rules have impact to international banking operation?

Table 3.4 Value attached by respondents on international regulations and rules

ANSWER	YES	NO	TOTAL
NO.OF RESPONDENTS	8	32	40
PERCENTAGE	20%	80%	100%

Source:-Data questionnaires respond

The above indicated table shows that 8 respondents (20%) feel that international regulations and rules have its own impact where as the 32 respondents (80%) said that it has no impact on the operation.

3.2.4 Restrictions to use Ethiopian shipping Lines and Logistics services

Do you think to use Ethiopian shipping Lines and Logistics service is facing a challenge of international for international banking operation?

Table 3.5 Value attached by respondents on restrictions of Ethiopian shipping Lines

ANSWER	YES	NO	TOTAL
NO.OF RESPONDENTES	25	15	40
PERCENTAGES	62.5%	37.5%	100%

Source:-Data questionnaires respond

The above table shows that 62.5% of the respondents (25) feel that Ethiopian shipping logistics services creates Challenges for international banking operations.

The remaining 15(37.5%) of respondents agreed that the restrictions did not create any challenges on international banking operation.

3.2.5 Import financing capacity

Do you think the import financing capacity of the Bank is sufficient for the customers?

Table 3.6 Value attached by respondents on import financing.

ANSWER	YES	NO	TOTAL
NO.OPF RESPONDENTES	5	35	40
PERCENTAGE	12.5%	87.5%	100%

Source:-Data questionnaires respond

As indicated in the table 5 of the respondents (12.5%) said import financing capacity of the banks is sufficient for customers. The rest 35 respondents (87.5) agreed that the import financing capacity of the bank is not sufficient for customers.

3.2.6 Export financing capacity

Do you think the export financing capacity of the bank is sufficient for the customers?

Table 3.7 Value attached by respondents on export financing

ANSWER	YES	NO	TOTAL
NO.OPF RESPONDENTES	34	6	40
PERCENTAGE	85%	15%	100%

Source:-Data questionnaires respond

As is shown in the above table 34 respondents (85%) feel that there is sufficient export financing capacity for our customers. The remaining 6 respondents (15%) agreed that there is no sufficient capacity.

3.2.7 Issuance of international bank Guarantee

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

Table 3.8 Value attached by respondents on issuance of international banking guarantee

ANSWER	YES	NO	TOTAL
NO.OF RESPONDENTES	20	20	40
PERCENTAGE	50%	50%	100%

Source:-Data questionnaires respond

It is clear from the numbers of respondents that half of the respondents (50%) feel that issuance of international guarantee was satisfactory .But the remaining half of the respondents said that wasn't satisfactory.

3.2.8 Lack of international trade knowledge

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

Table 3.9 Value attached by respondents on lack of knowledge of international trade

ANSWER	YES	NO	TOTAL
NO.OF RESPONDENTES	38	2	40
PERCENTAGE	95%	5%	100%

Source:-Data questionnaires respond

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

3.2.9 Lack of knowledge of some Regulations

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

Table 3.10 Value attached on the lack of knowledge on some regulations

ANSWER	YES	NO	TOTAL
NO.OPF RESPONDENTES	36	4	40
PERCENTAGE	90%	10%	100%

Source:-Data questionnaires respond

From the above table we can understand that the lack of knowledge on some regulations create challenges i.e. 90% of respondents feel that lack of knowledge creates problem only 10% feel that no.

3.2.10 Challenges related to Technology Professional

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

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

3.2.11 Scarcity of foreign currency

Based on the answer obtained from the respondents 40% of them (100%)feel that this foreign currency scarcity make a dalliance to wait for a large period in order

to fulfill their foreign currency needs for payment to be made abroad for the purpose of import of goods and services.

3.2.12 Level of contribution

All the respondent feels that from the point view of contribution international banking operation contribute high level profit for the bank.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1 Summary

Different data gathered through questionnaire and analyzed using different technique. As result of the analysis some findings are observed. Here under this topic foundation summarized as follows

- ✓ By analyzing the effect of international situations on international banking operation we assess challenges of international banking operation. Besides, we are looking some specific rules and regulations those are designed by the government that was important for the smooth international banking operations.
- ✓ Rules and regulations designate by NBE create a change for the operations. Whereas the internal regulation designed by the Bank itself doesn't create a challenge.
- ✓ Restriction in using Ethiopian shipping lines and logistics, service has been a challenge for the operation. And also import financing and export financing are not treated equally.
- ✓ In regarding intentional trade knowledge and some basic rules and regulation customers have faced problem i.e. they do not have enough knowledge about it
- ✓ Berhan Bank has design relevant training schedule to update and trained their employees.
- ✓ Scarcity of foreign currency major issue on the use of the area of the international banking operation. And also the bank has been benefited highly from the area through IBD (International Banking Department)

- ✓ We are preparing research design and methodology to study these matters and also we are using simple random sampling techniques.

4.2 Conclusions

- ✓ Rules and regulations designed by NBE (National Bank of Ethiopian) has a major challenge on the area of international banking operation
- ✓ Restriction to use Ethiopian shipping lines also create a challenge in international banking operation
- ✓ Important and export financing are not trended equally by the bank
- ✓ With regard to international trade knowledge, we saw that customers, have a high degree of ignorance about it as a result it create a challenge on international banking operations. In the same way customers awareness for international rules and regulation also creates a challenge on the area
- ✓ The application of modern technology in international banking operation is enabling customers of the bank a better service in international banking operations.
- ✓ The bank has qualified professionals to provide international banking service.
- ✓ The bank prepared training schedule for its employs in order to update them about new rules, regulations, and procedures.
- ✓ Shortage of foreign currency is also challenge that makes a customers to wait for a longer period in order to fulfill their foreign currency needs
- ✓ It is found that the contribution of international banking operations to over all income of the bank is significant.

4.3 Recommendations

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

- ✓ For expansion of capacity to be authorized or unauthorized capacity to be used: make the government or related authorities understand that Berhan Bank has unutilized financing capacity, which is more than what is authorized.
- ✓ The bank should give the required emphasis or focus both to export or import financing, in fact if possible equal treatment or a financing capacity allocation to export and import on the basis of demand of customers.
- ✓ 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.
- ✓ Since the income from the international banking operation is proved significant, the bank should take a necessary care to maintain its income from international operations or even improve its income contribution by conducting relevant studies.
- ✓ The bank should continue to apply modern technology in international banking operation to provide a better service to its
- ✓ International banking customers and even attract other international banking customers from other competing banks.
- ✓ The bank should implement 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 continue 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.

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St. MARY'S UNIVERSITY
DEPARTMENT OF ACCOUNTING
INTERNATIONAL BANKING OPERATIONS AND ITS CHALLENGE
IN THE CASE OF BERHAN INTERNATIONAL BANK S.C

Questionnaire

These questionnaires are prepared by prospective graduate of accounting department in St. Mary's University preparing a research paper in partial fulfillment of the requirement of the Degree of Bachelor of Arts in Accounting. The topic of the study is "International Banking Operations and its challenge in the case of Birhan International Bank S.C." Expressing our deepest gratitude, we assure you that we will use the information only for academic purpose.

N.B. Please put a tick mark on the box of your choice or write your comment on the space provided.

I. Personal Information of the respondent

1. Age
 - Below 25 Years
 - 26-35 Years
 - 36-45 Years
 - above 45 Years
2. Sex
 - Male
 - Female
3. Position

4. Work Experience under Current Position
 - Below 5 Years
 - 5-10 Years
 - 5-10 Years
 - above 20 Years
5. Academic Status
 - Diploma
 - Bachelor's Degree
 - Master's Degree and Above

II. International Banking Operations and its Challenge

1. Do you think regulations and rules designed by the National Bank of Ethiopia is the Challenge for international banking operationoperations?
 - Yes
 - NoComment _____
2. Is the internal regulation designed by the bank challenge for the international banking operations?
 - Yes
 - NoComment _____

3. Do you think international regulations and rules have impact to the international banking operations?
- Yes - No
Comment _____
4. Do you think the restriction to use Ethiopian Shipping Lines and logistic Service for import and export purpose is placing a challenge for international banking operations?
- Yes - No
Comment _____
5. Do you think the import capacity of your organization is sufficient for customers?
- Yes - No
Comment _____
6. Do you think the export financing capacity of your organization is sufficient for customers?
- Yes - No
Comment _____
7. Do you think the various kinds of international bank guarantee issued by your bank are satisfactory for customers?
- Yes - No
Comment _____
8. Do you consider lack of international trade knowledge by customers could be a setback for processing their orders?
- Yes - No
Comment _____
9. Do you think lack of knowledge of some regulations by the participating parties could create problem in the international banking operations?
- Yes - No
Comment _____
10. Dose the recent technology gives a better service for international banking operations?
- Yes - No
Comment _____
11. Do you believe that the bank contains qualified professionals on the area?
- Yes - No
Comment _____
12. Do you think that scarcity of foreign currency makes a dalliance in the service operation of international banking?
- Yes - No
- Comment _____
13. Dose international banking operations contribute high level of profit?
- Yes - No
Comment _____