

ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

**AN ASSESSMENT OF LETTER OF CREDIT IN IMPORT AND
EXPORT CASE OF
COMMERCIAL BANK OF ETHIOPIA**

By

Lubaba Mohammed

Meron Seyoum

Nardos Alemu

June 2014
SMU
Addis Ababa, Ethiopia

**AN ASSESSMENT OF LETTER OF CREDIT IN IMPORT AND EXPORT CASE OF
COMMERCIAL BANK OF ETHIOPIA**

**A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING BUSINESS FACULTY
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**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
OF BACHELOR OF ARTS IN ACCOUNTING**

**Prepared by:
Lubaba Mohammod
Meron Seyoum
Nardos Alemu**

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**FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING**

APPROVED BY THE COMMITTEE OF EXMINERS

DEPARTMENT HEAD

SIGNATURE

ADVISOR

SIGNATURE

INTERNAL EXAMINER

SIGNATURE

EXTERNAL EXAMINER

SIGNATURE

DECLARATION

We, the under designed, declared that this senior essay is our original work, prepared under the guidance of Ato G/Egziabher Hagos Prepared under the guidance of the manuscript have been duly acknowledged.

Name _____

Signature_____

Name _____

Signature_____

Name _____

Signature_____

Place of Submission_____

Date of Submission_____

ADVISOR'S DECLARATION

The paper has been submitted for examination with my approval as the university advisor.

Name: G/Egziabher Hagos

Signature: _____

Date: _____

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ACRONYMS

CBE: Commercial Bank of Ethiopia

NBE: National Bank of Ethiopia

L/C: Letter of Credit

DC: Documentary of Credit

IBD: International Banking Department

FOB: Free on Board

TS: Trade Service

SWIFT: Society of World Wide Inter Bank Financial Telecommunication

FEY: Foreign Currency

CIF: Cost Insurance and Freight

Forex: Foreign Exchange

CAD: Cash against Document

TT: Telegraph Transfer

CRO: Customer Relation Officer

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Commercial bank of Ethiopia is come after bank that ample experience and voluminous transaction in international trade. International trade mainly requires four parties from imports and exports countries. There are buyers (importer), local bank, sellers (exporter) and foreign bank (correspondent) they required financing foreign currency exchange, insurance and transportation. In addition to these, they have to know the international regulation which governs the transaction between different countries. (www.combanketh.com)

In order to these banks have an essential degree of importance to get international trade between countries. They are facilitator of finance, foreign exchanges and best ways of exchange goods and services to imports and exports. In our context commercial bank of Ethiopia (CBE) play a considerable degree for Ethiopia economy and international trade. It provides many services in foreign banking in including and outgoing money transfer, Exchange of money, Documentary letters of credit, documentary collection, advance payments, consignment payment, guarantee and permit. (www.combanketh.com)

Trade service is one of the major business activities of the commercial bank of Ethiopia. It mainly focuses on the facilitation of payments and mitigation of risks associated with international trade through a process compatible with customer's needs and international standards. According to the definition of uniform with customers and practice (UCP) art, in 1994 letter of credit is the written assurance of the applicant to the beneficiary, (the letter of credit is treated as important letter of credit on the buyer's side and as export letter of credit on the seller's side) to pay a specific amount in agreed currency provided the beneficiary submits documents in conformity with the documentary credit with in preserved deadline. This shows that letter of credit gives a great degree of assurance both buyer and seller. (www.combanketh.com)

There are different legal documents and methods that allow companies to increase their working capital and increase the accountability of their foreign transactions. We are talking about letters of credit. A letter of credit is one of many methods to provide protection to both parties involved in international transactions. (www.combanketh.com)

1.2 Statement of the problem

Letter of credit provides the best way for international trade service (TS).related with this, the study has assessed whether or not commercial bank of Ethiopia is providing its letter of credit service in line with the growing competition in the banking industry, the needs of its customers and the benefits of managers and employee. With this study, we have tried to identify the strength or weakness of commercial bank of Ethiopia in its way of managing import and export letter of credit and analyze their own especially on human, technical and operational aspect discussed.

1.3 Objective of the study

1.3.1 General Objective:

The General objective of the study concerned, assessing the practical and problem of handling import/export letter of credit in commercial bank of Ethiopia. Whereas:

1.3.2 Specific Objective:

Specific objective are also studied:

- To evaluate the process involved in import/export letter of credit
- To identify problems in relating Issuance of documentary credit
- To explore way of amendment in import /export letter of credit
- To identify problems in import/export letter of credit

1.4 Research Questions

- What is the process involved in import/export letter of credit?
- What is the main problem in relating Issuance of documentary credit? How can we treat the problem?
- What are the problem import/export Letter of Credit? What kind of amendments needed in import /export letter of credit?

1.5 Significance of the study

Commercial bank of Ethiopia earns the major part of its profit from foreign banking Services, from this service import and export covers the large part of its profit. By this reason, emphasis and care must be taken in carrying out import and export letter of credit. Even though, we are strongly believe that the study help commercial bank of Ethiopia find out the weak part of these service and appreciate strong part for profit generating from the service and wealth maximization of the bank.

1.6 Scope of the study

The scope of the study is limited to the assessment of import and exports letter of credit in international banking division on import and export section. The study focused from the nature of import and export letter of credit up to settlement mechanisms of the letter of credit that done.

1.7 Research Design and Methodology

1.7.1 Research design

This research has tried to point out and obtain a general picture of factors that can affect the letter of credit activities in commercial bank of Ethiopia. Assessment has been made based on the degree of letter of credit activities are done, further more in order to support our argument by an in-depth analysis we have used descriptive type of research methodology.

1.7.2 Population & sampling techniques

The research has considered letter of credit transaction in commercial bank of Ethiopia the target population of the study includes different departments/divisions/ and Branches in commercial bank of Ethiopia in Addis Ababa in the selected departments and branches include the respondents employees, Customer Relation Officer (CRO), Trade service officer, Credit Officer, importers & exporters.

1.7.3 Sample of the study

The researcher used simple random sampling method. Out of 60 Grade 4 branches we have selected 4 branches from commercial bank of Ethiopia. Because every members of the branches has known and equal chance of being selected.

1.7.4 Determining sample size

The study is precisely limited on commercial bank of Ethiopia branches. Since it can help to focus on the target area, by simple random sampling method from all branches around Addis Ababa, we have selected International Banking Department, Trade Service, Finfine and Temenja Yaj Branch.

1.7.5 Type of Data Collected

The method we used for data collection of the study was primary & secondary data sources. The primary data collected by questionnaire and face to face interview conducted with selected divisions & employees of letter of credit section (TS-CPC). The reason why this data collection method is selected because the researchers gathered and want to have solid information about the study. In addition to this secondary data collected from relevant documents including the organization research material, training manual, magazines and different websites.

1.7.6 Data Analysis Methods

As far as data analysis is concern, the collected data is analyzed by using a descriptive analysis method of standard tools. (percentile, pictorial tables and quantitative methods)

1.8 Limitation of the study

The study was affected by some factors like inadequate time and limitation of financial resources to increase the sample size and undertake an in-depth study and also importer/exporter not willing to interview so gathering data from these dispersed areas became difficult during data collection and the final constraints were lack of experience to conduct a research and unreturned of questionnaires those made the study limited.

1.9 Organization of the study

This paper is organized in to four chapters. The 1st chapter contains problem statement objective of the study, Methodology, Limitation of the Study and significance of the study. In the 2nd chapter Review of Related Literatures is in corporate. Data Presentation and analyses is shown in the 3rd chapter finally the 4th chapter includes summary of finding conclusion and recommendation.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 International Trade

Is the exchange of goods and services between countries? This type of trade gives rise to world economy, in which prices or supply & demand affect and are affected by global events.

2.1.1 Advantage of International Trade

The following are major gains claimed to emerging form international trade

1. Optimum allocation: international specialization and geographical division of labor leads to the optimal allocation of worlds resources making it possible to make the most efficient use of them.
2. Gain of specialization: Each trading county gains when the total output increase as result of division of labor and specialization. These gains are in the form of more aggregated production, large number of varieties and greater diversity of quality of goods that become available for consumption in each country as a result of international trade.
3. Enhance wealth: increase in exchangeable value of possessions means of enjoyment and wealth of and trading country.
4. Large output: Enlarge of world's aggregate output.
5. Welfare contour: Increase in the world prosperity and core economic welfare of each trading nation.
6. Culture value and culture exchange and ties among different countries develop when they enter into mutual trading.
7. Better international policy: international trade relation help in harmonizing international political relation.
8. Dealing with scarcity: A country can easily solve its problem of scarcity of raw materials of good through imports.
9. Advantageous completion: computation from foreign good in the domestic market tends to induce home producers to become more efficient to improve and maintain the quality of their products.

2.1.2 Disadvantage of International Trade

When a country place a due reliance of foreign trade, there is a likelihood of the following disadvantage.

1. **Exhaustion of Resources:** when a country has large and continuous exports, her essential raw material and minerals may get exhausted unless new resources are tapped or developed. Example, the near exhausting oil resources of oil producing country
2. **Blow to Infant Industry:** foreign competition may adversely affect new and developing infant industry at home.
3. **Dumping:** dumping tactics restore to advance country may harm the development of poor country.
4. **Diversification of saving:** a high propensity to import may cause reduction in the domestic savings of country. This many adversely affects rate of capital formation and the process of growth.
5. **Dealing Domestic Employment:** under foreign trade when a country tends to specialize in a few product job opportunities available to people are curtailed.
6. **Over Independence:** foreign trade discourages self-sufficiency and self-reliance in an economy. When countries tend to be interdependent their economic independence is jeopardized. (Dr. Methane, 2001).

2.2 How international trade differs from domestic trade

Domestic trade has the following characteristics which apply to both parties

- ✓ A common language and culture
- ✓ The same laws
- ✓ Usually relative simple documentation
- ✓ A single currency
- ✓ Relative formalities to transport goods from buyers to sellers

International trade is much more complex in that generally speaking it has the opposite characteristics to those listed above.

Completing a sale of goods overseas can be much more costly than a domestic sale in terms of marketing efforts, with customs formalities, dealing with legal requirements, and organizing a complex transport arrangement. Further risk is involved if settlement is in a foreign currency since there is no guarantee of the value of domestic currency terms at the time settlement and conversion are affected. In addition to the risk of buyer default, which can obviously apply in domestic business but which may be more acute with an unknown buyer from overseas there can be default caused by the overseas government's action. One imposed restriction in payment during the Asian financial crisis of 1998, (Coward //Hyde/ Watson 2002)

2.3 Mechanisms of International Payments

Some mechanisms of international payments are essential for effectuating international transactions of goods and capital movement. Different countries have different currencies with different values. Hence it is essential to connect these different currency values to each other in order to measure the value of international transactions for the purpose the concept of foreign exchange came into operation because under this mechanism of international payments the currency of a country is converted into the currency of another country through the foreign exchange market. The foreign exchange market is a place where foreign currencies are bought and sold. Import export trade converts these foreign earnings into home currencies or converts their home currencies into foreign currencies in order to meet their obligations abroad.

In short the international payment mechanism is the foreign exchange mechanism through which payments are made between two nations having different currency systems (Dr. Methane, 2001).

2.4 Instruments of External Payments

External payments employ a variety of specialized instruments. Important among these are foreign bills of exchange, telegraphic transfers, bank letters of credit and travelers' checks.

2.4.1 Foreign bill of exchange: A foreign bill of exchange is a customary form of making international payment. It is a written request or an order from the drawer to pay a certain sum of money either to him or to the payee as ordered by the drawer on demand or some

time hence. A foreign bill of exchange is greatly used with the added formality of letter of credit. The creditor (exporter) of one country draw bill on their debtors (importers) in other counties and have they duly accepted by them. These bills they sell to the debtors (importers) send this bill to their creditors in other countries who collect them from the debtors of their own country (who had originally accepted the bill).

2.4.2 Telegraphic Transfer; it is a telegraphic order by bank to its correspondent bank abroad to pay a certain sum to certain person on account out of its deposit account. It is a quicker mode of payment.

2.4.3 Letter of credit: A letter of credit is an instrument authorizing a person to draw a bill or a cheque for a specified sum on the issuing bank at a stipulated time. The letter of credit makes the exporter willing to ship the goods to the importers. For liability of payment is assumed by the bank issuing the letter of credit, such letter of credit are also issued to travelers going abroad, the branch or correspondent of the bank abroad.

2.4.4 Traveler Check: are also issued by the bank which can be cashed at a branch or correspondent of the bank in foreign country. (Dr. Methane, 2001).

2.5 Letter of Credit

A standard commercial letter of credit is a document issued mostly by a financial institution used primarily in trade fiancé which usually provides an irrevocable payment undertaking the letter of credit can also be source of payment for a transaction meaning that redeeming the letter of credit will pay an export letter credit are used primarily in international trade transaction of signification value, for deals between a supplier in one country and customer in another. They are also used in the land development process to ensure that approved public facilities (streets sidewalks storm water ponds etc.) will be built. The parties to a letter of credit are usually a beneficiary who is to receive the money the issuing bank which the applicant is a client and the advising bank of which the beneficiary is a client. Almost all letter of credit are irrevocable, therefore, cannot be amended or canceled without prior agreement of the beneficiary, the issuing bank and the confirming bank if any. In executing a transaction, letter of credit incorporate functions common to gyros and travelers cheques. Typically the document a beneficiary has to present is order to receive payment includes a commercial invoices bill of lading and documents

providing the shipment was insured against loss or damage in transit. However the list and form of documents is open to imagination and negotiation and right contain requirements to present documents issued by a neutral third party evidence the quality of goods shipped, or their place if origin.

The English name “letter of credit” derives from the French word “accreditation” a power to do something which in turn is derivative of Latin word “accreditivus” meaning trust. The application any defense relating to the underlying contract of sale. This is as long as the seller performs their duties to an extent that meets the requirements contained in letter of credit.

<http://en.wikipedia.org/wiki> May 13, 2014

2.5.1 How letter of credit works

A letter of credit is a promise to pay bank issue letter of credit as a way to ensure sellers that they will get paid as long as they do what they have agreed to do. Letters of credit are common in international trade because the bank acts as uninterested party between buyer and seller. For example importers and exporters might use letter of credit to protect themselves. In addition communication can be difficult across thousands of miles and different time zones.

2.5.2 Letter of credit lingo

To better understand letter of credit, it may help to know the following

- ✓ Abbreviations for “letter of credit” include L/C, LC & LOC
- ✓ Applicant the buyers in a transaction
- ✓ Beneficiary the seller or ultimate recipient of funds
- ✓ Issuing bank the bank that promises to pay
- ✓ Advising bank helps the beneficiary use letter of credit

2.5.3 Executing a letter of credit

Sellers only get paid after performing specific action that the buyer and seller agree to. For example the seller may have to deliver merchandise to a shipyard in order to satisfy requirements for the letter of credit; once the merchandise is delivered the seller receives documentation providing that he made delivery. The letter of credit now must be paid even if something happens to the merchandise. If a crane fall on the merchandise or the ship sinks, it’s not the sellers’ problems.

To pay on the letter of credit banks simply review documents providing that seller performed his required actions. They do not worry about the quality of goods or other items that may be important to buyer and seller.

2.5.4 Pitfalls of letter of credit

Letter of credit makes it possible to do business worldwide. They are important and helpful tools, but you should be careful when using letter of credit. As a seller makes sure you:

- ✓ Careful review all requirements for a letter of credit before moving forward with a deal.
- ✓ Understanding all the documents required.
- ✓ Can get all the documents required for the letter of credit.
- ✓ Understanding the time limits associated with the letter of credit and whether they are reasonable.
- ✓ Know now quickly your service providers (shippers, etc) will produce documents for you.
- ✓ Can get the documents to the bank on times.
- ✓ Make all documents required by the letter of credit application exactly.

2.6 Documentary credits

A documentary can be simply defined as a condition guarantee of payment made by a bank to a named beneficiary guaranteeing that payment will be made provided that the terms of the credit are met. These terms well stated that the beneficiary must submit specified documents, usually to a started that the beneficiary must submit specified documents, usually to a started bank by a certain date. /Hyde/Watson, 2001

2.6.1 Parties involved in documentary credits

✓ Issuing Bank

The applicant is a customer of the issuing bank and it is the issuing bank that gives the conditional guarantee in favor of the beneficiary.

✓ Applicant

This is the buyer/importer who asks his bank the issuing bank the issuing bank to issue credit. The application is sometimes called the opener or a creditor.

✓ **Advising Bank**

This is a bank usually domiciled in the beneficiary's country, that is requested by the issuing bank to advise the beneficiary on the terms and conditions of the credit. If the advising bank agrees to advise the credit it must take reasonable care to check the apparent authenticity of the credit. If the advising bank elects not to advise the credit, it must inform the issuing bank without delay that the instruction appears to have been received. In addition the advising bank may, if it wishes, advise the unauthenticated credit, but at the same time must inform the beneficiary that it has not been able to establish the authenticity of that credit.

There is no liability on the part of the advising bank to honor the credit.

✓ **Beneficiary**

This is the seller or exporter in whose favor the guarantee operates. Note that UK banks can issue letters of credit on behalf of UK clients in favor of beneficiaries who may themselves be importing the goods.

✓ **Confirming Bank**

This bank which at the request of or with permission of the issuing bank adds its own irrevocable undertaking to honor that credit if the issuing bank should default. Banks will only confirm irrevocable credits.

This undertaking is in addition to and not in substitution for that already given by the issuing bank. In effect that beneficiary has the benefit of two bank guarantors. First recourse is to the issuing bank and then to the confirming bank in the event of default. Naturally there is no liability on the part of the confirming bank if the beneficiary has failed to comply with the terms of the credit.

Normally the advising and confirming bank are one and the same.

2.6.2 Availability

A letter of credit being an irrevocable undertaking of the issuing bank makes available the proceeds to the beneficiary of the credit provided, stipulated documents strictly complying with the provisions of the letter of credit, UCP 600 and other international standard banking practices are presented to the issuing bank then.

- ✓ If the credit provides for sight payment – by payment at sight against compliant presentation.
- ✓ If the credit provides for deferred payment- by payment on the maturity dates determinable in accordance with the stipulation of the credit and of course underrating to pay on due date confirming maturity date at the time of compliant presentation.
- ✓ If the credit provides for acceptance by the issuing bank – by acceptance of drafts drawn by the beneficiary on the issuing bank and payment at maturity of such tenor draft or.
- ✓ If the credit provides for acceptance by another drawee bank – by acceptance and payment at maturity drafts drawn by the beneficiary on the issuing bank in the event the drawee bank stipulated in the credit does not accept drafts drawn on it. Or by payment of drafts accepted but not paid by such drawee bank maturity.
- ✓ If the credit provides for negotiation by another bank by payment without recourse to drawers and of bond fide holders, drafts drawn by the beneficiary and/or documents presented under the credit. (and negotiated by nominated bank)
- ✓ Negotiation means the giving of value for drafts and/or documents by the bank authorized to negotiate with the nominated bank. Mere examination of the documents and forwarding the same to the letter of credit issuing bank for reimbursement without giving of value/agreed to give. Does not constitute a negotiation.(<http://en.Wikipedia.org/Wiki/> April 13, 2014)

2.6.3 Document under Letter of Credit

Some of the documents involve under L/C includes the following;

- ✓ Financial documents
 - Bill of exchange
- ✓ Commercial documents
 - Invoice, packing list
- ✓ Shipping documents
 - Transport documents, insurance, certificate, commercial, official or legal documents
- ✓ Official documents

License, Embassy legalization, origin, certificate, inspection certificate, phytosanitary certificate.

✓ Transport documents

Bill of lading (ocean or multi – modal or charter party) Airway bill, lorry/truck receipt, railway receipt, Forwarder cargo receipt, deliver Chillan...etc

✓ Insurance documents

Insurance policy, or certificate but not a cover note

2.6.4 Legal principles governing documentary credits

One of the primary peculiarities of the documentary credit is that payment obligation is abstract and independent from the underlying contract of sale or any other contract in the traction. Thus the bank's obligation is defined by the terms of the credit alone, and the sale contract is irrelevant. The defenses of the buyer arising out of the sale contract do not concern the bank and in no way affect its liability.

Article 4 (1) UCP states this principle clearly. Article 5 the UCP further states that banks deal with documents only. They are not concerned with the goods (acts). Accordingly, if the documents tendered by the beneficiary, or his or her agent. Appear to be in order, and then in general the bank is obliged to pay without further qualifications.

The policy behind adopting the obstruction principle are purely commercial and reflect a party's expectations firstly, if the responsibility for the validity of the documents was thrown on to banks, they would be burdened with investigating underlying facts of each transaction and would thus be less inclined to issue documentary credits as the transactions would involve great risk and inconvenience. Secondly documents required under the credit could in certain circumstances be different from those required under the sale transaction banks would then be placed in a dilemma in deciding which terms to follow if required to look behind the credit agreement. Thirdly the fact that the basic functions of the credit is to provide the seller with the certainty of receiving payment as long as he performs his documentary duties suggests that the banks should honor their obligation notwithstanding allegation of misfeasance by the buyer. Finally court have emphasized that buyer always have a remedy for an action upon the contract of sale and that it would be a calamity for the business world if for every breach of contract between the seller and buyer, a bank were required to investigate said breach.

The “principle of strict compliance” also aim to make the bank’s duty of effecting payment against documents easy, efficient and quick, Hence if the documents tendered under the credit deviate from the language of the credit the banks is entitled to withhold payment even if the deviation is purely terminological. The general legal maximum and minimis non cortex has no place in the field of documentary credits. <http://en.Wikipedia.org/Wiki> March 13, 2014

2.6.5 The price of letter of credit

All the charges for issuance of letter of credit, negotiation of documents, reimbursements and other charges like courier are to the account of applicant or as per the terms and conditions of the letter of credit. If the letter of credit is silent on charges then they are account of the applicant. The description of charges and who would be bearing them is indicating in the field the letter of credit were, the silent party have been discharge on the description of the L/C amount. <http://en.Wikipedia.org/Wiki> March 13, 2014

2.6.6 Legal basis for letter of credit

Although documentary credits are enforceable once communicated to the beneficiary, it is difficult to show any consideration given by the beneficiary to the banker prior to the tender of documents. In such in such transaction the undertaking by the beneficiary to the deliver the goods to the applicant is not sufficient consideration to the bank’s promise because the contact of sale is made before the issuance of the credit thus consideration in these circumstances is past. In addition, the performance of an existing duty under a contract cannot be a valid consideration for a new promise made by the bank.

The delivery of the goods is consideration for enforcing the underlying contract of sale and cannot be used, as it were, a second time to establish the enforceability of the bank beneficiary relation.

Legal writers have analyzed failed to satisfactory reconcile the bank’s undertaking with any contractual analysis. The theories include: the implied promise, assignment theories, the notation theory, reliance theory, agency theories, estoppels and trust theories, anticipatory theory, and the guarantee theory Davis theory, Goode, Finkelstein, and Flinger have all accepted the view that documentary credits should be analyzed outside the legal framework of contractual principles, which require the presence of consideration. Accordingly, whether the documentary credit is referred to as a promise, and underrating a chose in action, an engagement or a contract, it is

acceptable in English jurisprudence to treat it as contractual in nature, despite the fact that it possesses distinctive features, which makes it suit generic. A few countries including the US (see article 5 of the uniform commercial code) have created statutes in relation to operation of letter of credit. These statutes are designed to work with the rules of practice including the UCP and the ISP98. These rules are practice is incorporated into the transaction by agreement of the parties. The latest version of the UCP is the UCP 600 effective July 1, 2007.

Previous revision was the UCP 500 and became effective on 1 January 1994. Since the UPC is not laws parties have to include them in to their arrangements as normal contractual provisions.

[Http://en.Wikipedia.org/Wiki](http://en.Wikipedia.org/Wiki) March 13, 2014

2.7 Types of letter of credits

The major three types of letter of credits are:

a) Irrevocable

An irrevocable letter of credit may be define as an undertaking by an issuing bank (the importer bank) to an exporter, through an advising bank, normally in the exporter's country, that the issuing bank with pay for the goods provided the exporter (the beneficiary) complies precisely with all the terms and conditions of the credit.

An irrevocable credit can be amended or cancelled only with the agreement of the issuing bank, the confirming bank (if the credit has been confirmed) and the seller (as beneficiary). Irrevocable credit gives the seller greater assurance of payment but he remains dependent on an undertaking of a foreign bank (Cowed, //Hyde/Watson 1993)

b) Confirmed irrevocable letter of credit

Irrevocable credit can be either confirmed of unconfirmed, offering varying degree of security for an exporter, and unconfirmed irrevocable credit is a commitment on the part of the issuing bank in the oversea country whereas a confirmed irrevocable credit constitutes an undertaking on the part of the confirming bank as well as that of the issuing bank. When a credit is confirmed, the exporter is assured of payment provided, of course, that all the terms and conditions of the credit have been met. (Cowed, //Hyde/Watson 1993)

c) Revocable letter of credit

A revocable credit can be amended or cancelled at any time without prior warning or notification to the seller, revocable credit involves risk, as the credit may be amended or cancelled while the goods are in transit and before the documents are presented. Before payment has been made or in the case of deferred payment credit, before the documents have been taken up. The seller would then face the problem of obtaining payment directly from the buyer (Cowed, //Hyde/Watson, 1993)

Apart from these three types of letter of credits, there is special letter of credits needed to meet uncommon transactions

d) Revolving letter of credits

A revolving credit as one where, under the terms and conditions there of is renewed or reinstated. If a buyer and seller agree to ship goods on continuing basis, it may be more efficient and cost-effective if the buyer establishes one letter of credit for all shipment, rather than one letter of credit of each shipment, special letter of credit for handling multiple shipment, renewable over an extended period of time is “revolving letter of credit”. (Cowed/Hyde/Watson, 1993)

e) Red clause letter of credit

Red clause letter of credit is a method of providing the seller with a funds prior to shipment if a buyer wants to advance to cash to the seller to purchase the goods of effect shipment under the letter of credit, the buyer may apply for red clause letter of credit.

The “Red clause” in a letter of credit authorizes the bank to make a cash advance (loan). It is referred to as a “Red clause” because the clause was originally written in red ink to draw attention to the unique nature of the credit (Cowed, //Hyde/ Watson, 1993)

f) Transferable letter of credit

A transferable letter of credit is one that can be transferred by the original (first) beneficiary to one or more other parties (second beneficiary) transferable credit may be transferred either in whole or in part to second beneficiary (transferee). However transferable letter of credit may be transferred only once. (Cowed, //Hyde/ Watson, 1993)

g) Back to Back letter of credit

The seller may be unable to supply the goods and needs to purchase them from, and make payment to another supplier. In this case, it may sometimes be possible to use a back to back credit. Beneficiary of an irrevocable letter of credit seeks to use the instrument issued in its favor as a basis of requesting the bank to issue a companion irrevocable letter of credit in favor of the supplier of those goods needed for shipment under the first letter of credit. In this case the beneficiary of the irrevocable letter of credit (a broker or middleman) will become the applicant of the second letter of credit utilizing the first as collateral for the issuance of the second letter of credit. The two letter of credit use jointly to facilitate the purchase of the same goods are called back to back letter of credit, (Cowed, //Hyde/ Watson, 1993)

Give weight of the goods number of packages shipment makes and numbers identical to those given in other documents.

2.8 International trade payment methods

- ✓ Advance payment (more secure for seller) where the buyer parts with money first and waits for the seller to forward the goods.
- ✓ Documents credit (more secure for seller as well as buyer) Subject of ICC “s UC 600, where the bank gives an undertaking (on behalf of buyer and at the request of applicant) to pay the shipper (beneficiary) the value of the goods shipped if certain documents are submitted and if the stipulated terms and conditions are strictly complied.
- ✓ Here the buyer can be confident that the goods he is expecting only will be received since it will be evidenced in the form of certain documents called for meeting the specified terms and conditions while the supplier can be confident that if he meets the stipulation his payment for the shipment is guaranteed by the bank who is independent of the parties to the contract?
- ✓ Documentary collection (more secure for the buyer and to a certain extent to seller). Also called cash against documents subject to ICC “URC 525 sight and for delivery of shipping” documents against payment of acceptance of draft. Where shipment happens first. The title documents are sent to the (collecting bank) buyer’s bank by

seller's bank (remitting bank) for delivering documents against collection of payment/acceptance.

- ✓ Direct payment (more secure for buyer).
- ✓ Where the supplier ships the goods and waits for the buyer to remit the bill proceeds.
On open account term.

2.9 Risk situation in letter of credit transaction

Fraud Risks

- ✓ The payment will be obtained for nonexistent or worthless merchandise against presentation by the beneficiary of forged or falsified documents.
- ✓ Credit itself may be forged.

Sovereign and Regulatory Risks

- ✓ Performance of the documentary credit may be disturbed by legal action outside the control of the parties.

Legal Risk

- ✓ Possibility that performance of a documentary credit may be disturbed by legal action relating directly to the parties and their rights and obligations under the documentary credit. (<http://en.Wikipedia.org/Wiki March 13, 2014>)

2.10 Force Majeure and Frustration of Contract

- ✓ Performance of a contract including an obligation under a documentary credit relationship is prevented by external factors such as natural disasters or armed conflicts.

Risk to the Applicant

- ✓ Non delivery of goods
- ✓ Short shipment
- ✓ Inferior quality
- ✓ Early/late shipment

- ✓ Damaged in transit
- ✓ Foreign exchange
- ✓ Failure of bank with issuing bank/collection

Risk to the Issuing Bank

- ✓ Insolvency of the applicant
- ✓ Fraud risk., sovereign and regulatory risk and legal risks

Risk to the Reimbursing Bank

- ✓ No obligation to reimburse the claiming bank unless it has issued a reimbursement undertaking

Risk to the Beneficiary

- ✓ Failure to comply with credit conditions
- ✓ Failure of, or delay in payment from the issuing bank
- ✓ Credit issued by party other than bank

Risk to Advising Bank

- ✓ The advising bank's obligation if it accepts the issuing bank's instructions is to check the apparent authenticity of the credit and advising it to the beneficiary

Risk to the Nominated Bank

- ✓ Nominated bank has made a payment to the beneficiary against documents that comply with the term and conditions of the credit and is unable to obtain reimbursement from the issuing bank.

Risk to the Confirming Bank

- ✓ If confirming banks main risk is that, once having paid the beneficiary, it may not be able to obtain reimbursement from the issuing bank because of insolvency of the issuing bank or refusal of the issuing bank to reimburse because of a dispute as to whether or not payment should have been made under the credit.

Other Risks in International Trade

- ✓ A credit risk from change in the credit of an opposing business.
- ✓ An exchange risk is risk from a change in the foreign exchange rate.
- ✓ A force majeure risk is:
 1. A risk in trade incapability caused by a change in a country's policy and,
 2. A risk caused by a natural disaster
- ✓ Other risks are mainly risks caused by a difference in law, language or culture, in these cases, the cargo might be found late because of dispute in import and export dealing. (<http://en.Wikipedia.org/Wiki March 13>, 2014)

Empirical Evidence

Letter of Credit in South Africa

Methods of Payment

Letters of Credit (LC) are the customary way to finance imports into South Africa. LC's are documents issued by a bank on behalf of an importer in favor of a beneficiary, typically the exporter. The most commonly used documentary credits are: irrevocable credits and confirmed irrevocable credits. If the exporter is concerned about the reliability of the importer only, he/she should use an irrevocable LC. If the exporter is also concerned about the standing of the issuing bank and/or the standing of the importer's country, he/she should use a confirmed irrevocable credit. All credits issued are subject to exchange control regulations and when necessary, a South African import permits. South African exchange control regulations stipulate that payment of imports may be effected only by authorized banks against submission by their customers of documentary proof that the goods were imported into South Africa as evidenced by invoices and shipping documents stamped by South African customs. An exception is when South African banks have opened documentary import letters of credit in favor of foreign exporters. Payment can be made via transmission or airmail depending on the reimbursement clauses. The advising bank should, if possible, be the same bank as the exporter's bank.

Quotations and Terms of Payment

Exporters should offer quotations based on the FOB value at the port of export. As a general rule, such quotations should also include a statement of the actual charges for freight and insurance plus any additional charges to the port of delivery. Quotations are usually in terms of

the currency of the country of origin. The terms of payment for imported goods vary according to the type of buyer and the buyer's access to capital. Transact business on a sight-draft basis, while small companies tend to operate on documents against acceptable terms. Payment between 80 and 120 days after acceptance is most common, but terms may vary between 30 and 180 days. For larger orders of capital equipment, longer terms are often required. It is advisable to ship on a letter of credit, sight letter of credit, or 30-day letter of credit basis that the importer can use as a negotiating instrument to expedite the payment transfer. Payments for shipments made on an open account basis will have a lower priority for foreign exchange, possibly delaying payment to the exporter. The payment transfer can be affected within 24 to 48 hours after the importer presents a valid import permit and proper documents to his or her bank.

Foreign Exchange for Import Purchases

Generally, the South African Reserve Bank's Exchange Control Department does not provide foreign exchange in payment of imports prior to the date of shipment or dispatch of goods to South Africa. When South African authorized dealers of foreign exchange open documentary import letters of credit in favor of foreign exporters, payment is effected against presentation by the exporters of invoices and shipping documents to the foreign negotiating bank prior to the arrival of goods in South Africa. Foreign currency payments for imports may only be made against the following documents:

- ✓ Received for shipment bills of lading
- ✓ On-board bills of lading
- ✓ Air waybills of lading
- ✓ Parcel post receipts
- ✓ Carriers' receipts or railroad bills of lading giving title to the goods and evidencing dispatch to a port for shipment to South Africa
- ✓ Arrival notifications issued by Ellerman and Bucknall (Pty) Limited, Safmarine Limited, and the Transatlantic Shipping Agency (Pty) Limited, and Nedloyd Agency Cies SA (Pty) Limited.
- ✓ Foreign exchange may be provided for advance payments not exceeding 33 1/3% of the ex-factory cost of capital goods to be imported provided that:

The South African banker is satisfied from the production of documentary evidence supplied by the overseas manufacturer that the order would otherwise be refused that such payment is normal

in the trade concerned, and the importer has applied to the South African Reserve Bank and the application is justified. The first shipment from a new supplier, the lack of availability of the imported equipment, or its superior quality to what is available in South Africa, are all examples of conditions for proper justification. Higher payment amounts (millions of Dollars) are less likely to receive pre-payment permission.

Foreign exchange may also be provided on a cash-with-order basis to cover the cost of permissible imports, but authorized dealers must satisfy themselves by the subsequent production of the usual documentary evidence that the exchange provided has been used for the purposes stated and that the goods have been imported into the Republic. Authorized dealers must in due course insist upon the presentation to them of original bills of entry import or local parcel post receipts as evidence that goods, in respect of which transfers have been effected in terms of the above rules, have been received in South Africa. Such documents will also be boldly stamped "Exchange provided." The date of the exchange transaction should be inserted under the stamp and, in the event of a part payment; the amount concerned should be stated.

Customers are advised to retain the stamped documents for at least two years for inspection purposes. The SARB amended the payment procedures for imports consigned by air in March 1992. The new regulations allow the South African importer to obtain foreign exchange to meet import payments for goods consigned by air on a cash-on-delivery basis before the goods are cleared through customs. The documentation required for this transaction is a copy of the respective air waybill bearing an original stamp with the words "For Exchange Control Purposes Only" and dated and signed by a member of the South African Association of Freight Forwarders. <http://www.southafrica.info/business March 13, 2014>

CHAPTER THREE

3. DATA ANALYSIS AND INTERPRETATION

This chapter deals with the data presentation and analysis of the data gathered obtained from primary and secondary data source and analysis through simple random sampling techniques. The primary data is obtained by questionnaire with the selected LC department of Commercial Bank of Ethiopia and by interviewing with the import/export supplier. The secondary data are obtained from CBE of annual report, International Banking Department procedure, different policies manual of CBE and from different websites. Our target groups are the bank employees and import/export customers. The respondents are currently occupation at central processing center. They have different responsibility with regard their name all senior staffs are trade service officers, some junior are associate trade service officers and customer relation officer makers. We were able to interview only one customer and 52 employees of the bank.

3.1 Handing of Advance Payment

From this study staffs of commercial bank of Ethiopia import/export department advance payment is usually used by those exporters of meat, chat, flowers and fruits. In this method the exporters receive cash from the buyer prior to shipment or rendering of services.

In import side as per the studies' observation in same bank outgoing foreign payment department the involvement of the banking system. There is only in giving transfer permit as per relevant document presented and in remittance of fund. It can be by mail or telegraphic transfer (SWIFT). The importer gives undertaking letter to the bank for the bank for the transferred amount.

3.2 Handing of Documentary Credit Letter of Credit

The instrument which is used for documentary credit is letter of credit; the payment mechanism is also the most preferred one because payment is guaranteed provided the exporter complies with all the terms of the credit. In the letter of credit banks play plenty of roles from the opening to its settlement.

3.3 Handing of Documentary Collection

According to the interview and observation of commercial bank of Ethiopia international banking division, it contains financial and commercial document seller ships and then sends all documents (both financial and commercial) through the banks for handling.

As per my observation the following letter of credit were opened and settled during six month based on the above handing mechanisms and procedure.

Table 1. Handing of documentary letter of credit opened

From October 2011-March 2012

Month	Number of letter of credit	Amount
October	151	USD 42,348,478.53
November	181	USD 90,453,669.97
December	153	USD 63,625,438.47
January	183	USD 77,433,486.43
February	193	USD 98,643,433.89
March	180	USD 99,998,448.52

Source commercial bank of Ethiopia trade service monthly report

Table 2 Handing Letter of credit settled from October 2011-March 2012

Month	Number of letter of credits	Amount
October	137	USD 17,397,700.59
November	159	USD 26,278,798.60
December	121	USD 24,387,368.99
January	118	USD 19,428,382.18
February	101	USD 11,278,488.92
March	98	USD 9,887,421.73

Source commercial bank of Ethiopia Trade service monthly report

As indicate in table 3.1, 3.2 above, there are number of letter of credits opened and settled within six months, form October 2008 to march 2009. The number of letter of credits opened in each month is less than the no number of letter of credit settled. The main reason for this is that there were letter of credits opened in the previous months which are not settled, in addition to these some letter of credits could be delayed due to various discrepancies some documents presented to the bank before arrival of the goods to the port and financial problems of the buyers. *(CBE-TS monthly report)*

Among the bank employees who are found within the specified branches Sixty employees were selected as sample respondents. Thus, sixty copies of questionnaires containing both open ended and close ended questions were distributed employees of the bank. The rates of return for the questionnaire were 86.70 percent. That means out of the total sixty questionnaires distributed fifty two questionnaires were filled and returned. *(CBE-TS monthly report)*

Data's which are seen on tables below are collected by using Questionnaire will be summarized, tabulated and analyzed. 60 (sixty) Questionnaire were distributed and of which '52' in number of 86.70% in percent of the respondents have fill and returned the questionnaire. The rest, 10% of respondents does not return the questionnaire.

To Analyze and interpret the collected data gathered through questionnaire. We use percentage ratio and graphical method are used with the help of tables.

Accordingly, a total of sixty questionnaires were distributed to the employees at International Banking Department, Trade Service, Temenja Yaj Branch and Finfinee Branch, as per we discuss on chapter one our respondent include branch employees, trade service and customer officer. The result is summarized as follows.

Table 3 Distributed and returned questionnaires to and by Employees.

Description	Number of questionnaires distributed to Employees	Number of Questionnaires returned	Questionnaires Returned in %
IBD	15	12	80.0
Trade Service	15	15	100.0
TemenjaYaj Branch	15	14	93.3
Finfinee Branch	15	11	73.3
Total	60	52	86.7

As indicated in the table, the questionnaires were distributed to 60 selected employees. Out of the total distributed questionnaires, 52 employee respondents have managed to fill out in proper way and return the questionnaire. Some could not return due to various reasons.

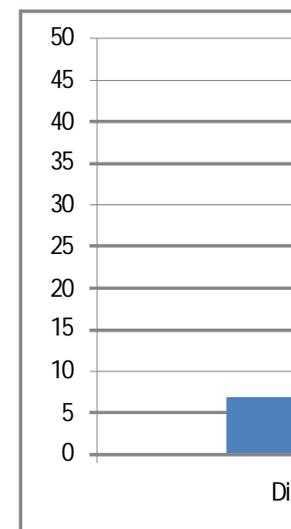
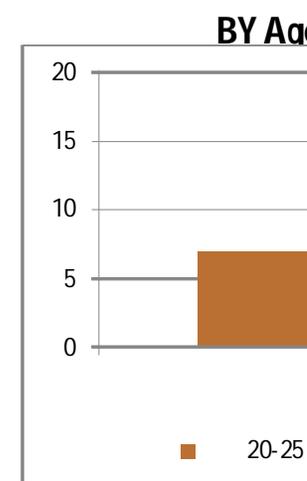
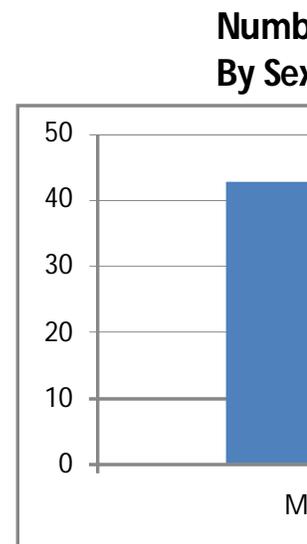
3.1.1 General Characteristics of Respondents

Table 1. Below shows that the general characteristics of respondents which include sex distribution, age distribution, educational level and occupation type.

Table -4 General characteristic of respondents

No	Item	Respondent	
		No	Percentage (%)
1	Sex		
	Male	43	82.7
	Female	9	17.3
	Total	52	100.0
2	Age Distribution		
	20-25	7	13.5
	25-30	11	21.2
	30-35	16	30.8
	35-40	11	21.2
	>40	7	13.5
	Total	52	100.0
3	Educational Level		
	Certificate	-	
	Diploma	7	13.5
	Degree	45	86.5
	Doctrate	-	
	Over Doctorate	-	
	Total	52	100
4	Working with CBE		
	0-5	15	28.8
	5-10	14	26.9
	10-15	9	17.3
	15-20	8	15.4
	20-25	5	9.6
	Above 25	1	1.9
	Total	52	100.0

Source: Primary Data



As can be seen in item-1 of table -1 above 82.7% (43) of the respondents were male and 17.3% (9) of them were females. According to the above figure it looks that the majority of respondent were male.

In relation to age category as shown in item-2 of the same Table employee respondents from age 20-25 comprised 13.5% (7) from age 25-30 comprised of 21.2%(11), from age 30-35 comprised of 30.8% (16),from age 35-40 comprised of 21.2% (11) and above age 40 comprised of 13.5% (7) of the total respondents.

Regarding, educational background of the employee respondents 13.5% (7) of them were Diploma holders, and the rest degree holders 86.5% (45).

Table -5 Service Year

Service Year	IBD	Trade service	Temenja Yaj Branch	Finfinne Br.	Total	Service year in %
0-5	3	2	8	2	15	28.8
5-10	3	5	3	3	14	26.9
10-15	2	1	4	2	9	17.3
15-20	5	1	1	-	8	15.4
20-25	2	1	-	2	5	9.6
Above 25	1	-	-	-	1	1.9
Total						

Source: Primary Data

In relation to age category as shown in item-3 of the same Table employee respondents service year. With regard to service year below or equal to 5 year 15 (28.8%), from 5-10 year 14(26.9%), from 10-15 year 9(17.3%), from 15-20 year 8(15.4%), from 20-25 5(9.6%) and the remaining above 25 year one person (1.9%) have worked in CBE

Table 6. Do the banks compare conformation quotes when the bank open an L/C directed to import/export process?

Q.5	Conformation quotes	Number of Respondent	Approximate percentage
A	Yes	43	82.7
B	No	9	17.3
Total		52	

Source: Primary Data

As indicate in the above table 82.7% of the respondents, stated 'yes' and 17.3% of the respondent rate 'No'

This implies that the bank compare confirmaton quotes in the bank open L/C directed to import/export process.

Table.7 Do the bank negotiate the conformation price with the conforming bank?

Q.6	Conformation price with the conforming bank?	Number of Respondents	Approximate percentage
A	Yes	40	76.9
B	No	12	23.1
Total		52	

Source: Primary Data

The table above indicates that 76.9% of respondents are said CBE negotiate the conformation price with the conforming bank and 23.1% of the respondents are disagreeing with the majority.

This implise that the bank negotiate confirmation price with the confirming bank to keep the margin.

Table 8. Have you (the bank) ever directed an L/C to another bank for a lower cost conformation price once the first bank has advised it?

Q.7	Directed an LC to another bank for lower cost	Number of Respondent	Approximate Percentage
A	Yes	20	38.5
B	NO	32	61.5
Total		52	

Source: Primary Data

61.5% of the respondents said yes. The rest of the respondents are said no.

This impise that most of the time the bank did not direct letter of credit to another bank for a lower cost conformation price once the first bank has advised it.because there is related with changing an letter of credit once it is advised by the negotiing bank.

Table 9 How Price sensitive are the bank to open an Import/Export L/C fee?

Q.8	About an import/export L/C fee	Number of respondents	Approximate percentage
A	Low Sensitive	3	5.8
B	Medium Sensitive	9	17.3
C	High Sensitive	40	76.9
D	Not at all	-	
Total		52	100.0

Source: Primary Data

5.8% of the respondents said Low sensitive. 17.3% of the respondents is said Medium Sensitive, and the rest agreed with High sensitivity.

This implies that the banks are price sensitive to open import or export L/C it is obvious that the banking environment is comptitive related with the international banking transactions.

Table 10. Based on Question 8 do the bank look at the overall goods/service of import/export and simply pay whatever is quoted?

Q.9	The bank simply pay whatever is quoted	Number of respondents	Approximate percentage
A	Yes	3	5.77
B	No	49	94.23
Total		52	100%

Source: Primary Data

As indicate in the above table 5.77% of the respondents, stated 'yes' and 94.23% of the respondent rate 'No'.

This implies that the bank does not simply look at the overall price of goods and services for impor and export transactios.

Table 11 Does the bank helps make sure, that import/export activity will not have discrepancy?

Q.10	Import/export activity will not have discrepancy	No. of Respondents	Approximate percentage
A	Yes	7	13.5
B	No	45	86.5
Total		52	100%

Source: Primary Data

As indicate in the above table 13.5% of the respondents, stated 'yes' and 86.5% of the respondent rate 'No'.

This implies that the bank can't be sure import/export L/C not to have discrepancy. Because their may be discrepancies in import/export L/C and at that time there will be amendment by the importer or the exporter.

3.1.2 Major Problems Import/Export Letters of Credits

According to the study and observation in Ethiopia banking industries is not well developed when we compared with other developing and developed countries on this manner commercial bank of Ethiopia communicate its correspondent banks with not fully skilled poor technology and backward operational technique.

These problems are categorized in to the major groups

- ✓ Human skill aspects
- ✓ Technological aspects
- ✓ Operational aspects
- ❖ **Human skill aspect**

The problem is observed from the side of the bank and its customers

❖ **Banks Manpower**

Human resource is the main resource ongoing concern of the organization. If there is a lack of man power in the organization the major problem of the organization profitability.

However commercial bank of Ethiopia has no well skilled manpower in foreign section because the employee was selected randomly for this crucial banking area of work. By this reason employee does not have the required knowledge and skill on this area usually the former staff in the section give training to these new or randomly selected employees about international trade banking and customer service giving. They cannot give them deep and full knowledge, because they do not have enough knowledge about foreign banking. In addition to this, they are few in number compare to the work they carrying out.

Secondly the banks are not keeps the interest of the new employees, only they seen to fill the gap. But the work loud and disinterest create negligence on the employees. This affects the work greatly because most discrepancies in letter of credit arise out of errors in typing and skipping points that would have been mentioned in the credit.

When employees are overloaded with their work they fail to meet the needs of the customers want to be served with in the shortest time possible and to get the best service they can, if they could not get this they can shift to other banks to get the service they want, customer handing would be given a great consideration because the existence of the bank relies on its valued customers.

❖ **Knowledge of Import/Export**

Our importers are normally less educated than those in overseas suppliers. There is a barrier of communication between the importer and exporter, most of the time the buyer does not undertake serious follow-up after opening a letter of credit.

The letter of credit may require amendment on time, moreover the importer is dealing with a seller subject to different national customs, accounting practices and different languages and credit procedures. The amendment by itself is time-consuming, it has an impact on the letter of credit to be expired late shipment.

❖ **Technological Aspects**

The bank lacks a lot of modern technological facilities which are required to improve its services. Relatively other international banks, it is still using computers with low-speed networks and is attacked with viruses for tasks which are carried out in foreign sections (trade services).

In addition to this, the message transmitting methods are only one that is SWIFT message; it is difficult to meet customers' needs within short time, because the typed messages are very poor and it is difficult to read them. This is a major problem for the foreign message transfer department in transmitting messages to correspondent banks and errors in telex may cause major discrepancies, because international trade difference words and alphabets have quite different meanings to sending messages. That is why, most of the discrepancies are created in the telex department; it is a result of poor typing or writing and negligence in processing of the letter of credit in the central processing center (CPC).

The other thing is that fax machines have been installed in some areas, but they are not infrequently used. This can be because of the cost associated with them because of the number of branches opened recently. Finally, installing modern technologies could not solve operational problems rather a man power is used to use these technologies properly and wisely put in to practice.

❖ **Operational Aspect**

This problem is related with work flow, methods and techniques of the bank, regarding import/export letters of credit the process is highly centralized on the trade service department at the central processing center (CPC). Every commercial bank of Ethiopia branches communicate with correspondent banks through this department. If there are a large number of messages the process

is create delay in communication. Because the message have to keep long time until they are transmitted. This does not exist in advanced countries, since every branch communicates with correspondent banks by itself. This will make faster the communication process. However these banks expect us to operate in the same way sometimes message from our bank are late and create confusion with the foreign banks. For example if payment instruction delayed bank could not reimburse themselves after they effect payment to the supplier. This can spoil our relationship with the foreign banks (correspondent banks)

The main problem in this section is foreign exchange rates change from time to time, usually for some currencies (USD) are only increasing. So those, the rate at the time of opening and settling a letter of credit have a significant difference. By this reason the customer have obligation to pay using current rate of foe setting a document. Therefore the importer cannot speculate their margins.

3.1.3 Amendment of Letter of Credit

When a request for an amendment of letter of credit terms and conditions agreed upon by parties, therefore, buyer and seller is received the banker's checks their content. Take the specified letter of credit file.

The marketer can come with the supplier's enquiry for amendment (fax message) and signed and verified application letter, calculates the related charges per the tariff and prepare tickets and posted.

As per our observation the following letter of credit were opened and settled during six month based on the above handing mechanisms and procedure.

3.2 Analysis of the Findings of the Study

The earlier presentation highlighted the responses of employees, which are in the branch office and those who have experienced knowledge in various departments. The interview part/data collected from employees of CBE and importer/exporter side which is only one supplier show willing to interview. The following paragraphs provide the summary of interview results.

Table: Distributed and returned interviews to and by customers.

Description	Gollagul Trading Plc
what type of items you import/export?	Import steel products
what are the source of risk import/export in letter of credit?	Import in letter of credit has no risk compared to other mode of payment
what kind of amendement you suggest in the L/C that your company apply?	Amendement in port of loading, discription of goods shipment and expiry dates etc.
what kind of problems have you faced while processing documentary credit? If there is a problem, how can you treat it?	The L/C advising bank chosen may refuse accept the L/C after it has opened change L/C advising bank although it will take time and costly.
what kind of problems have you faced while processing import /export? If there is a problem, how can you treat it?	The major problem usually faced is lack of skill at banks compared to our counter parts(supplier side) infrastructure to process payment
are you well informed about letter of credit practices?	yes, because frequent training is provided on letter of credit practices by Ethiopian Chamber of Commerce & Sectoral Association.

Summary of interview to and by employees of commercial bank of Ethiopia.

- ✓ The 2nd question was designed to know about what kind of items import/export? To this question the most of the respondent explains that different kind of items export and import. Export items Coffee, Injira, sesame seed, chat, white pea beans.... Etc. Import items IT Equipment, vehicles, raw materials, Machineries, steel, Soft ware's, Merchandise items etc. all export and import items permitted by Ministry of Trade.
- ✓ What type of L/C that bank has practiced was also the question raised for interviewees. They explained that Irrevocable confirmed L/C, Documentary Collection L/C, and in most Sight LC instrument used.
- ✓ What are the source of risk import and export in Letter of Credit question for interviewees? They explained that almost less risk them the other instruments but still risk of political, exchange rate, War, Natural disaster, transportation risk etc.
- ✓ The interviewees were asked that what kind of problems faced while processing documentary credit? If there is a problem, how can treat it? They answered that sometimes there are incomplete application forms, documents, expired licenses and may not have enough balance for the charges and the supplier payment dalliance occurs in most cases.
- ✓ The interviewees were asked that what kind of problems faced while processing Import/Export? If there is a problem, how can treat it? They answers that problems is discrepancies, incomplete document, expired purchase order. In late presentation, in case of export it is difficult but when it is import negotiates with customers. Discrepancies, if it is export let the suppliers to amend their documents and when it is import and it is no major advising the importer to accept it. Sometimes there are incomplete application forms, documents, expired licenses and may not have enough balance for the charges and the supplier payment dalliance occurs in most cases.
- ✓ The interviewees were also asked what kind of payment mechanism practice in Commercial Bank of Ethiopia? The employee answered that mostly advance payment, L/C sight, CAD (Cash against Document) etc.
- ✓ The interviewees were asked that are Ethiopian importers and exporters well informed about letter of credit practices? The answered in most cases yes, but still the bank has discussion meeting about its service and where there is gap all angle obtaining for its customers.
- ✓ Finally the interviewees give additional comments about the problems faced while processing import/export by advising the customers to train importers and exporters about LC.

CHAPTER FOUR

4. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

4.1 Summary of Findings

Commercial bank of Ethiopia is authorized to allow import and export provide associated services against required bill of exchange invoice, packing list, transport document, insurance, certificate commercial, official or legal documents.

In side of Importer the Commercial Bank of Ethiopia as per the National bank of Ethiopia Directive first apply for import permit after having clearance certificate Commercial Bank of Ethiopia receives the following from customers letter of credit application such as license no signed by customer and other supporting documents required and verifies the signature against signature specimens maintained on the system.

Commercial Bank of Ethiopia ensured that the importer have a valid trade license along with other documents, letter of credit might be cancelled made by way of amendment, amendment is accepted if there is an agreement between the two parties. There fore buyer and seller is received the banker's checks their content. The supplier's enquiry for amendment /fax message/ an signed and verified application letter, calculates the related charges per the tariff and prepare tickets and posted Take the specified letter of credit file. As per observation the following letter of credit were opened and settled during six month.

Parties involved in documentary credits issuing bank, applicant, advising bank, beneficiary, confirming bank.

4.2 Conclusion

As we have observed from the analysis of the study regardless of price sensitivity of the Bank, confirmation of price by the bank and the comparison of conformation quotes, we have observed a problem on opening of L/C to import & export in relation to technological aspect, well experienced and skilled man power and the overall operational aspects of the Bank.

As it was mentioned earlier foreign banking service contribute the large part of commercial bank of Ethiopia annual income, the management of commercial bank of Ethiopia would design its strategies based on the needs of its customers and taking in to consideration other competitors in the banking industry, particularly relating to foreign banking. Improving the service of foreign banking and overcoming the problem of this service will be great benefit to the bank.

4.3 Recommendations

The following are the possible recommendations for the problems which were cited before.

- ✓ Employees are the banks invaluable assets. To give the necessary training and refreshment courses is like making investment in a profitable business. The bank should give intensive trainings for its foreign section staffs. So that employees will know what they do and what is expected from them. Especially, the bank could try to share experience with foreign banks. This will broaden the employee's idea about foreign banks. And they will know with whom they are making business. It will also have a positive on customer service and the relationship with correspondent banks. In addition to this, the bank would prepare seminars to its customers which will enlighten them about international trade. If the customers have the knowledge of foreign banking process of import/export letter of credit will be smooth and fast. Above all, customers will have a sense of indebtedness and gratitude to the bank.
- ✓ The bank would try to equip its foreign section, with modern technological facilities (therefore, computers and electronic typewriters) providing this section with modern facilities should not be seen as expenditure rather it is an investment. Since this section contributes a lot to the bank's profit the modern facilities will improve the quality of the work very much because they have high speed and errors in typing can easily be corrected. The bank would also encourage employees to use the existing facilities (fax machine) efficiently and effectively. If these facilities are used properly, they will contribute much to the organization.
- ✓ The work flow methods that are involved in import/export letter of credit would improve. Commercial bank of Ethiopia would try to decentralize the communication process between its different branches and correspondent banks.

- ✓ This will make the communication process faster. Moreover, the procedures and the methods the crease the work pace would be changed or improved.
- ✓ To avoid the risks associated with foreign exchange rate fluctuation the bank can enter in to forward foreign exchange contract. The benefits of forward foreign exchange contract are that the customer can eliminate the risk from future exchange rate fluctuation and he can calculate the exact birr value of an international trade transaction even though the payment will be received or made at some time in the future in a foreign currency.

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See, Dr.DM. Mitav

St Mary's university

Faculty of Business

Department of Accounting graduate year student

Dear Respondent:

This questionnaire is prepared to get information about the overall activity of the import/export L/C opening and its process. Therefore, you are kindly encouraged to give your response with the freedom. Besides, kindly requested to reply the soonest time possible. Meanwhile this questionnaire has been prepared for educational purpose of partial fulfillment of bachelor of art in accounting. So please fill free and reply as much as possible. Thank you.

Please use (✓) Mark;

1. Age

- 20-25 30-35 Above 40
25-30 35-40

2. Sex

- Male Female

3. Educational Background

- Diploma certificate Degree
Doctorate over Doctorate

4. How long have you been working with CBE?

- 0-5 10-15 20-25
5-10 15-20 Above 25

5. Do the banks compare conformation quotes when the bank open an L/C directed to import/export process?

- Yes No

6. Do the bank negotiate the conformation price with the conforming bank?

- Yes No

7. Have you (the bank) ever directed an L/C to another bank for a lower cost conformation price once the first bank has advised it?

- Yes No

8. How Price sensitive are the bank to open an Import/export L/C fee?

Low Sensitive

High Sensitive

Medium Sensitive

Not at all

9. Based on question 8 do the bank look at the overall goods/service of import/export and simply pay whatever is quoted?

Yes

No

10. Does the bank help make sure, that import/export activity will not have discrepancy?

Yes

No

11. Even when there are challenges and discrepancies, most important an export L/C seems to work out. Has this been your experience? Please explain;

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12. Have you ever negotiated to have a conformation done only a couple of weeks before shipment to save costs?

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13. Would it appeal to you to know what fees other exporters/importers have paid to banks for similar confirmations?

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14. Does your Import/export L/C pricing reflect the economies of scale deserved for combining all your banking activity?

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15. Additional comment, if any.

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Interviewee questionnaires

- 1 How long have you work in the commercial bank?
- 2 What kind of items you import/export?
- 3 Is Letter of credit practiced in your department frequently?
- 4 What type of L/C that your bank has practiced?
- 5 What are the source of risk import and export in Letter of credit?
- 6 What kind of amendment you suggest in the L/C that your company apply?
- 7 What kind of problems have you faced while processing Documentary credit? If there is a problem, how can you treat it?
- 8 What kind of problems have you faced while processin Import/Export? If there is a problem, how can you treat it?
- 9 What kind of Payment Mechanism Practice in Commercial Bank of Ethiopia?
- 10 Are Ethiopian importers and exporters well informed about letter of credit practices?