ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF INTERNATIONAL TRADE PRACTICE ON BANKS PERFORMANCE IN THE CASE OF SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

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ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINER

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DECLARATION

I, the undersigned, declare this thesis is my original work, prepared under the guidance of **Nibretu Kebede (PhD)**. All sources of materials used for the thesis have been duly acknowledged. This is my first work and has never been presented at St. Mary's University and any other University.

Name　　　　　　　　　　　　　　　　Signature

JUNE, 2023

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ENDORSEMENT

This thesis has been submitted to St. Mary's University for examination with my approval as a University advisor

Advisor Signature

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TABLE OF CONTENT

LIST OF TABLE

LIST OF FIGURE

ACRONYMS

CAD: Cash against Document

CIA: Cash In Advance

DA: Document against Acceptance

DC: Documentary Collection

DP: Document against Payment

FXD: Foreign Exchange Directive

GDP: Gross Domestic Product

IBD: International Banking Department

ICC: International Chamber of Commerce

IMF: International Monetary Fund

LC: Letter of Credit

NBE: National Bank of Ethiopia

OA: Open Account

OECD: Organization for Economic Cooperation and Development

TT: Telegraphic Transfer

UCP: Uniform Customs and Practice

URC: Uniform Rules For Collection

WB: World Bank

WTO: World Trade Organization

SPSS= Statistical Package for Social Science

ABSTRACT

The prime objective of the study is to investigate the practice of international trade in the performance of the Ethiopian Banking sector. To address the objective, descriptive research design was applied in order to describe the information and answering the research questions related to practice of international trade in the performance in selected private commercial banks. The researcher used both qualitative and quantitative types of data that were collected from primary and secondary sources to achieve the stated objectives of the study. The target population for the study is all international banking managers and trade service officers who are working in Awash International Bank S.C, Dashen Bank, Bank of Abyssinia, Wegagen Bank, United Bank and NIB International Bank. These banks were selected systematically based on amount of profit generated from international trade services, their paid up capital and their experience in their bank service. The finding show that the parallel exchange rate in Ethiopia has effect on Ethiopian international trade; Local rules set by NBE have money defects related with international trade and are the cause for parallel exchange rate increment and so that international trade has a positive effects on the banks performance. The researcher form this finding recommends that parallel exchange rate in Ethiopia has Effect on Ethiopian international trade so that the concerned parties should clearly understand the consequences of the actions made by the NBE. In addition the banks should provide different training session regarding with the topics that the employees wants so that it will help to create a common understanding on international trade.

Key words: *the rules and regulations of international trade, Mode of Payment for International Trade and Parallel Exchange Rate.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

International trade is primarily the exchange of goods and services (imports and exports) between countries – or across international borders. Since trading spans different regions, trading of this nature is affected by the world economy, as we've all seen when it comes to oil prices due to the conflicts in the Middle East. A product sold on the global market is considered an export, while products purchased are considered imports (International Trade Market Research Reports 2021).

Since different countries have different resources, some are able to produce products or services more efficiently, and thus at a lower cost. These lower costs then afford them the benefit of selling it at a cheaper rate to other countries. If one country does not have a specific item, it can trade with other countries that have this item in exchange for something of value they do have available. Without international trade, countries would be bound to only those goods or services produced within their borders. As a result of international trading, in many instances there is greater competition which allows the consumers to find lower priced products available.(AadityaMattoo, R. M. (2018).

International Trade can be a powerful force for growth or poverty reduction. Countries that have increased their share of trade in their GDP have grown faster and reduced poverty more rapidly. International trade has become more imperative in this era of globalization than ever before (AsieduAppiah, 2018). According to Reyes (2020) International Trade is an important stimulator of economic growth, country's consumption capacities, increases world output to scarce resources and worldwide markets for products without which poor countries would be unable to grow.

Trade finance relates to the process of financing certain activities related to commerce and international trade. Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance. Trade finance is completely different from regular bank lending, mortgage lending or insurance.

Classifications of International Trade are Import Trade: It refers to purchase of goods from a foreign country. Countries import goods which are not produced by them either because of cost disadvantage or because of physical difficulties or even those goods which are not produced in sufficient quantities so as to meet their requirements. Export Trade: It means the sale of goods to a foreign country. In this trade the goods are sent outside the country. Entrepot Trade: When goods are imported from one country and are exported to another country, it is called entrepot trade. Here, the goods are imported not for consumption or sale in the country but for re-exporting to a third country. So importing of foreign goods for export purposes is known as entrepot trade.(ICC 2010)

Companies involved with trade finance include importers and exporters, banks and financiers, insurers and export credit agencies, and other service providers. Although international trade has been in existence for centuries, trade finance has recently developed as a means of facilitating it. The widespread use of trade finance is one of the factors that have contributed to the enormous growth of international trade. Trade finance is vital importance to the global economy, with the World Trade Organization (WTO) estimating that 80 to 90% of global trade relies on this method of financing (UNCTAD, 2022).

Banks facilitate international trade by providing financing and guarantees to importers and exporters. While access to external funds is important for domestic production, it is especially important for exporting firms. Several papers indeed show that in countries with strong financial institutions firms tend to export relatively more, especially in financially vulnerable sectors (Beck, 2020). Studying specific channels, Manova (2019) finds that in financially better developed countries firms in sectors more dependent on external finance and with less tangible assets more likely export and, when exporting, tend to export more.

According to Demir (2017) financing or payment terms in international trade fall under three broad categories. Under open account (OA) terms, goods are shipped and delivered before a payment is made by the importer. Under cash-in-advance (CIA) terms, the payment is received before the ownership of the goods is transferred. If a transaction is on letter of credit (LC) terms, the importer's bank commits to make the payment to the exporter upon the verification of the fulfillment of the terms and conditions stated in the LC. Jim & Jonathan, 2018) show that each payment method places the financing burden on a different actor: the entire burden is on the exporter in a transaction on OA terms, and on the importer in a transaction on CIA terms. LC is the safest financing instrument for both trade partners where the exporter obtains a bank guarantee to secure payment, and the importer is protected against potential losses arising from exporter misbehavior. Nevertheless, LC is a costly instrument as banks levy fees and charges for issuing LCs Demir (2017).

1.2. Statement of the Problem

In international trade since the seller and the buyer both resident in a countries with different political and economic conditions, legal regimes, cultural traditions and business practice the risk of non-payment and the default risk is very high. Obtaining information about the importing country is not always easy, and in some cases compliance with separate statutory export regulations is required. What is more, goods often have to be transported over long distances and transactions settled in different currencies (Demir, 2017). The availability of finance is essential for a healthy trading system. Today, up to 80 per cent of global trade is supported by some sort of financing. However, there are significant gaps in provision and therefore many companies cannot access the financial tools that they need. The black market in foreign currency exchange and unnecessary competition among banks exposed them risky activities contrary to the country's regulations and directives issued by the NBE.

The international or "tradable" nature of banking services (and of financial services more generally) has been well established. It is difficult to identify any class of services for which an international demand or a capacity for international supply has been more clearly demonstrated. Foreign banking institutions are prominent in most financial centers of the developed world. "International banking" has become almost a cliché. (WTO 2019)

But despite the apparent ease with which banking operations have crossed national boundaries in recent years, there remain important obstacles to efforts by banks to serve customers in foreign markets. Increasingly, these obstacles are becoming a focus for international debate and dispute. Obstacles to international trade in banking services arise for the most part because of the special nature of banking services and the importance that all nations place on the regulation of banking operations. In every country, banking operations are subject to special regulations and restrictions. These regulations and restrictions are almost always intended to ensure the stability of national banking systems, to provide national authorities with effective instruments for economic management, or generally to encourage thrift and other social virtues. That these policies sometimes hinder the establishment of foreign banking operations or restrict the scope of such operations once they have been established is usually an unintended (although not always deeply regretted by domestic banking institutions) side effect.

Having grown up in response to particular national circumstances, policies toward banking operations vary widely from one nation to another. There is no international consensus about what are and are not legitimate activities for banks, about the mechanisms required for adequate supervision of banks, or about the roles that banks are supposed to play in the larger economy. Under the circumstances, it is not surprising that there is no consensus about the rules under which banks from different countries should be allowed to compete with each other within national markets.(ICC 2010)

There are international laws and regulations issued by International Chamber of Commerce (ICC). In connection to that, even if the documentary credit presented is not complied with the terms and conditions of the contract exporters may influence the PCBs to get advance payments against the compliancy to the documentary credit, considering they are the means for foreign currency generation to the bank.

A number of researchers did a lot of research on this topic. However none of them did tell about the common understanding about the mode of payment in the Ethiopian banking industries. Also the Ethiopian government has continuously devalued our countries currency through the aim of controlling the parallel exchange rate. In addition the employees even within the bank have not common understanding on the mode of payment. On the other way the NBE declared a regulation on the importing of some specified commodities in the last three months. So the researcher for this study wanted to investigate the effects of these rules and regulations on the banks performance in one hand and therefore these are the gap of the research.

1.3. Objectives of the Study

1.3.1 General Objective

The general objective of this study is to investigate the practice of international trade in the performance of the Ethiopian Banking sector.

1.3.2 Specific Objective

The specific objectives of this study are to: -

- To investigate the common understanding of International trade rules and regulations on the Ethiopian banking sector.
- To assess the compatibility of international trade payment system with Ethiopian banking practice.
- To investigate the status of the bank performance on the international trade practice.
- To assess the effects of parallel exchange rate practice in Ethiopian Banking system.

1.4 Research Questions

To systematically address the stated problem, the study raised the following research questions.

1) What looks like the employees understanding on international trade rule and regulation?
2) What are the frequently used international trade payments systems in Ethiopia banking? And do they have obstacle for facilitation?
3) What looks like the status of banks performance on International trade?
4) How parallel exchange rate affects Ethiopian international trade?

1.5. Definitions of Terms

Correspondent Bank: A banks which is a depository for another bank and which performs various banking services for it (CITIGROUP, 2004).

Financiers: Intermediary banks that facilitate payment in international trade.

Foreign Exchange: Refers to exchange of one's country currency by other country currency.

Incoterms 2010: A set of definitions published by the ICC from time to time for the interpretation of commonly used trade terms which define the obligations of the parties and when the risk of loss passes from one party to another (ICC, 2010).

International Chamber of Commerce (ICC) : Refers to the body which published the Uniform Customs and Practice for Documentary Credits, the Uniform Rules for Collections, the Uniform Rules for Reimbursements, Inco-terms 2010and other works commonly used in international trade.

Issuing Bank (Opening Bank): Refers to the bank that establishes (issues) a Letter of Credit (CITIGROUP, 2004).

Negotiating Bank: Refers to a nominated bank, sometimes unnamed in the Letter of Credit, which elects to "negotiate" (purchase documents from or advance funds or otherwise give value to the Beneficiary) against presentation of complying documents. Negotiation may be made with or without recourse (CITIGROUP, 2004).

Reimbursing Bank: A bank nominated by the Issuing Bank to honor reimbursement claims.

1.6. Significance of the Study

The study is assumed to be significant in terms of its contribution for awareness creation to the top management of the banks and concerned staffs on the major international trade finance challenges from certain findings and recommendations by the researcher. Besides it signifies the challenges of private commercial banks of the country to the regulatory bodies. It also helps the banks to get more important information or feedback regarding their strengths and weaknesses. Therefore, the findings of the study is of paramount importance to top level management, trade service staffs and the National Bank of Ethiopia to draw lessons on the issue under consideration for better practices. Finally, this study can be used as a foundation for other researchers who would like to undertake research on similar and/or related area of study.

1.7. Scope of the Study

The scope of the study was delaminated conceptually on assessing the international trade finance from import and export wings; particularly it focuses on import and export trade finance instruments and post-export financing practice and challenges. Though trade finance includes pre-export financing which is handled by credit department and guarantees (the occurrence of guarantee being rare), these issues are not focused in this study. Geographically this research includes only city branches of the selected private banks. Methodologically this research was focuses on the sample respondents and also will use cross sectional survey methods. Thus the researcher will only be incorporate for the targeted population for this study.

1.8. Organization of the Study

The study is organized in five chapters. The first chapter deals with background of the study, definition of terms, statement of the problem, basic research questions, objectives of the study, scope of the study. The second chapter comes up with the review of related literatures. The third chapter illustrates the research design, sample and sampling techniques, source of data, methods of data collection, and procedures of data collections and methods of data analysis. The fourth chapter summarizes the results and findings of the study and interpretation of discussion of findings. The fifth chapter, which is the closing chapter of this study focuses on summary of the findings, conclusions and recommendations.

CHAPTER TWO

RELATED LITRATURE REVIEW

2.1 Theoretical Literature Review

2.1.1. International Trade Finance: Concepts and Definition

David et al.(2004) define trade finance as the process of financing certain activities related to commerce and international trade. Trade finance includes such activities as lending, issuing letters of credit, factoring, export credit and insurance. Companies involved with trade finance include importers and exporters, banks and financiers, insurers and export credit agencies, and other service providers. Bankenverband (2015) defines trade finance as “instruments for funding the trade of goods (usually raw materials, semi-finished goods, spare parts or consumer goods) and services with short (less than one-year) and medium-term (one to five-year) maturities”.

From functionality perspective Bankenverband (2015), defined Trade Finance as; Trade finance is a short and medium-term funding of commercial transactions including the warehousing of commodities and stocks(e.g. semi-finished goods, spare parts, consumer goods), on the one hand, and export finance, i.e. medium to long-term funding in the capital goods or plant and equipment sector, on the other, are therefore highly important. In this research, the term “foreign trade finance” is used to refer collectively to trade and export finance.

Trade finance refers to the financing of imports and exports by the sources of interbank credits, attracted by foreign banks with use of financial instruments, such as letters of credit or guarantees (Ivan, 2014).

Banks are able to grant finance to customers in a foreign currency. This financing is normally limited for consumer financing to 180 days after shipment of goods. The borrowing is in a currency against a line of credit. The applicable interest rate will be based on current rates for the currency concerned. The important consideration for the importer is that this type of finance will extend the period of exchange risk and the cost/benefit of covering this exchange risk must be considered. It should be remembered, however, that borrowing in foreign currencies can sometimes be cheaper than domestic borrowings (Global International Trade & Business Finance, 2020).

Trade financing shares a number of common features with the traditional value chain activities conducted by all firms. All companies must search out suppliers for the many goods and services required as inputs to their own goods production or service provision processes. The buyer must determine whether each potential supplier is capable of producing the product to required quality specifications, producing and delivering in a timely and reliable manner, and continuing to work with buyers in the ongoing process of product and process improvement for continued competitiveness. All must be at an acceptable price and payment terms. The nature of the relationship between the exporter and the importer is critical to understanding the methods for import-export financing utilized in industry. (Global International Trade & Business Finance, 2020).

2.1.2. The Role and Benefits of Trade Finance

Although international trade has been in existence for centuries, trade finance developed as a means of facilitating it further (UNCTAD, 2018). The widespread use of trade finance is one of the factors that have contributed to the enormous growth of international trade. Trade finance is of vital importance to the global economy, with the WTO estimating that 80 to 90% of global trade relies on this method of financing (UNCTAD, 2019). Trade between different countries developed first where one country could produce something desirable which others could not. International trade therefore owes its origin to the varying resources and climate of different regions. Besides according to Asiedu-Appiah(2015) while international trade is a two-way traffic, countries in the development of their trade finance schemes have place a lot of emphasis on exports which generate earnings for the country and makes it possible for the country to purchase any imports of its choice.

Only a small part of international trade is paid cash in advance, as importers generally wish to pay, at the earliest, upon receipt of the merchandise in order to verify its physical integrity on arrival. Exporters, however, wish to be paid upon shipment. In order to bridge the gap between the time at which exporters wish to be paid and the time at which importers will pay, a credit or a guarantee of payment is required. Trade finance provides the credit, payment guarantees and insurance needed to facilitate the payment for the merchandise or service on terms that will satisfy both the exporter and the importer. Intrinsically, trade finance is often described as a lubricant of trade. Most trade credit, payment guarantees and insurance are short-term, with a standard maturity of 90 days. In certain 9 cases, trade credit can be extended for longer periods of time, particularly for categories of goods subject to longer production and delivery cycles such as aircraft and capital equipment (WTO, 2016)

General financing may be used to cover an issue of solvency or liquidity, but trade financing may not necessarily indicate a lack of funds or liquidity on the buyer's part. Instead, it may be used to protect against the unique risks present in international trade, such as currency fluctuations, political instability, issues of non-payment or questions regarding the creditworthiness of one of the involved parties. Trade finance is considered to be a particularly safe form of finance since it is underwritten by strong collateral and documented credit operations. Although trade finance is routine, it is universal and vital for trading activities. (ICC 2010)

Financing is needed not only during the import-export process itself, but also for the production of the goods and services to be exported, which often includes imports of machinery, raw material and intermediate goods. Lack of financing at any stage of the processes of production or export can stop the flow of transactions and potentially break up budding or even long-standing commercial relationships (UNCTAD, 2018).

Trade finance is undoubtedly, the very fulcrum for international trade. By bridging the information asymmetry between buyers and sellers, and creating a trust-based system whereby upon fulfillment of certain conditions, sellers receive payment for goods sold and buyers get the goods they paid for, trade finance guarantees increased international trade. (ICC 2010)

2.1.3. Trade Finance in Developing Countries

The trade financing gap is especially noticeable in the least developed countries, where the financial sector tends to be heavily trans-nationalized and strongly risk-averse. The trade and finance problems of developing countries are almost in variably aggravated by financial, balance of payments and exchange rate turbulence, as these countries tend to be vulnerable to the liquidity shortages and extreme risk aversion that characterize periods of crisis. Similarly, during these periods, even the most creditworthy firms can find it difficult to access credit, demonstrating that financial markets are prone to significant failures (UNCTAD, 2019)

The shortage of funds is a serious problem that limits production at least as much as trade barriers. In the developed world, government agencies and the private sector provide adequate financing to businesses, with trade being a major part of the effort. In developing countries, businesses may not have as broad an access to trade finance, or instruments, as do their counterparts in developed countries, but there are always some government agencies and financial institutions that actively make trade finance available. Even the least developed African countries have financial institutions that can assist in trade finance, and the World Bank and the IMF are possible international funding sources, if the countries show consistent evidence of economic and political stability (Jonathan & Sarah, 2019).

Government regulation of foreign trade activity in Ethiopia is carried out in order to ensure favorable conditions for this type of activity, as well as to protect the economic and political interests of Ethiopia.

2.1.4. The Role of Financial Intermediaries in Trade Finance

Banks play a part in financing the delivery of goods and guaranteeing payment obligations by offering a wide range of instruments designed to meet the differing needs of buyers and sellers. Trade service and trade finance have, therefore, become a strong bargaining point in the conduct of international trade. DanskeBank (2018), state that Trade Finance enables to handle your international transactions quickly and efficiently.

In international trade transactions, as with any purchase or sale of a good or service, there is typically a lag between the time at which the good or service is provided and the time at which payment is settled, necessitating the extension of credit by one party to the other. Global and local banks facilitate international trade by providing trade finance. A broad range of banking products which help importers and exporters manage international payment risks and access working capital financing that is directly tied to their international trade transactions. (John J. C., 2018).

According to Frida (2018) the role that banks play in documentary credits is very important; it basically implies assisting their clients in minimizing the risks in trade and settlement mechanisms. The following points are some the roles played by banks as explained by Frida (2018).

- Advising the creditworthiness of buyers and/or suppliers and giving advice on dealing with foreign markets.
- Providing information on various financing tools and various forms of guarantee.
- Arranging letters of credit and transferring funds.
- Providing guidance in the preparation of the documents.
- Arranging foreign exchange transactions.

2.1.5. Risks in International Trade Finance

What makes foreign trade trickier, however, is that the buyer and the seller are both resident in countries with different political and economic conditions, legal regimes, cultural traditions and business practices. Obtaining information about the importing country is not always easy, and in some cases compliance with separate statutory export regulations is required. What is more, goods often have to be transported over long distances and transactions settled in different currencies (Demir, 2016).

The positions of the seller and buyer of goods and services in foreign trade are initially no different from those in domestic trade: the seller (exporter) produces or obtains the ordered goods and faces the risk of the buyer (importer) cancelling his order or being unable, unwilling or due to political constraints, for example not being allowed to pay for it. Conversely, the buyer relies on the seller supplying the goods or services promptly in the agreed manner (Demir, 2016).

The value of risk mitigation through bank intermediation is offset to a degree by the cost of the intermediation. Because banks can reduce but cannot eliminate the risk of a trade transaction, the fees they charge rise with the remaining risk they take on. For the riskiest destination countries, bank fees are so high that exporters prefer cash-in-advance. In that case, the importer pays before the exporter produces, and payment risk is eliminated. Similarly, LCs is not used for low-risk destinations; for those transactions, the exporter can save on bank fees by bearing the risk itself (Niepmann& Schmidt-Eisenlohr, 2017).

The risks involved in foreign trade may be generally subdivided into political risks and commercial risks.

Political risks;- Political unrest, acts of war, a change in economic system may give rise to the following risks in particular:

* Risk of delays in payment.
* Risk of expropriation and damage to the goods.

Conversion risk in the importing country: the danger that, for economic or political reasons, payment of the purchase price by the importer to the exporter is not made in the contractually agreed currency Transfer risk: the risk of government intervention in the trade and payment sectors with the result that, despite being willing to pay, the importer is prevented from settling his debt with a foreign creditor on time and in full. Risk of a moratorium: temporary suspension of payments to creditors imposed by the debtor country.(Niepmann& Schmidt-Eisenlohr, 2017).

Physical risk: Goods moving internationally face a very real risk of physical loss or damage. This may simply be damage caused to the goods in handling and transit, possibly due to inadequate packing or bad handling, or loss due to accidental diversion or deliberate pilferage or theft. It is clear that the risks are generally far greater for export consignments than for domestic movements due to the length of international journeys, the range of transport modes involved, the increased handling and the great variety of conditions encountered.(Niepmann& Schmidt-Eisenlohr, 2017).

Credit risk: Even if the goods arrive complete and undamaged the problems do not stop there because there is the risk that the buyer will not actually pay for the goods. This may be perfectly legitimate in that there is a contractual dispute between buyer and seller; after all, the exporter may have shipped total rubbish to the importer. However we must accept that non-payment may be the result of a dishonorable intention of the buyer. This takes many formsfromnon-acceptance of the goods, through taking over the goods and deliberately delaying payment, to simply not paying for the goods. It is possible for the exporter to arrange insurance cover for such risks (Marcel, 2018).

Exchange risk: Movements in exchange rates are broadly subject to supply and demand within the market for currencies. This is affected by the demand for trading currency and by the differences in interest rates from one country, and one currency, relative to another. The higher the interest rate available on the money market to foreign depositors, the more that currency will be demanded (Marcel, 2018).

Commercial risks: According to Jim & Jonathan (2018) commercial risks comprise in particular Risks pertaining to goods, e.g. the risk of failure to sell, risk of failure to take delivery, transport risk. Legal risks, e.g. product liability risk or breaches of export/import regulations Payment risk, e.g. in the form of an unwillingness to pay, insolvency or default in the case of advance payment, payment on account and/or payment after delivery or performance. Currency risk, e.g. exchange rate fluctuations

2.1.6. Instruments of Trade Finance

International trade exposes exporters and importers to substantial risks, especially when the trading partner is far away or in a country where contracts are hard to enforce. Firms can mitigate these risks through specialized trade finance products offered by financial intermediaries (Niepmann&SchmidtEisenlohr, 2013). Importers and exporters are looking for any competitive advantage that would help them to increase their sales. For example flexible payment terms make a product more competitive (Asiedu-Appiah, 2015).

Method of payment is the means by which the money will be paid and the exporter has a range of choices which offer varying degrees of security (Jim and Jonatan 2018). According to Banu (2015) Financing/payment terms in international trade fall under three broad categories. Under open account (OA) terms, goods are shipped and delivered before a payment is made by the importer. Under cashin-advance (CIA) terms, the payment is received before the ownership of the goods is transferred. If a transaction is on letter of credit (LC) terms, the importer's bank commits to make the payment to the exporter upon the verification of the fulfillment of the terms and conditions stated in the LC

In developing countries the choice of financing terms in international trade determines many factors among this are Banu (2015) showed that institutional quality and financial sector efficiency are important in determining financing terms. In particular, a transaction is more likely to occur on CIA terms if the importer is located in a country with weak enforcement (low institutional quality) and/or with low financing costs (efficient financial sector), and on OA terms if the exporter is located in a country with weak enforcement and/or with low financing costs. If both trade partners are located in countries with weak enforcement, then the transaction is more likely to occur on LC terms.

2.1.6.1. Types of method of payment

1. Open Account: This is the sale where goods are shipped and documents are remitted directly to the buyer, with a request for payment at the appropriate time which could be immediately, or at an agreed future date(Agbonika, 2015). The least secure method of payment and therefore only used regularly in low risk markets. It is thus quite common in Western Europe and the USA The seller will send the goods and all the documents direct to the buyer and trust them to pay on the agreed date (Jim &Jonathan , 2008)

2. Cash in advance/with order: This is the simplest and most common method of payment for small transactions. This method also known as prepayment method reduces the risk of failure to pay and provides the seller with a reasonable certainty of payment. A seller may insist on payment in cash by providing contracts which require "cash against documents" or "cash on delivery". The importer pays the exporter by using telegraphic transfer or international cheque before the exporter ships the goods. The parties may even agree on "cash on order" so that payment in fact precedes the sale or require credit transactions where large amounts of money are involved(Agbonika, 2015)

It is the most secure method of payment for the exporter because of exporter's perceptions of an increased credit risk in world trade, and the fact that they do not regard L/C as an absolute guarantee, that there has been a clear increase in the incidence of advance payments. It is increasingly the case that overseas buyers in certain high risk countries also accept it as the normal method of payment subject to their exchange controls. In this context many African markets are regularly paying in advance. In the case of large projects, it is not unusual for a percentage of the payment to be made in advance, the balance often being paid in installments. The money can be transferred just as for an open account payment, the only difference being that the transfer takes place before shipment (or even before manufacture) against a pro-forma invoice rather than a final invoice(Jim & Jonathan , 2018).

According to Agbonika (2015) Cash-in-Advance Terms can be used under the following circumstances, where;

• The importer is a new customer and/or has a less-established operating history.

• The importer's creditworthiness is doubtful, unsatisfactory, or unverifiable.

• The political and commercial risks of the importer's home country are very high.

• The exporter's product is unique, not available elsewhere, or in heavy demand.

• The exporter operates an Internet-based business where the use of convenient payment methods is a must to remain competitive

3. Documentary Collection (DC): A Documentary Collection is a payment mechanism whereby an exporter uses the services of several agent banks to obtain payment from an importer in exchange for presentation of trade documents as pre-agreed in the commercial contract. A Documentary Collection provides a compromise between open account terms and advanced payment terms in terms of risk to both the importer and the 16 Issuing Bank exporters. It is also a simpler but less secure payment alternative to the Letter of Credit. D/Cs involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The draft gives instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients, D/Cs offers no verification process and Limited recourse in the event of non-payment. Drafts are generally less expensive than LCs(Citigroup, 2016).

On the other hand, with the increasing private sector involvement in commodity trading, companies are looking for quick cash flows and optimization. Letters of credit are becoming cumbersome and time-consuming and, in some instances, this leads traders to use the cash against documents (CAD) mechanism for some of their main buying transactions. It is a method of payment for goods in which documents transferring title are given to the buyer upon payment of cash. Payment is therefore made once the bill of lading is presented. This technique minimizes costs and facilitates payments to traders who are using it to pay for their purchases. Nevertheless, CAD does not provide the security which letters of credit offer. The risks that CAD brings do not allow every trader to use such a mechanism, especially when dealing with a new partner or in emerging markets. Moreover, it depends on national law. Traders in some countries are obliged by the law to use letters of credit in order to transfer funds (Frida , 2016).

Types of Documentary Collection

A. Documents against Payment (D/P): Under D/P Collections, the Collecting Bank will release documents (and therefore goods) to the Drawee only after receipt of payment from the Drawer. The Drawee is normally expected to pay within 3 working days of presentation of documents. The Principal maintains control of goods through the use of title shipping documents until such time that the Drawee pays for the goods. Upon receiving payment, the Collecting Bank will hand over the control of the goods to the Drawee.

B Documents against Acceptance (D/A): Under D/A Collections, the Collecting Bank will release documents (and therefore goods) to the Drawee only against the promise of payment at a fixed future date. This promise is executed through an acceptance of a financial document called the bill of exchange (also commonly known as the Draft). Bill of exchange serves as the official financial document by which one party (the drawer) demands for payment from another party (the Drawee).

4. Consignment Sale: Under the consignment method of payment, the seller delivers the goods to his agent in the foreign land, who arranges for the sale of the goods and remits the payment to the supplier. Title to the goods remains with the exporter until the goods is sold to the ultimate buyer Under this method, the exporter is not protected against loss that could rise if the agent or consignee fails to repatriate the proceeds to the exporter from the sale of goods(Cherunilam, 2006).

5. Letters of credit (LCs): An LC, also referred to as a documentary credit, is a contractual agreement whereby a bank in the buyer's country, known as the issuing bank, acting on behalf of its customer (the buyer or importer), authorizes a bank in the seller's country, known as the advising bank, to make payment to the beneficiary (the seller or exporter) against the receipt of stipulated documents5 . It is a commitment by a bank on behalf of the buyer that payment will be made to the exporter provided that the terms and conditions have been met, as verified through the presentation of all required documents (Agbonika, 2015). It is the preferred mode of settlement between a buyer and a seller under the following circumstances:

♣ They are not well-known to each other.

♣ They are located in different countries and the seller is not sure of the credit worthiness of the buyer.

The Letter of Credit is governed by the ICC rules defined in Uniform Customs Practice (UCP) 600. UCP 600 Article 2 has defined "Credit" as "Any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation". From functionality perspective Commercial code of Ethiopia Art. 959 (1960), defined Letter of Credit as:

A documentary credit is a credit opened by a bank providing for payment against presentation of specified documents to the opening bank or to its agent. Goods represented by such documents maybe held and disposed of by the bank in accordance with the terms agreed between the bank and its principal (p.208-209).

Letters of Credit have been a cornerstone of international trade dating back to the early 1900s. They continue to play a critical role in world trade today. For any company entering the international market, Letters of Credit are an important payment mechanism which helps eliminate certain risks (Zsuzsanna, 2016).

Letters of credit play a significant role in financing international trade, and have gained great importance. They have been described as "the life blood of international commerce and have been referred to as "quint essential international instruments The law of letters of credit has emerged mainly from the customs of bankers dealing with importers, exporters, freight forwarders, shipping and insurance companies. Today, these customs are embodied in a Code drafted by the International Chamber of Commerce titled "Uniform Customs and Practice for Documentary Credits" (UCP) (Zsuzsanna, 2016).

Documentary credit is an essential part of the export process. It is a trade finance mechanism that was developed to add a measure of security to trade transactions, particularly between buyers and sellers from different countries, and to assert sufficient pressure in case of any violation or nonperformance to the trade contract. The letter of credit calls for the participation of a this which is the bank. The bank provides additional security for both parties; it plays the role of an intermediary, by assuring the seller that he will be paid if he provides the bank with the required documents, and by assuring the buyer that his money will not be paid unless the shipping documents evidencing proper shipment of his goods are presented (Frida , 2016).

Letter of credits are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. The buyer pays his or her bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. An LC also protects the buyer because no payment obligation arises until the goods have been shipped or delivered as promised.

Cycle in a Letter of Credit: Usually the contract provides for the opening of a letter of credit within a specified time. The banks open LCs according to instructions they have received from importers. The stages to be followed in executing this contract are as follows:

The importer pays the exporter by arranging for the issuing bank to open an LC in favors of the exporter. The issuing bank transmits the LC to the advising bank, which forwards it to the exporter.

- The exporter forwards the goods and documents to a freight forwarder.
- The freight forwarder dispatches the goods and submits documents to the advising bank.

- The advising bank checks documents for compliance with the LC and pays the exporter.
- The importer's account at the issuing bank is debited.
- The issuing bank releases documents to the importer to claim the goods from the carrier

According to CITIGROUP (2004), parties involved in the letter of credit are the following:-

Applicant: The party, also known as the Importer or the Buyer, on whose request the L/C has been issued.

Beneficiary: The party, also known as the Exporter or the Seller, in whose favor the L/C has been issued.

Opening or Issuing Bank: The bank that issues a credit at the request of an Applicant or on its behalf in favor of the Beneficiary. It is the bank that provides irrevocable and independent undertaking to pay the Beneficiary.

Advising Bank: The bank that authenticates and advises the establishment of the LC to the Beneficiary at the request of the issuing bank.

Second Advising Bank: The bank that further authenticates and advises the LC to the Beneficiary at the request of the First Advising Bank.

Nominated Bank: The bank with which the credit is available or any bank in the case of a credit available with any bank.

Confirming Bank: The bank that adds another level of definite undertaking, in addition to that of the issuing bank, to honor or negotiate a complying presentation.

Reimbursing Bank: The bank nominated by the issuing bank to pay claims under the credit to the negotiating or paying.

Negotiating Bank: The bank that advances funds, at its own discretion, to the beneficiary against a complying presentation under the terms of conditions of a creditThe negotiating bank always negotiates with recourse Remitting Bank The bank which receive the stipulated documents under the credit from the beneficiary and then forwards that to the issuing bank

Paying Bank: The bank nominated in the credit by the issuing bank that will be responsible to effect the payment on behalf of the issuing bank. The paying bank always pays without recourse

Types of letters of credits: Payment at sight, deferred payment, acceptance and negotiation credits it is important for the beneficiary to know in what manner he will be able to obtain payment.

The parties to the underlying agreement should agree on which of the above mentioned method they wish to use and the applicant should open the letter of credit accordingly. Moreover, the UCP 500 requires that the credit itself indicates whether it is available by sight payment, by deferred payment, by acceptance or by negotiation. Sight payment means payment against documents. The authorized bank shall pay the beneficiary upon presentation of documents, provided that the terms and conditions of the credit are fully compiled with. For checking the documents the banks are given a specific period of time. By deferred payment the beneficiary shall receive payment at some future date (maturity date), specified by the credit. A deferred payment credit may, for example, provide for payment 90 days after the date of shipment (date of issuance of the bill of lading) or 15 days after presentation of documents.

On submission of the documents that meet the conditions of the credit, the beneficiary is given a written statement by the authorized bank that payment will be made on the due date. If the beneficiary wishes to receive payment before this maturity date, he can resort to negotiating the letter of credit, normally at a discount. Under an acceptance credit "the issuing bank undertakes to pay a non-documentary bill drawn by the beneficiary". It is a "bipartite transaction in which the letter of credit is opened by the issuing bank at the account party's request and in that very party's favors". UCP Article 7(a) (iii) clarifies the liabilities of the issuing bank under an acceptance credit. It states that the issuing bank is obliged to accept drafts drawn by the beneficiary on the issuing bank and to pay them at maturity. If the nominated bank refuses to accept the draft or accepts the draft but does not pay at maturity, the beneficiary is entitled to require payment from the issuing bank

The credit may also be a negotiation credit. The UCP 600 defines negotiation as "giving of value for Draft(s) and/or document(s) by the bank authorized to negotiate". This bank is called the negotiating bank, which will endorse and negotiate the draft or documents, with certain deductions of discount or interest and commission. Under the UCP 600 there are two kinds of negotiation credits. A credit may restrict the negotiation to a certain bank nominated in the credit, or it can be freely negotiable, which means that any bank can become a negotiating bank by undertaking the negotiation. However, it is important to note that the term "negotiable credit" is misleading, since the credit itself is not negotiable. It is the draft under the credit that may be freely negotiable.

Revocable and irrevocable credits: A distinction has to be drawn between revocable and irrevocable credits. The feature of "revocability" or "irrevocability" of a credit refers to the undertaking of the issuing bank. A revocable letter of credit gives the applicant maximum flexibility, whereas it gives less security to the beneficiary. It can be amended, revoked or cancelled without the beneficiary's consent and even without prior notice to the beneficiary. An irrevocable letter of credit, on the other hand, constitutes a definite undertaking of the issuing bank to pay and accept drafts and/or documents, provided that the stipulated documents are presented and that the terms and conditions are complied with. Consequently, an irrevocable credit gives greater assurance to the beneficiary as to the payment by the bank, since it cannot be modified or cancelled without the express consent of the beneficiary. (ICC 2020)

The UCP 600 requires the issuing bank to clearly state in the credit whether it is revocable or irrevocable. In the absence of such indication the credit is presumed to be irrevocable. The majority of the legal systems with statutory provisions on documentary credits address the issue of revocability and irrevocability. Most statutes treat documentary credits irrevocable if the credit does not specifically indicate it. There are however countries, where the presumption of revocability prevails. In practice, revocable credits are not often accepted as method of payment in Ethiopia. The more widely used form is the irrevocable credit, which may be confirmed or unconfirmed. (ICC 2020)

Confirmed and Unconfirmed Credits: While "irrevocability" or "revocability" refers to the obligation of the issuing bank towards the beneficiary, the feature of a credit as "confirmed" or "unconfirmed" is related to the undertaking of another bank invited into the transaction by the issuing bank. In many transactions the issuing bank 24 communicates the letter of credit through another bank that may act as an advising or a confirming bank. (ICC 2020)

Upon the authorization or request of the issuing bank, a bank may confirm a letter of credit, which constitutes a definite undertaking of the confirming bank, in addition to that of the issuing bank, towards the beneficiary to pay, accept draft or to negotiate. Needless to say, that in conformity with the principles of a letter of credit transaction, the obligation of the confirming bank can be evoked upon presentation of documents stipulated by and being in full compliance with the terms and conditions of the credit, on or before the expiry date. An irrevocable, confirmed letter of credit "gives the beneficiary a double assurance of payment, since it represents both the undertaking of the issuing bank and the undertaking of the confirming bank".

A vendor of goods selling against a confirmed letter of credit is selling under the assurance that nothing will prevent him from receiving the price." A confirmed letter of credit usually includes the following – or similar - text: "As requested by the Issuing Bank, we hereby add our confirmation to the Credit in accordance with the stipulations under UCP 600 Article 9. The confirmation of the confirming bank may be "silent" or may be a so called "seller's confirmation". A silent confirmation7 is the undertaking of the confirming bank without the express authorization of the issuing bank. This undertaking does not represent a "confirmation" within the meaning of the UCP, it is rather a separate agreement between the beneficiary and the "confirming" bank under which the said bank is obliged to purchase or discount the draft. (ICC 2020)

"The confirming bank will have no rights against the issuing bank arising from its [silent] confirmation. Thus, unless it is entitled to be reimbursed because it is nominated by the credit as the paying bank, if its confirmation leads it to have to pay on the credit, it will not have a right of reimbursement." In case of a "seller's confirmation" the seller requests the confirmation of the credit in order to obtain an additional security that it will receive payment. Although this issue is not covered by the UCP 500 it seems to be a common practice. Since the confirmation is not requested and authorized by the issuing bank the confirmer acts at its own risk. (ICC 2020)

A letter of credit is unconfirmed, if the bank merely acts as an agent of the issuing bank without assuming any responsibility towards the beneficiary, thus acting as an advising bank. An advising bank does not confirm the credit; its obligation is to take reasonable care to check the apparent authenticity of the credit. Special Types of L/Cs are:

Revolving Documentary Credits: Revolving credits are used in transactions where there is a continuous relationship between the exporter and the importer and the amount is renewed periodically without renewing the terms and conditions of the credit(Jim & Jonathan , 2008).

According to Citigroup Inc.(2008)revolving documentary credit can be Cumulative or Non-cumulative. If the revolving credit is non-cumulative, then any amount not drawn in a specific period of time ceases to be available. The credit may be revolving not only in relation to time, but in relation to value as well. This latter means, that the letter of credit is automatically reinstated when the value of the credit is exhausted. Although revolving credits are mentioned in all textbooks, in practice they appear to be rare.

Red Clause Documentary Credits: The Red Clause Documentary Credit received its name from a special condition inserted into the text of the credit, which was originally written by red ink. Under this special condition the confirming bank or any other nominated banks are authorized by the applicant to make advances to the beneficiary before presentation of document. The amount of the advances is specified in the credit. Hadfield explains it as follows: “The Red Clause is a device which originated in the China trade, where the seller was most frequently an agent of the buyer…In the fur trade, for example, the persons in China who dealt with American buyers were, in the main, either buyers’ representatives or traders who went into the hinterland and bought raw furs, a little here and a little there, assembled them…They dealt, too, with persons who wanted cash on the barrelhead before they parted with the furs. Accordingly, opening banks began to practice of endorsing on their credits in red ink (whence the name) a clause authorizing the confirming or negotiating bank to pay the beneficiary against the drafts alone, coupled with his simple promise to provide the documents in the future.” Thus, the Red Clause Documentary Credit is used where the buyer is willing to finance the transaction before the actual shipping of goods. (ICC 2020)

Transferable Documentary Credit: Letter of credits are usually opened in favors of the beneficiary named in the credit. It means that only the named person can tender the documents and can require payment from the bank. However, in today’s complex business relationships it is not exceptional that the beneficiary seeks to transfer its rights under the credit to a third party. This can happen in to ways: by transfer and by assignment. Transfer of the credit often the seller is not the manufacturer of the goods being subject of the sales contract. He may only act as a middleman obtaining goods from a third party and selling them to the buyer at a higher price. In this case the seller may use a transferable credit to pay the third party (usually referred to as the Second Beneficiary) selling to him (ICC 2020)

Back-to-Back Documentary Credits: A Back-to-Back Documentary Credit is used in transactions where a seller, who entered into a contract of sale of certain goods, has to purchase those goods from his supplier and no transferable credit is used in the transaction. In this case two separate documentary credits are involved: a documentary credit opened by the buyer in favors of the seller and another documentary credit opened by the seller in favors of the supplier on the security of the first credit. "The original credit, and the second opened in favors of the supplier, will be in identical terms apart from the price. (ICC 2020)

Summarizing special type L/Cs: Due to the limited foreign currency and exchange regulation of our country, we do not at present use some of the special types of L/Cs that are commonly used in other countries. They are: -

1. Revolving Letter of Credit

2. Red clause Letter of Credit

3. Installment Letter of Credit

We may use others with the following modifications:

Advance Payment Letter of Credit: - Before we open such L/C. we must require an unconditional and acceptable first class bank guarantee (see the chapter for Guarantee in this manual) for the advance payment portion by tested telex or authenticated SWIFT. The amount to be advanced against such L/C should be a certain percentage of the total L/C value (current practice require less than or equal to 20 %.) (ICC 2020)

Transferable Letter of Credit: - Only when, the L/C text can authorize negotiation only against shipping documents prepared by the main beneficiary or at least bears the signature and stamp of the main beneficiary of the L/C (i.e. shipping documents prepared by the transferee of the L/C will not be acceptable). (ICC 2020)

Back-to-Back Letter of Credit: - we need to inform the correspondent bank concerned that such an L/C can be treated as any other ordinary L/C without involving our bank into any additional commitment to any third party (second beneficiary). (ICC 2020)

Standby Letter of Credit: we can accept such L/Cs in favors of our customer (or any legal person in Ethiopia) and advise the same as guarantee. Foreign beneficiaries will get from our side as bank guarantee rather than a Standby L/C (ICC 2020)

International Guarantees: Guarantee means any signed undertaking, however named or described, providing for payment on presentation of a complying demand. Guarantee is an undertaking to answer for the payment or performance of another person's debt or obligation in the event of a default by the person primarily responsible for it. International guarantees may be defined as an irrevocable undertaking by a bank to pay a sum of money in the event of non-performance of a contract bya third party. The guarantee is a separate obligation independent of the principal debt or the contractual relationship between the beneficiary and the principal. Under the terms of the guarantee, the bank has to pay on first demand provided that the conditions contained in the guarantee are fulfilled. Guarantees are as a rule subject to the laws of the country of the issuing bank(Global International Trade & Business Finance, 2020).

The Role of Guarantee in International Trade

- It smooth's business relation among the parties involved.
- It helps the seller to get an advance/credit from buyers in order to accomplish their commitment.
- Prohibits unfair business advantage by one of the parties involved in business transaction.
- Facilitates transactions between buyer and seller which operate at different geographical locations.
- Paves the way to make peaceful business between partners which does not know each other before.

2.1.7. Main documents used in international commodity trade

Documents are the key issue in a letter of credit transaction. Banks deal in documents, not in goods (Article 5 of UCP 600). They decide on the basis of documents alone whether payment, negotiation, or acceptance is to be effected. If proper documents are presented, banks will make payment whether or not the actual goods shipped comply with the sales contract (Frida , 2016).

Thus, special attention has to be given to the correct list of documents since a slight omission or discrepancy between required and actual documents may cause additional cost, delays and extra work for both buyer and seller and may prevent the merchandise from being exported. This can result in the exporter not getting paid or even in the appropriation of the exporter's goods by national or foreign government customs. Even before the letter of credit is issued the buyer and seller should clearly decide on the documents that are needed for the accomplishment of the sale transaction. The letter of credit should precisely state the documents required and their contents.

Commercial Invoice: The commercial invoice is an invoice/bill for the goods from the seller to the buyer. It is a document that gives a complete description of the trade transaction, i.e. invoice number, full listing of the goods, quantities, shipping date, mode of transport, address of the shipper and buyer and the delivery and payment terms. The buyer requires the invoice to certify ownership and to initiate payment. Some governments use the commercial invoice to determine the true value of the goods when assessing customs duties.

Bill of lading (B/L):B/Ls are contracts between the owner of the goods (shipper/contractor) and the transportation company. It is considered to be a receipt for the goods shipped (given to the seller by the carrier), a contract for delivery (i.e. a contract to deliver the goods as freight to the consignee), and, most importantly, a document of title to the goods.

Certificate of Origin: Some countries (particularly those subject to lower tariffs and free trade treaties) may require, for entry purposes, a signed statement certifying the origin of the goods being traded. If the buyer requires this document, he should so stipulate in his letter of credit.

Packing List

A document that lists and itemizes the merchandise contained in each package (box, crate, drum, carton, or container), and indicates the type, dimensions, and weight of the container. The packing list is used by customs and transportation companies.

2.1.8. International Standards and Regulations for Documentary Credit and Collections

UCP 600: The USP is the work of ICC, a private international organization founded in 1919. Formulated entirely by experts in the private sector, it remains to date, the most successful private rules for trade ever developed. UCP 600 is the latest version of the Uniform Customs and Practice that govern the operation of letters of credit. UCP 600 comes into effect on 01 July 2007(Citigroup Inc. , 2008). The 39 articles of UCP 600 are a comprehensive and practical working aid to bankers, lawyers, importers, and exporters, transport executives, educators, and everyone involved in letter of credit transactions worldwide (Citigroup Inc. , 2008)

ISBP 2006: In 1996 the US Council on International Banking published a paper titled "standard Banking Practice for the Examination of Letter of Credit Documents" which provided a checklist for banks on what must be considered when inspecting the documents. The goal was to try to reduce the number of presentations rejected by the banks by providing a standard for documentary checkers. The International Standard Banking practice for the Examination of documents under documentary letter of credit, commonly called ISBP, was approved by the commission at its meeting in Rome in October 2002(Zsuzsanna, 2016).

URR 525 : The uniform Rules for bank-to-Bank reimbursement under documentary Credits (URR 525) come into effect on the 1st of July 1996. The seventeen articles of the URR 525 deal with the state of affairs covered by Article 19 of the UCP 500, where banks (an issuing bank, a claiming bank and a reimbursing bank) are involved. It does not alter the provisions of UCP but sets out a detailed code for the reimbursing process (Zsuzsanna, 2016).

2.2 Empirical Literature Review

2.2.1. International Experience

Studies by Demir (2014) examined the role of financial markets in facilitating international trade, especially in developing countries. In particular, the goal of these countries to diversify exports both in terms of products and destinations, i.e. towards developed country markets, calls for additional trade financing. Given their shallow financial markets, access to trade finance still remains a challenge for such countries. One possible remedy would be to extend short-term credit lines to exporters through EXIM banks, with a view to meeting their working capital needs. Another remedy would be to create new instruments linked, for instance, to LCs, which can be used by beneficiary exporters to obtain short-term financing in their home countries. Bankers' acceptance is one such instrument. However, these instruments are seldom used because of their complexity and inconvenience. John H.(2019) explained one of the difficulties in obtaining trade finance are more likely to affect small firms and new entrants that do not have established relationships with their banks and with their customers.

2.2.2. Ethiopia's Experience

International trade has several advantages and some risks for emerging countries like Ethiopia. The obvious advantage from trade is that it enables countries to increase their production and consumption through specialization on goods and services on the basis of their comparative advantage. However, on the risk side, the benefits from international trade may be biased in favor of developed countries at the expense of the emerging countries, writes (Yonnas Kefle. 2020)

Modern nations have found international trade a critical necessity for their well-being, because their standards of living and way of life will be much inferior without it. International trade is the exchange of goods and services between countries. Trade between nations is important for a number of reasons. No two nations are endowed with the natural, human, and capital resources. Economic resources are distributed among nations in uneven manner. The level of technological know-how and efficiency of producing goods and services vary across nations. In addition, consumers generally prefer imported goods from abroad and exhibit dissatisfaction using only locally produced goods. All these factors make international trade indispensable. Fast forward to today, Ethiopia has opened its economy to international trade, though it continues to experience significant deficit in its foreign trade balance. It continues to import most of its machinery and equipment, and its intermediate goods for agriculture and industry. As of 2017, it exports annually a little over USD six billion of goods and services to its trading partners while importing nearly USD 20 billion worth of products and services from them. International trade accounts to 31.5 percent of GDP.

Presently, Ethiopia's leading export goods include coffee, dried vegetables, gold, meat, leather and leather products. More than 40 percent of its exports go to its major export trading partners, United States, Saudi Arabia, Germany Switzerland, and China. Nearly 60 percent of its goods and services are sold to the rest of the world. Ethiopia's major imports are petroleum, motor vehicles, medical machinery and equipment, palm oil, and chemical fertilizers. It also buys most of the consumer goods such as cellphones, computers, radios, televisions, pharmaceuticals, and textiles that have significant local demand. It buys these goods from its major import trading partners, China, United States, India, Kuwait, Japan, and the rest of the world. Now a days, nearly a third of Ethiopia's imports come from China.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodological background of the study and the methods used. It therefore involves research design, data types & sources, data collection instruments, target population and sample design, reliability and validity of the instruments and data analysis procedure.

3.2. Research Approach and Design

The study employed mixed approach. A research design according to Nworgu (1991) is a plan which specifies how data relating to a given problem should be collected and analyzed. Blanche &Durrheim (1999) describe a research design as a bridge in the implementation of the research and the research questions. For this study a descriptive research design is applied in order to describe the information and answering the research questions related to practice of international trade in the performance in selected private commercial banks. Descriptive research is a research study which is concerned with describing the characteristics of a particular individual or group (Kothari, 2004). The researcher also adapted a cross sectional survey design. According to Zikmund (2000) a cross sectional survey design is the type of survey design in which necessary data is collected at one point in time from particular set of population. Therefore this research design is employed for the study because of recourse and time limitation to undertake longitudinal survey.

3.3. Data Types and Sources

The researcher used both qualitative and quantitative types of data that were collected from primary and secondary sources to achieve the stated objectives of the study. The reason behind using both types and sources of data is to keep and cross-check the validity and reliability of the finding from close-ended questionnaires, interviews and document reviews.

Primary data: The primary data is gathered through structured questioner and interview from concerned staff members. The staff members include international banking officers and/or branch managers, and import-export division managers. Besides semi-structured interview were prepared and offered to the six banks IB managers. The purpose of semi structured interviews is to allow flexibility for new questions that may emerge during the interview.

Secondary data: Secondary data is obtained from National bank of Ethiopia data base and annual reports of the selected private banks.

3.4. Measurement/Instrument Design

The study used primary data collection instruments, namely, questionnaire and structured interview. A well designed questionnaire with two sections which have general information and international trade finance practice and challenges related questions were distributed to target respondents, and interview was conducted in order to realize the objective. Some of the questionnaire section consists of a set of questions that intends to determine the level of frequency using a categorical scale. The categorical rating scale asks the respondent how often she or he implemented the actions under the category with a five-point rating scale. Possible rating of responses should be presented in a straight line as this is how respondents are more likely to answer the questions readily (Nworgu, B.N., 1991). The sources for secondary data were gathered from procedures, directives, annual reports of the commercial banks, internet and National bank of Ethiopia.

3.5. Target population and Sample Design

The target population for the study is all international banking managers and trade service officers who are working in Awash International Bank S.C, Dashen Bank, Bank of Abyssinia, Wegagen Bank, United Bank and NIB International Bank. These banks were selected systematically based on amount of profit generated from international trade services, their paid up capital and their experience in their bank service. These banks have more experience and exposure on trade service practice than other private commercial banks in Ethiopia. The sample respondents were selected from these six banks by non-probability sampling, specifically purposive or judgmental sampling techniques, since they have more know how about foreign currency generation, foreign exchange policies and procedures, foreign permit, approval of foreign currency and settlement of approved permit than other employees (which means respondents are selected purposefully to meet the objectives of the study). To make the study more manageable and more feasible in terms of time and cost, the outlaying branches of all selected private commercial banks are excluded from the study.

Table: 3.1 Distributed Questionnaire and Used questionnaire and interview conducted

No.	Name of Banks	The planned Questionnaire distributed	Collected & used Questionnaire
1	Awash Bank	20	18
2	Dashen Bank	20	19
3	Bank of Abyssinia	20	18
4	Wegagen Bank	20	18
5	United Bank	20	18
6	Nib Bank	20	17
Total		**120**	**108**

3.6. Data Collection Methods

The research data have been collected from different sources using the various data collection tools. Both quantitative and qualitative data have been used so that the data combination would result in a relatively consistent and cross checked results. For Primary data collection, different data collection methods were used. For international banking supervisors and foreign officers, unstructured survey questionnaire was used to identify the issues that relate to practice of international trade in the bank performance. The questionnaires were arranged in standardized categorical scale. In order to strengthen the quality of data; structured interview will be used for international banking managers. Secondary data will be collected from the NBE homepage, private commercial banks homepage and their externally audited annual report.

3.7. Method of Data Analysis

The researcher used editing for data clearing. The data collected were coded and recorded using computer. The quantitative data gathered by the researcher were analyzed by using descriptive statistics namely, frequency, mean and standard deviation for better understanding and interpret the data gathered through the questioners. The interview and close-ended questions were analyzed by using qualitative and quantitative data analysis. The analysis method used narrative analysis and the responses of the respondents were summarized. Thus, the questionnaires that were answered and retrieved were coded, analyzed and presented with the help of frequency tables. To this end, the researcher employed the SPSS software (Version 20) in processing and analyzing the data.

3.8. Reliability and Validity

Validity

Validity is the extent to which an instrument measures what it is supposed to measure and performs as it is designed to perform. As a process, validation involves collecting and analyzing data to assess the validity of the questionnaire, which generally involves pilot testing.

Pilot test is preliminary version of full survey operations that is used to identify whether problems exist before distributed real survey to the respondents (Lavrakas, 2008). In the pilot test phase, sets of the questionnaires distributed to 12 customers for each bank, examined for respondents understanding of the questions, and taken their feedback on the questionnaire. After the pilot test, a number of suggestions adopted and improved the questionnaire.

Reliability

The reliability test is an important instrument to measure the degree of consistency of an attribute which is supposed to measure. As stated by Mahon and Yarcheski (2002) the less variation of the instruments produces in repeated measurements of an attribute the higher its reliability. Reliability can be equated with the stability, consistency, or dependability of a measuring tool. Cronbach's alpha is one of the most commonly accepted measures of reliability. It measures the internal consistency of the items in a scale. It indicates that the extent to which the items in a questionnaire were related to each other. The normal range of Cronbach's coefficient alpha value ranges between 0-1 and the higher values reflects a higher degree of internal consistency. The most commonly accepted value is 0.70 as it should be equal to or higher than to reach internal reliability (Hair et al., 2003).

Table 3.2: Cronbach's Alpha for each field of the questionnaire

Variables	Number of Items	Cronbach's Alpha
bank Performance in International Banking Department	4	0.956
The Rules and Regulations of International Trade	4	0.936
Mode of Payment for International Trade	2	0.959
Parallel Exchange Rate and International Trade	2	0.905
Over all	15	0.965

Source: Own computation *(2023)*

The Cornbrash's coefficient alpha was calculated for each field of the questionnaire. The table 3.2 shows the values of Cornbrash's Alpha for each field of the questionnaire and the entire questionnaire. For the fields, values of Cornbrash's Alpha ranged from 0.905 and 0.965. This range is considered high as the result ensures the reliability of each field of the questionnaire. Cornbrash’s Alpha equals 0.965 for the overall questionnaire which indicates very good reliability of the entire questionnaire. Based on the test, the results for the items are reliable and acceptable.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter deals with data presentation, interpretation and analysis of the study. Analysis is also made based upon the findings in collaboration with the literature reviewed. The chapter has two parts. The first is background of the respondents; and the second part of analysis made on assessment of International Trade practice on banks performance through statistical methods of analysis including a descriptive statistics through SPSS version 20. The general analysis of the study was too carried out on assessing International Trade practice on banks performance (In the case of Ethiopian Banking Sector). The analysis is based on primary data which were collected through questionnaire, interviews and secondary data, which were collected from published and unpublished materials

4.2. Response Rate

Response rate refers to the number of questionnaires completed and returned from the respondents divided by the number distributed to respondents and multiplied by 100.

Table 4.1.Response Rate

No	Variable	Frequency	Percentage
1	Responded	108	90
2	Non-Responded	12	10
	Total	**120**	**100**

Source; Researcher own field survey, 2015/2023

The data were collected from international banking managers and trade service officers within a total sample size of 120, and these 108 were returned which shows a 90% response rate, so the researcher has taken samples to distribute questioner for respondents.

4.3. Demographic Characteristics of the Respondents

This section deals with the general characteristics of the sample respondents by sex, age, educational level, positions, and working experience are discussed.

4.3.1. Gender of the respondents

Table 4.2: Gender of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	84	77.8	77.8	77.8
	female	24	22.2	22.2	100.0
	Total	108	100.0	100.0	

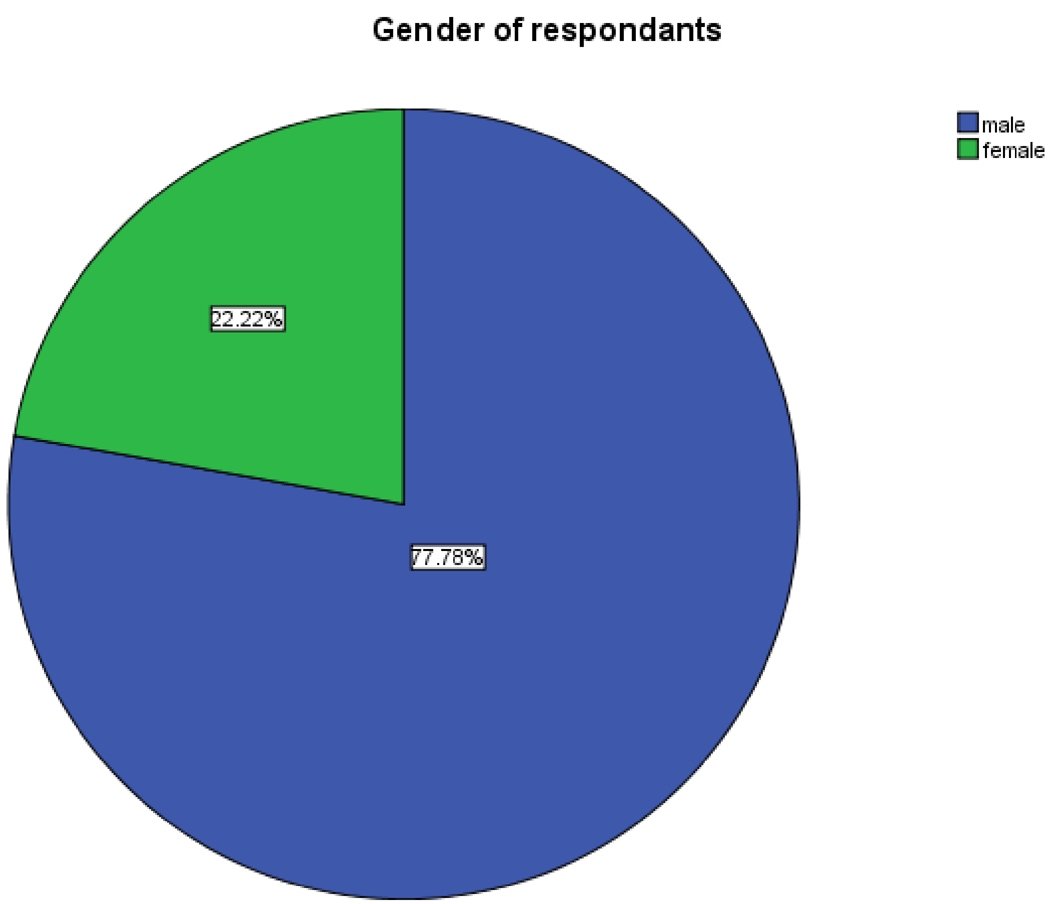

Figure 4.1 Gender of the respondents

Figure of pie chart and table 4.2 above shows that, from the total of 108 respondents 84(77.8%) of them are male and the remaining 24(22.2%) are female respondents. This implies that the majority of respondents are male.

4.3.2. Education background of respondents

Table 4.3: Education background of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	diploma	25	23.1	23.1	23.1
	degree	45	41.7	41.7	64.8
	masters and above	38	35.2	35.2	100.0
	Total	108	100.0	100.0	

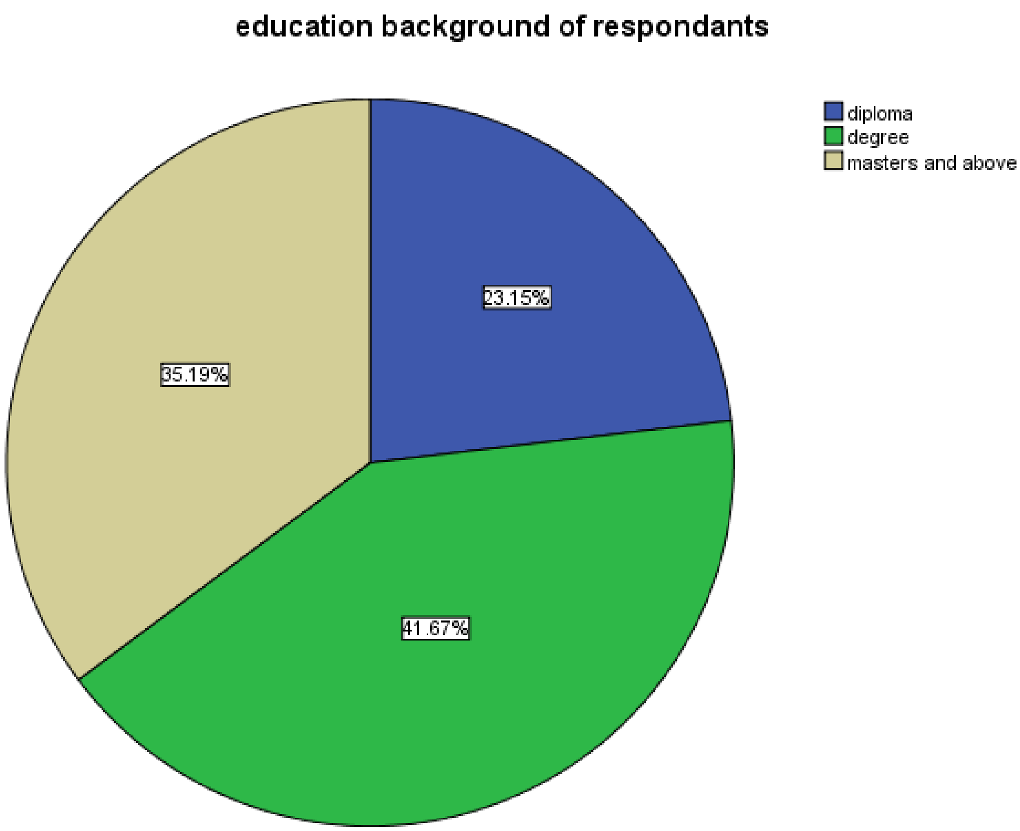

Figure 4.2 Education backgrounds of respondents

As shown in Figure 4.2: and table 4.3 above, respondents 45(41.7%) is degree holders, 38(35.2%) are master holders and the rest of the respondents 25(23.1%) are diploma holders. The analysis indicates that all of staff was educated so the response from them is reliable.

4.3.3. Age of respondents

Table 4.4: age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-27	16	14.8	14.8	14.8
	28-37	56	51.9	51.9	66.7
	38-47	26	24.1	24.1	90.7
	48 and above	10	9.3	9.3	100.0
	Total	108	100.0	100.0	

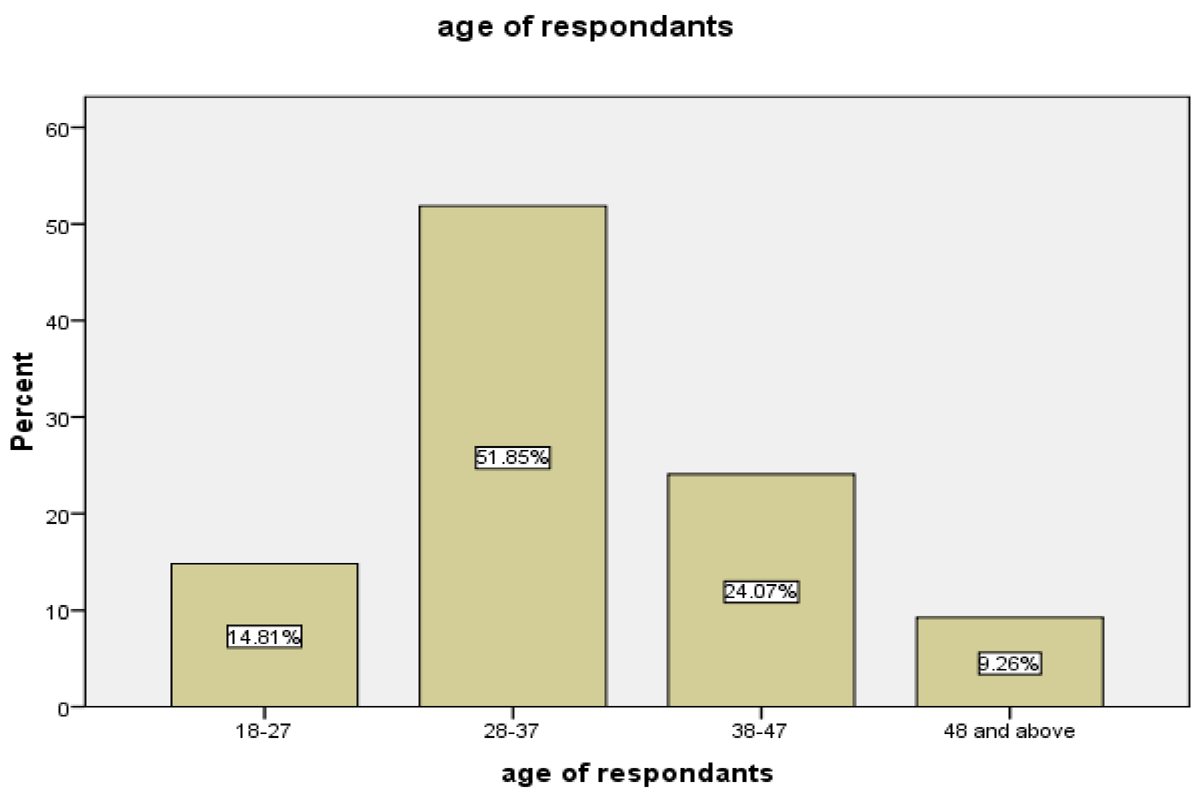

Figure 4.3 Age of respondents

With regarding the age composition of the respondents, 56(51.9%) of the respondents fall under the age category of 28-37, 26(24.1%) of respondents fall under 38-47, 16(14.8%) of the respondents were under the age of 18-27 and the remaining 10(9.3 %) of the respondents are under the age category of 48 and above. This shows that the majority of the respondents are under the age category of 38-47. This implies that, most of the international banking managers and trade service officers are young and productive ages that are most important for productivity and profitability of the banks.

4.3.4. Positions of respondents

Table 4.5: positions of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	division manager	18	16.7	16.7	16.7
	relationship manager	30	27.8	27.8	44.4
	senior foreign officer	28	25.9	25.9	70.4
	officer	32	29.6	29.6	100.0
	Total	108	100.0	100.0	

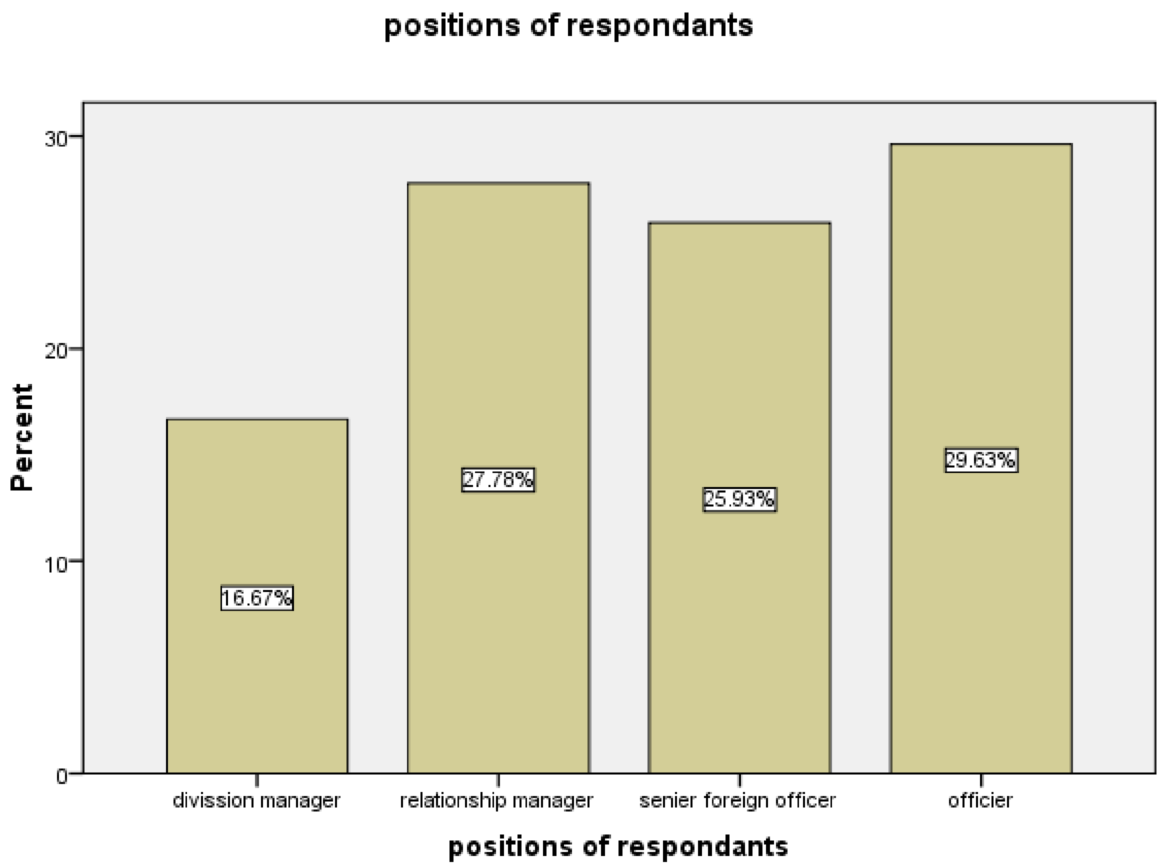

Figure 4.4 positions of respondents

Regarding their positions of respondents, as we seen from the table and figure above 32(29.6%) of the respondents are officer, 30(27.8/%) are relationship manager, 28(25.9%) of the respondents are senior foreign officer while the remaining 18(16.7%) of the respondents are division manager.

4.3.5. Years of work experience of respondents

Table 4.6: years of work experience of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	27	25.0	25.0	25.0
	5-10 years	49	45.4	45.4	70.4
	above 10 years	32	29.6	29.6	100.0

Table 4.6: years of work experience of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	27	25.0	25.0	25.0
	5-10 years	49	45.4	45.4	70.4
	above 10 years	32	29.6	29.6	100.0
	Total	108	100.0	100.0	

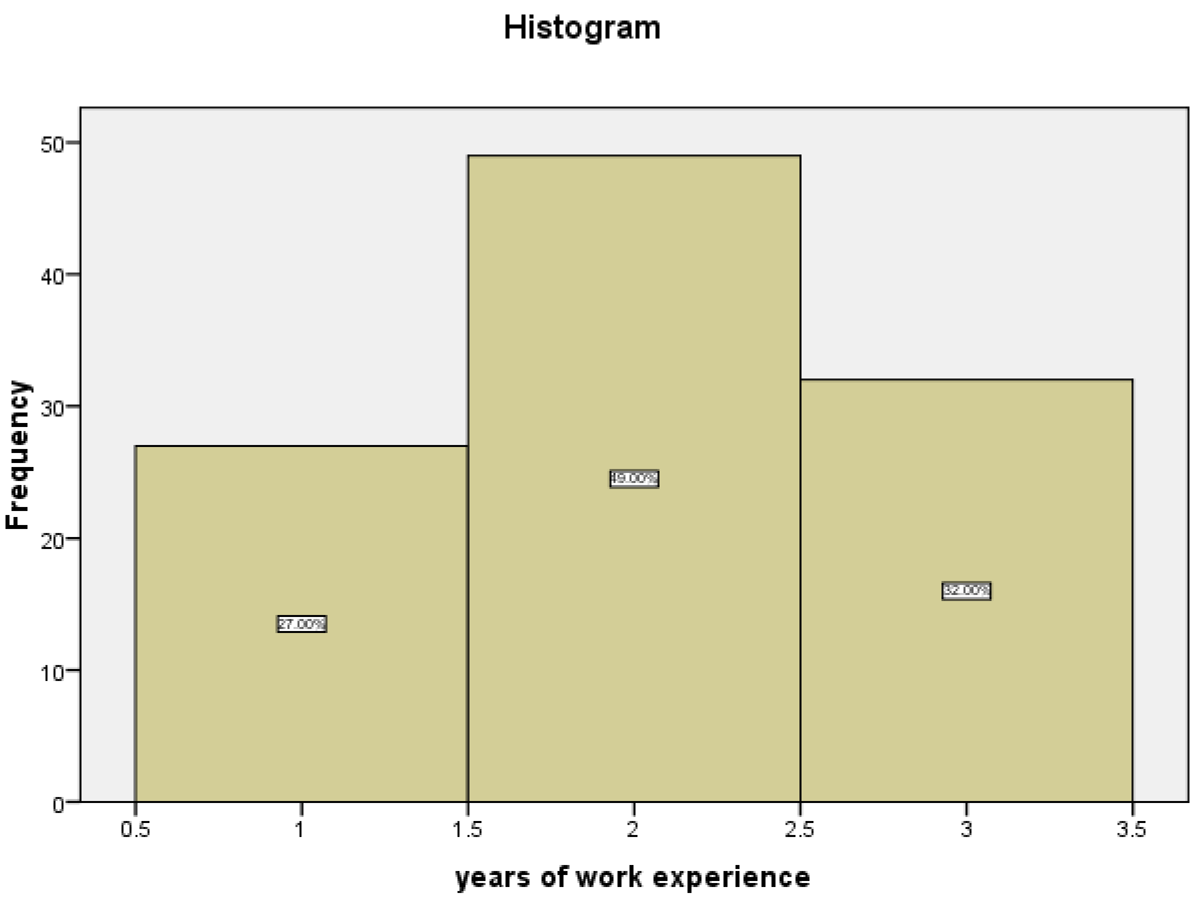

Figure 4.5: years of work experience of respondents

Concerning the respondents, the respondents years of experiences 49(45.4%) of them had from 5-10 years of experiences, 32(29.6%) of the respondents had more than 10 years of experience in their banking duration, 27 (25.0%) of the respondents had between 1-5 years of experiences.

This indicates that most of the respondents had between 6-10 years of working experiences in their banking durations.

4.4. Results or Findings

Based on the primary data collected through field survey this section of the study tries to present the main results obtained.

4.4.1 The Status of bank Performance in International Banking Department

Table 4.7.The status of bank performance in international banking department

Variables	**Rating**	**Respondents**			
		Frequency	**Percentages**	**Mean**	**Std. Deviation**
You have an interest in the current job position that you do today	Strongly disagree	4	3.7		
	Disagree	7	6.5		
	Moderate	9	8.3		
	Agree	68	63.0		
	Strongly agree	20	18.5		
	Total	**108**	**100**	**3.86**	**0.922**
There is a good opportunity to read and investigate work related materials in the work place	Strongly disagree	23	21.3		
	Disagree	65	60.2		
	Moderate	9	8.3		
	Agree	7	6.5		
	Strongly agree	4	3.7		
	Total	**108**	**100**	**3.89**	**0.941**

Our banks provide a training session regarding with our working areas at least 2 times a year.	Strongly disagree	4	3.7		
	Disagree	47	43.5		
	Moderate	41	38.0		
	Agree	7	6.5		
	Strongly agree	9	8.3		
	Total	**108**	**100**	**4.06**	**1.031**
There is a good working environment	Strongly disagree	2	1.9		
	Disagree	7	6.5		
	Moderate	83	76.9		
	Agree	11	10.2		
	Strongly agree	5	4.6		
	Total	**108**	**100**	**3.76**	**0.722**
You have eager to learn some educations regarding with your current job	Strongly disagree	1	0.9		
	Disagree	9	8.3		
	Moderate	12	11.1		
	Agree	50	46.3		
	Strongly agree	36	33.3		
	Total	**108**	**100**	**4.03**	**0.932**
You think that All of our co-worker in the	Strongly disagree	2	1.9		
	Disagree	46	42.6		

bank has a common understanding regarding with our responsibilities.	Moderate	42	38.9		
	Agree	10	9.3		
	Strongly agree	8	7.4		
	Total	**108**	**100**	**4.07**	**1.002**
I have a good performance regarding with my job responsibility	Strongly disagree	2	1.9		
	Disagree	11	10.2		
	Moderate	5	4.6		
	Agree	60	55.6		
	Strongly agree	30	27.8		
	Total	**108**	**100**	**3.97**	**0.952**

***Source**: Researcher own field survey, 2015/2023*

According to table 4.7 above, 68(63.0%) of the respondents were agreed on the interest of the position that trade service officers have today, in addition 20(18.5 %) of the respondents were strongly agreed on the interest of the positions that trade service officers have today. While 9(8.3%) of trade service officer and international banking managers have moderate interest on the current position but the remaining 7(6.5%) and 4(3.7%) of the respondents disagreed and strongly disagree respectively on the interest of the position that trade service officers have today.

Regarding with opportunity to read and investigate work related materials in the work place, 65(60.2%) of the respondents are disagree reading opportunities, 23(21.3%) of the respondents are strongly disagreed on the opportunity to read and investigate work related materials in the work place due to some reasons such as work pressure in the staff. However 9(8.3%) of the respondent and 7(6.5%) of the respondents are moderate and agree on opportunity to read and investigate work related materials in the work place respectively.

Related with training session, 47(43.5%) of the respondents disagreed that the banks provides a training session regarding with our working areas at least 2 times in a year**.** The remaining 41(38.0%) moderate 9(8.3 %) and 7(6.5%) of the respondents are and strongly agreed and agree on the facts that banks provides a training session regarding with our working areas at least 2 times in a year respectively.

Concerning with working environment 83(76.9%) of the respondent are moderate that there is a good and expediential working environment, 11(10.3%) agree that there is a good and expediential working environment, 7(6.5%) of the respondents are disagree that there is a good and expediential working environment while 5(4.6%) of the respondents strongly agree on that there is a good and expediential working environment.

According to table 4.7 above, 46(42.6%) of the respondents are disagree regarding with whether all of our co-worker in the bank has a common understanding regarding with our responsibilities or not. In addition 42(38.9%) and 10(9.3%) of the respondents moderate and agree regarding with whether all of our co-worker in the bank has a common understanding regarding with our responsibilities respectively and 8(7.4%) of the respondents strongly agree on whether all of our co-worker in the bank has a common understanding regarding with our responsibilities. They think that all of our co-worker in the bank has a common understanding regarding with our responsibilities as shown by a mean of 4.07.

Finally according to table 4.7 above, 60(55.6%) of the respondents are agree regarding with they have a good performance regarding with their job responsibility. In addition 30(27.8%) and 11(10.2%) of the respondents strongly agree and disagree regarding with they have a good performance regarding with their job responsibility respectively. but 5(4.6%) of the respondents moderate on they have a good performance regarding with my job responsibility. From the findings, majority of the respondents agreed that their banks not provide a training session regarding with our working areas at least 2 times a year as shown by a mean of 4.06. The mean score values are between 3.60-3.91 which is in a agree range.

4.4.2 The Rules and Regulations of International Trade

Table 4.8 the rules and regulations of international trade

Variables	Rating	Respondents			
		Frequency	**Percentages**	**Mean**	**Std. Deviation**
I have been read and understand the international rules like UCP 600 at least one per month.	Strongly disagree	-	-		
	Disagree	9	8.3		
	Moderate	6	5.6		
	Agree	77	71.3		
	Strongly agree	16	14.8		
	Total	108	100	**3.93**	**0.732**
International rules for international trade are enough for Ethiopian trading system.	Strongly disagree	-	-		
	Disagree	11	10.2		
	Moderate	5	4.6		
	Agree	67	62.0		
	Strongly agree	25	23.1		
	Total	**108**	**100**	**3.98**	**0.831**
All employees in the bank have a common understanding about such international rules and regulations	Strongly disagree	-	-		
	Disagree	9	8.3		
	Moderate	85	78.7		
	Agree	7	6.5		
	Strongly agree	7	6.5		

	Total	**108**	**100**	**3.83**	**0.663**
Local rules set by NBE have money defects related with international trade	Strongly disagree	1	0.9		
	Disagree	10	9.3		
	Moderate	4	3.7		
	Agree	85	78.7		
	Strongly agree	8	7.4		
	Total	**108**	**100**	**3.82**	**0.734**

Source*: Researcher own field survey, 2015/2023*

According to table 4.8, the majorities of the respondent's i.e. 77(71.3%) agree that they have been read and understand the international rules like UCP 600 at least one per month, on the other hand 16(14.6%) of the respondents and strongly agreed that they have been read and understand the international rules like UCP 600 at least one per month while the remaining 6(5.6%) and 9(8.3%) of them are moderate and disagree regarding with to read and understand the international rules like UCP 600 at least one per month. scored mean of 3.93 which is above the average. From the findings, majority of the respondents agreed that on this point as shown by mean of 3.93 and standard deviation 0.732 this shows The Rules and Regulations of International Trade influence bank performance.

Regarding with whether International rules for international trade are enough for Ethiopian trading system, 67(62.0%) of the respondents agreed that international rules such as UCP600, URC522 and others are almost enough for Ethiopian trading system. In addition 25(23.1%) of the respondents strongly agree that International rules for international trade are enough for Ethiopian trading system. However the remaining 11(10.2%) and 5(4.6) of the respondents are disagree and moderate regarding with whether International rules for international trade are enough for Ethiopian trading system. From the findings, majority of the respondents agreed International rules for international trade are enough for Ethiopian trading system.

Concerning with employees common understanding about such international rules and regulations 85(78.7%) and 9(8.3%) of the respondents are moderate and disagree for the fact that whether all employees in the bank have common understanding about such international rules and regulations or not. But the remaining 7(6.5%) and 7(6.5%) of the respondents agree and strongly agree that all employees in the bank have common understanding about such international rules and regulations. From the findings, majority of the respondent's moderate that all employees in the bank have a common understanding about such international rules and regulations as shown by mean of 3.83 and standard deviation 0.663 this shows The Rules and Regulations of International Trade influence bank performance.

Finally As depicted on the above table, 85(78.7%) of the respondents agreed that Local rules set by NBE have money defects related with international trade and are the cause for parallel exchange rate increment and the remaining 10(9.3%) of the respondents disagree that Local rules set by NBE have money defects related with international trade and are the cause for parallel exchange rate increment. From the findings, majority of the respondents agreed that Local rules set by NBE have money defects related with international trade as shown by mean of 3.82 and standard deviation 0.734 this shows The Rules and Regulations of International Trade influence bank performance.

4.4.3 Mode of Payment for International Trade

Table 4.9 Mode of Payment for International Trade

Variables	Rating	Respondents			
		Frequency	Percentages	Mean	Std. Deviation
All mode of payment used by current Ethiopian business man are enough for international trade	Strongly disagree	4	3.7		
	Disagree	6	5.6		
	Moderate	40	37.0		
	Agree	41	38.0		
	Strongly agree	17	15.7		

	Total	**108**	**100**	**3.56**	**0.950**
Mode of payments by itself has an obstacle for facilitation of international trade	Strongly disagree	6	5.6		
	Disagree	5	4.6		
	Moderate	36	33.3		
	Agree	39	36.1		
	Strongly agree	22	20.4		
	Total	**108**	**100**	**3.61**	**1.040**

***Source**: Researcher own field survey, 2015/2023*

As seen in Table 4.9 the majority of respondents 41(38.0%) of the respondents agree that All mode of payment used by current Ethiopian business man are enough for international trade, 40(37.0%) of the respondents moderate that All mode of payment used by current Ethiopian business man are enough for international trade and the remaining 17(15.7%) of the respondents are strongly disagree on the fact that All mode of payment used by current Ethiopian business man are enough for international trade. From the findings, majority of the respondents agreed that all mode of payment used by current Ethiopian business man are enough for international trade as shown by mean of 3.56 and standard deviation 0.950 this shows Mode of Payment for International Trade influence bank performance.

Regarding with whether Mode of payments by itself has an obstacle for facilitation of international trade or not, 39(36.1%) of the respondents Agree on that Mode of payments by itself has an obstacle for facilitation of international trade, 36(33.3%) of the respondents are moderate whether Mode of payments by itself has an obstacle for facilitation of international trade and the 20.4 % of the respondents strongly agree on fact the remaining 5.6% and 4.6% strongly disagree and disagree respectively From the findings, majority of the respondents agreed that Mode of payments by itself has an obstacle for facilitation of international trade as shown by mean of 3.61 and standard deviation 1.040 this shows Mode of Payment for International Trade influence bank performance.

4.4.4 Parallel Exchange Rate and International Trade

Table 4.10 Parallel Exchange Rate

Variables	Rating	Respondents			
		Frequency	Percentages	Mean	Std. Deviation
The parallel exchange rate in Ethiopia has effect on Ethiopian international trade	Strongly agree	70	64.8		
	Agree	19	17.6		
	Moderate	8	7.4		
	Disagree	6	5.6		
	Strongly disagree	5	4.6		
	Total	108	100	**3.85**	**0.935**
Local rules set by NBE are the causes for parallel exchange rate	Strongly agree	19	17.6		
	Agree	70	64.8		
	Moderate	9	8.3		
	Disagree	9	8.3		
	Strongly disagree	1	0.9		
	Total	**108**	**100**	**3.90**	**0.820**

Source: *Researcher own field survey, 2015/2023*

As shown in table 4.10, 70(64.8%) of respondents strongly agree that the parallel exchange rate in Ethiopia has effect on Ethiopian international trade and 19(17.6%) of the respondents agree that the parallel exchange rate in Ethiopia has effect on Ethiopian international trade. However the remaining 8(7.4 %) of the respondents are neutral whether the parallel exchange rate in Ethiopia has negative impact on Ethiopian international trade. From the findings, majority of the respondents agreed that the parallel exchange rate in Ethiopia has effect on Ethiopian international trade as shown by mean of 3.85 and standard deviation 0.935 this shows Parallel Exchange Rate influence bank performance.

Regarding with Local rules set by NBE are the causes for parallel exchange rate or not, 70(64.8%) and 19(17.6) of the respondents are agree and strongly agree that local rules set by NBE are the causes for parallel exchange rate, 8.3% of the respondents are also moderate that local rules set by NBE are the causes for parallel exchange rate but the remaining 9(8.3%) of the respondents are disagree whether Local rules set by NBE are the causes for parallel exchange rate or not. From the findings, majority of the respondents agreed that Local rules set by NBE are the causes for parallel exchange rate as shown by mean of 3.90 and standard deviation 0.820 this shows Parallel Exchange Rate influence bank performance.

4.5. Response of Interview

The researcher for this finding was prepared to make an interview for International Banking directors and so that their Idea is mentioned based on their answers.

What are the possible causes of parallel exchange rate in Ethiopia?

According To the interviewee Respondents answered that parallel market arises when the government limits the amount of foreign exchange that can be bought or sold for particular transactions, causing excess demand or supply to spill over into a parallel market.

The other possible causes for Parallel exchange rate are simply the Ethiopian Import/Export regulation policies and procedures. For example, let there is one customer who try to export a goods whose values are USD 100,000. After exporting this commodity 80% of the values of the commodities are credited to his Local accounts using the prevailing exchange rate. If the Prevailing exchange rate is 54, the customer will get around ETB 4.3 Million and USD 20,000. Now if this customer denominates the remaining amount which is USD 20,000 by black market (which is currently around 125) then he will get ETB 2.5 Million which is almost 58.2 % of the 4.3 Million birr. So, No one Exporter is willing to denominate the foreign currency by the market exchange rate.

The other outstanding causes for Parallel exchange rate are the Diasporas and foreigners, the higher risks for holding it and so on. The last but not the least prerequisite for the emergence of parallel foreign exchange market is when the monetary authority purposefully splits the foreign exchange market in to two mainly to phase in devaluation at the time of balance of payment crisis. This is usually put in place on a transitional basis at the time of balance of payment crisis to limit the inflationary effect of devaluation.

How the parallel exchange rate affects international trade?

According to the interviewee of this research, the parallel exchange rate in Ethiopia affects the international trade negatively. This is due to the reason that:-Ethiopia is highly import oriented countries so that when the black market exchange rate is applied dramatically in a wide range it becomes the causes for inflation. According to respondents, there was a report made by IMF which said that the Ethiopian Exchange rate is almost a symbolic rate that no one uses it for the application of Trade. Even the government officials use the black market for international exchanges.

According to him, Even if the black market has some advantages it will affect international trade negatively. Underground markets negatively influence legitimate businesses that can't compete with significantly lower prices on goods. As a result, they can even be driven out. Some illegal sellers deliberately create shortages of legal products and services to force people to buy from them.

What are the possible solutions to reduce parallel exchange rate?

The interviewee for this research will propose two different solutions for controlling the parallel exchange rate. The one group said that devaluation of the local currency. According to these argument if the Ethiopian government tries to devalue the currency at all the Ethiopian export items will be encouraged so that the quantity of export will be increase at all. This makes the country to hold money foreign currencies. Since lack of foreign currency is more or less the main cause for the black markets. When these groups strengthen their idea, the government should apply the economic policies so that each and every problems that we see to today will be tackled easily.

However, the other groups of the interviewee disagree with the idea that the former mentioned regarding with the possible remedies of black market exchange rates. According to this interviewee, the problem that we see today is not simply demand side problems rather it is the supply side problems. So the best possible solutions for the black market is legalizing the black markets and then give a legal trade license to the traders for those individuals.

When the government devalues the currency, how can we assure that the black markets will increase even by greater amount than the normal rates? It will not be the best solution to decrease the margin between the two rates.

How international trade affects the Ethiopian banking sector?

Simply International trade is the main sources of income generation for the Ethiopian banking sectors since by facilitate the trades. As we know, when one customer participates in international trade the banks directly inter in the two parties so as to facilitate the trade so that the bank will receive service charges and other related charges for their services.

Banks, especially those headquartered in the importing country, might be able to assess the risks involved with trade financing better than domestic banks can as they are more able to overcome information asymmetries and contracting problems. Having a physical presence in both the importing and exporting country might allow a foreign bank to better acquire and process information related to risks on both the importer and exporter side of the transaction. With exports involving countries with different laws and regulations, a foreign bank aware of these differences might also be better equipped to assess various transaction and general country risks. Also with enforceability of international contracts being more limited, a foreign bank present in both countries may be able to enforce contracts more easily if needed. If these benefits contribute to reducing the cost of external finance for exporting firms, foreign banks can also facilitate trade through what we call an information channel (which includes an enforcement channel), with foreign banks from the importing country present in the exporting country as the main agents and bilateral exports being especially affected.

Do you think that the Ethiopian banking sector perform in a good manner for international trade?

All interviewee agreed that the Ethiopian banking sector perform in a good manner for international trade because of the reason that the shortage ages of the bank in Ethiopia. As long as we know the banking sector allowed giving permit for international trade since from 1999 it is very incentives even by surviving in this short period by protecting the overall problems

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter tries to present the summary of the findings of this study followed by conclusions and recommendations. The summary part encompasses both the findings of quantitative and qualitative data collected and analyzed. Finally, it wraps up with conclusions and subsequent recommendations based on the major findings of the study.

5.1 Summary

This study was too carried out on assessing International Trade on banks performance (In the case of Ethiopian Banking Sector). The types of research under this study were descriptive research design. The analysis is based on primary data which were collected through questionnaire, interviews and secondary data, which were collected from published and unpublished materials. The data were collected from international banking managers and trade service officers within a total sample size of 120, and these 108 were returned which shows a 90% response rate, so the researcher has taken samples to distribute questioner for respondents.

The researcher used editing for data clearing. The data collected were coded and recorded using computer. The quantitative data gathered by the researcher were analyzed by using descriptive statistics namely, frequency, mean and standard deviation for better understanding and interpret the data gathered through the questioners. The interview and close-ended questions were analyzed by using qualitative and quantitative data analysis. The analysis method used narrative analysis and the responses of the respondents were summarized. Cronbach's Alpha for each field of the questionnaire and the entire questionnaire are checked. For the fields, values of Cronbach's Alpha ranged from 0.905 and 0.965. Based on the test, the results for the items are reliable and acceptable. From descriptive statistics above each variable (Rules and Regulations of International Trade, Mode of Payment for International Trade, Parallel Exchange Rate and International Trade) are has effect bank performance (In the case of Ethiopian Banking Sector).

From the findings, majority of the respondents agreed that on this point as shown by mean of and standard deviation. This shows Rules and Regulations of International Trade Mode of Payment for International Trade Parallel Exchange Rate and International Trade) are has effect bank performance

5.2 CONCLUSION

The general objective of the study is to investigate the practice of international trade in the performance of the Ethiopian Banking sector. To address the objective, descriptive research design was applied. The researcher used both qualitative and quantitative types of data that were collected from primary and secondary sources to achieve the stated objectives of the study. The target population for the study is all international banking managers and trade service officers who are working in Awash International Bank S.C, Dashen Bank, Bank of Abyssinia, Wegagen Bank, United Bank and NIB International Bank. These banks were selected systematically based on amount of profit generated from international trade services, their paid up capital and their experience in their bank service. The data collected were coded and recorded using computer. The quantitative data gathered by the researcher were analyzed by using descriptive statistics by using SPSS software (Version 20). The interview and close-ended questions were analyzed by using qualitative and quantitative data analysis. The finding that the researcher investigated in this finding was the parallel exchange rate in Ethiopia has effect on Ethiopian international trade; Local rules set by NBE have money defects related with international trade and are the cause for parallel exchange rate increment and so that international trade has a positive effects on the banks performance.

From the findings, majority of the respondents agreed that on this point as shown by mean of 3.93 and standard deviation 0.732 this shows The Rules and Regulations of International Trade influence bank performance.

Regarding with whether International rules for international trade, From the findings, majority of the respondents agreed that Local rules set by NBE have money defects related with international trade as shown by mean of 3.82 and standard deviation 0.734 this shows The Rules and Regulations of International Trade influence bank performance. From the findings, majority of the respondents agreed that all mode of payment used by current Ethiopian business man are enough for international trade as shown by mean of 3.56 and standard deviation 0.950 this shows Mode of Payment for International Trade influence bank performance. From the findings, majority of the respondents agreed that Mode of payments by itself has an obstacle for facilitation of international trade as shown by mean of 3.61 and standard deviation 1.040 this shows Mode of Payment for International Trade influence bank performance. As shown in table 4.10, 70(64.8%) of respondents strongly agree that the parallel exchange rate in Ethiopia has effect on Ethiopian international trade and 19(17.6%) of the respondents strongly agree that the parallel exchange rate in Ethiopia has effect on Ethiopian international trade. However the remaining 8(7.4 %) of the respondents are neutral whether the parallel exchange rate in Ethiopia has negative impact on Ethiopian international trade. From the findings, majority of the respondents agreed that the parallel exchange rate in Ethiopia has effect on Ethiopian international trade as shown by mean of 3.85 and standard deviation 0.935 this shows Parallel Exchange Rate influence bank performance. From the findings, majority of the respondents agreed that Local rules set by NBE are the causes for parallel exchange rate as shown by mean of 3.90 and standard deviation 0.820 this shows Parallel Exchange Rate influence bank performance.

5.3. RECOMMENDATIONS

The following recommendations are forwarded based on the findings of the study.

- The banks should make the working environment to be attractive as much as possible. Since it makes an individual to be energetic and able to work with their maximum working capacity this must be the first action taken by the banks.
- The banks should provide different training session regarding on the practice of international trade to create a common understanding with employees.

- The banks ask to NBE for prepare panel meeting when it cook and set a rules for international trade. Since Local rules set by NBE have money defects related with international trade and are the cause for parallel exchange rate increments.
- The parallel exchange rate in Ethiopia has effect on Ethiopian international trade so that the concerned parties should clearly understand the consequences of the actions made by the NBE. Since according to the interviewee's point of view so as to decrease the higher exchange rate margin the government (NBE) apply supply side policies and legalize the black market exchange rate so as control these margins.

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APPENDIX I

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF MASTERS OF BUSINESS ADMINISTRATION

Dear respondents

Dear respondents the purpose of this Questionnaire is to collect information about "Assessments of International Trade Practice in Banks Performance (in the case of Ethiopian banking sector)". To get essential information, your honest and sincere cooperation in responding to each question is very important to meet the intended objective. Thus, feel free and confidential in giving your responses knowing that the responses are used for the purpose of the research only and do not be given to any other third body.

General Instructions

- ✓ There is no need of writing your name.
- ✓ In all cases where answer options are available please tick (√) in the appropriate box.
- ✓ For questions that demands your opinion, please try to honestly describe as per the questions on the space provided

Section one: demographic Information.

1. **Gender:** A. Male ☐B. Female ☐
2. **Age**: A. 18 - 27 ☐ C. 38 - 47 ☐ B. 28 - 37 ☐D. 48 and above ☐
3. **Education background**: A. Diploma ☐ B. Degree ☐C. Masters and above
4. **position** A. Division Manager☐ B. Relationship Manager☐ C. Senior Foreign OfficerD. Officer☐
5. **Years of work experience**: A. 1-5 year☐ B. 5 - 10 year's ☐C above 10years.

Section two: demographic Information Questioners on the status of employee performance

Please indicate the extent of your agreement or disagreement with each statement by ticking **(√)** in the box corresponding to a number from 1 to 5 that represents your level of agreement or disagreement. i.e. 5= strongly agree 4=agree 3=moderate 2=disagree 1=strongly disagree.

No	Item	1	2	3	4	5
1	you have an interest in the current job position that you do					

	today					
2	There is a good opportunity to read and investigate work related materials in the work place.					
3	Our bank provides a training session regarding with our working areas at least 2 times a year					
4	we have a good working environment					
5	You have eager to learn some educations regarding with your current job					
6	All of our co-worker in the bank have a common understanding regarding with our responsibilities					
7	I have a good performance regarding with my job responsibility					

Please indicate the extent of your agreement or disagreement with each statement by ticking **(√)** in the box corresponding to a number from 1 to 5 that represents your level of agreement or disagreement. i.e. 5= strongly agree 4=agree 3=moderate 2=disagree 1=strongly disagree.

Section three: Questionnaires on the rules and regulations of international trade

No	**Item**	**1**	**2**	**3**	**4**	**5**

1	I have been read and understand the international rules like UCP 600 at least one per month.					
2	International rules for international trade are enough for Ethiopian trading system.					
3	All employees in the bank have a common understanding about such international rules and regulations					
4	Local rules set by NBE have money defects related with international trade					

Please indicate the extent of your agreement or disagreement with each statement by ticking **(√)** in the box corresponding to a number from 1 to 5 that represents your level of agreement or disagreement. i.e. 5= strongly agree 4=agree 3=moderate 2=disagree 1=strongly disagree.

Section four: Demographic Information Questionnaires on mode of payment for international trade

No	**Item**	**1**	**2**	**3**	**4**	**5**
1	All mode of payment used by current Ethiopian business man are enough for international trade.					
2	Mode of payments by itself has an obstacle for facilitation of					

	international trade.					

Please indicate the extent of your agreement or disagreement with each statement by ticking **(√)** in the box corresponding to a number from 1 to 5 that represents your level of agreement or disagreement. i.e. 5= strongly agree 4=agree 3=moderate 2=disagree 1=strongly disagree.

Section: five: Questionnaires on Parallel Exchange rate

No	**Item**	**1**	**2**	**3**	**4**	**5**
1	The parallel exchange rate in Ethiopia has negative impact on Ethiopian international trade.					
2	Lacal rules set by NBE are the exchange rate causes for parallel					

Part Two: Interview questions: You can use these questions for open ended questions

1. What is the possible cause of parallel exchange rate in Ethiopia**?**
   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………
2. How the parallel exchange rate affects international trade?
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   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………
3. What are the possible solutions to reduce parallel exchange rate?
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   …………………………………………………………………………………………
4. How international trade affects the Ethiopian banking sector?
   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………
5. Do you think that the Ethiopian banking sector perform in a good manner for international trade?

If yes,
How?..
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....
If no, why
....
....
....
....

Thanks for your cooperation!!!