PRE SHIPMENT LOAN UTILIZATION IN EXPORTING AGRICULTURAL PRODUCTS IN ETHIOPIA

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A Project Paper Submitted In Partial Fulfillment of the Requirements for the Degree of Master of Science in Accounting and Finance

31st January, 2008
STATEMENT OF DECLARATION

I, Mekbib Negash declare that, this study, "pre shipment loan utilization in exporting agricultural products in Ethiopia" is my own work. I have undertaken the research work independently with the guidance and support of the research advisor.

This study has not been submitted for any degree or diploma program in this or any other institution.

It is in partial fulfillment for the requirement of the program of MSC in accounting and finance.

Signature___________________

STATEMENT OF CERTIFICATION

This is to certify that Ato Mekbib Negash has undertaken his research work on topic entitled "pre shipment loan utilization in exporting agricultural products in Ethiopia". in my opinion, this work is suitable for submission for the reward of MSC in accounting and finance.

Advisor: Abebe Yitayew (asst. professor)

Signature___________________
ACKNOWLEDGMENT

I would like to forward my esteemed gratitude to my advisor Ato Abebe Yitayew (asst. professor). If not for his sincere cooperation this paper might not be the way it looks now.

In addition, I am indebted to the invaluable support of all those who have helped me a lot in materializing this manuscript.

Let the greatest thanks goes to the almighty GOD who made me reach at this level.
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ACRONYMS

AGOA-African Growth and Opportunity Act

DB-Dashen Bank

AIB - Awash International Bank

UB- United Bank

NBE- National Bank Of Ethiopia

DBE-Development Bank Of Ethiopia

LDCs.-Least Developed Countries
ABSTRACT

International trade continues to grow every year as nations expand their global sales and new nations join in. Today, over 225 nations are active in trade resulting in over $9 Trillion dollars in global business every year.

Ethiopia, though existing part is small in amount, is one of those nations that incessantly increase their contribution in this global business. However, in Ethiopia, as in some other African countries, the export business is dominated by agricultural products accounting roughly for 70-80 per cent of export earnings.

One of the common complaints, from Ethiopian agricultural product Exporters, is that they receive minimal support from their banks for export trade transactions. After spending significant time and resources to develop export sales, they often can not secure the funds they need to complete the orders. Thus a key finance service specifically required by these exporters is a short term working capital loan that is used to fulfill international sales orders.

Consequently, the main purpose of this study was assessing the utilization of pre-shipment loan by agricultural product exporters in Ethiopia; focusing on those products which hold the highest fraction in the export business.

The result of the study in general suggests that the provision of pre shipment working capital credit is characterized by a continuous increasing trend with annual average growth rate of 147% for three consecutive years from 2004-2006. Although the provision
of pre shipment working capital loan increases more than 100% annually, it still constitute small percentage of the total loan provided by the banks. And also the amount of pre shipment export credit in the study period is found to be very low relative to the total export value in the same period.

For this reason the researcher suggests that, in order to satisfy needs of exporters in the country and benefit from the opportunities in the international market by expanding the export business, the disbursement of pre shipment credit should be increased more than what actually exists. This can be achieved through encouraging and supporting commercial banks to provide the loan to small and medium emerging exporters who have little experience and knowledge about the foreign trade; easing the requirements of both the commercial banks and government guarantee schemes; facilitating other export financing mechanisms; enhancing the capacity and experience of emerging agricultural product exporters about the international business; and strengthening and increasing the capability of those sectors which are organized with the aim of expanding the export sector in Ethiopia like Ethiopian export promotion agency.
CHAPTER ONE

1.1 INTRODUCTION

Trade liberalization has long been acknowledged as having major influence on the process of industrialization. There is no disagreement on the positive empirical association between trade openness and economic growth, though there has been little consensus as to the form of trade strategy best suited for encouraging industrial development, as this largely depends on the specific structure and feature of an economy. However, high export performance would not be achieved by liberalization alone. Many developing countries, which liberalized their economy in the hope of boosting and diversifying exports, and thereby generating appreciable growth, achieved only limited success. [Kirkpatrick, 1994] A host of factors determine export performance.

Similar to many developing countries, Ethiopia too has gone through a series of stabilization and structural adjustment programs. It has also taken measures to liberalize the trade sector. For example, governments have been attempting to deal with the problem by increasing the volume of production of the traditional primary commodities, irrespective of the many factors that affect exports, on the belief that Ethiopia has comparative advantage on these commodities. To enhance production, credit to farmers for purchasing fertilizer is extended. To boost the volume of export, sales of major exportable commodities such as coffee, to the domestic market is strictly controlled.
On the other hand, in many developing countries, particularly South East Asia, where outward looking growth strategy has been adopted, governments were determined to provide export promotion services as an essential component of the strategy.

Given the fact that for long export drive has not been given due attention in Ethiopia, the lack of supply of such services either by government or the private sector may not be surprising. Now that there is a change in government’s policy towards export promotion, provision of such services is recognized as essential. However, the public sector has had little experience in the provision of export promotion services.

With respect to private enterprises, in addition to the lack of experience due to the previous “socialist” policy, which kept them at bay for long, the small size of the Ethiopian export market has not been conducive to generate expertise in this area.

Usually, the factors that influence the competitive status, and hence export performance of firms/industries can be broadly classified into domestic and external. External factors involve international/regional and individual country’s trade and related policies. On the other hand, domestic factors could be classified into two categories: factors that are internal and external to the firm.

Those that are internal to the firm primarily affect total productivities, which is the fundamental determinant of competitiveness.
Such factors include labor skill/education, personnel and engineering management, level of technology employed, planning, accounting, and other professional services, etc.

Domestic factors that are external to the firm include, inter alia, government policies and incentives, the overall level of development/industrialization, and export support services.

While most of the factors stated above, influence export performance largely indirectly, export support services have direct impact on export success. Such services range from information on foreign markets, such as price and quality standards, to highly specialized services, as production-related technical services. For this study export support services broadly involve pre-export support services primarily export-finance provision.

Generally, there are different types of pre export financing mechanisms. The following list covers the main types of export financing instruments:

(a) Counter trade

There are many forms of counter trade, including:

(i) Barter, which is the exchange of goods and services for other goods and services of equivalent value, with no monetary exchange between exporter and importer.

Counter purchase is when the exporter undertakes to buy goods from the importer or from a company nominated by the importer or agrees to arrange for the purchase by a third party. The value of the counter purchased goods is an agreed percentage of the prices of the goods originally exported.
(iii) Buy-back is where the exporter of heavy equipment agrees to buy products manufactured by the importer. Counter trade offers a feasible option for countries economies endowed with rich natural resources like oil and grain. For countries with either *surrender requirements on foreign earnings or lack of currency convertibility, counter trade can be the first step towards export expansion.

(b) Documentary credit

This is the most common form of the commercial letter of credit. A common problem is that many local banks in developing countries have inadequate capital and therefore do not have the ability to back documentary credits. Exporters may require confirmation by their own local banks as an additional source of security, but this creates additional costs, and the banks may not want to assume the risks.

(c) Factoring

This is the sale of accounts receivable or other assets at a discount on a daily, weekly or monthly basis in exchange for immediate cash. The exporter sells the assets at a discount to a factoring house, which assumes all commercial and political risks.

(d) Pre-shipping financing

This is financing for the period prior to the shipment of goods, to support pre-export working capital costs.

* The surrender requirement means that companies earning foreign exchange must surrender the hard currency earned for the local currency at a pre-determined rate of exchange.
Pre-shipment financing is especially important to smaller enterprises, because the international sales cycle is usually longer than domestic sales cycle. Pre-shipment financing can be in the form of short-term loans, overdrafts, and cash credits.

(e) Post-shipping financing
This is financing for the period following shipment. The ability to be competitive often depends on the credit terms that the exporter offers to buyers. Post-shipment financing is usually short-term.

(f) Buyer’s credit
This is a financial arrangement where a lending bank, financial institution, or an export credit agency in the exporting country extends a loan directly to a foreign buyer. The loan may also be indirect through a bank in the buyer’s country acting on his behalf to finance the purchase of goods and services from the exporting country. It enables the buyer to make payments due to the supplier under the contract.

(g) Supplier’s credit
This is a financing arrangement under which an exporter extends credit to the buyer in the importing country to finance the buyer’s purchases.

Even though there are numerous export financing mechanisms, as stated above, this study only focused on the utilization of pre-shipment loan (d) particularly taking agricultural product exporters in Ethiopia.
1.2 STATEMENT OF THE PROBLEM

Exporters naturally want to get paid as quickly as possible, and importers usually prefer delaying payment at least until they have received and resold the goods. Because of the intense competition for export markets, being able to offer good payment terms is often necessary to make a sale. For this and other reasons, exporters should be aware of the many financing options open to them so that they may choose the one that is most favorable for both the buyer and the seller.

Various financing sources are available to exporters, depending on the specifics of the transaction and the exporter's overall financing needs. One among them is a pre-shipment loan.

An exporter may need pre-shipment financing for different purposes. In some cases, favorable payment terms make a product more competitive. If competitors offer better terms and has a similar product, a sale can be lost. In other cases, the exporter may need financing to produce the goods that have been ordered or to finance other aspects of a sale, such as promotion and selling expenses, engineering modifications, and shipping costs.

However in order to utilize such a financing facility effectively and efficiently a good export financing environment should be shaped in a proper manner that can be facilitated through:

- Qualified services from Commercial banks and other financial institutions
- Suitable Government policies and Assistance Programs and
- Specialized financial institutes like export-import banks
1.3 OBJECTIVES OF THE STUDY

As it is explain earlier, this study focuses on the utilization of *pre-shipment loan* by agricultural product exporters in Ethiopia; giving attention to those products which hold the highest part of the export business. Accordingly, the main objectives of this research are:

- Reviewing the rate of pre-shipment loan utilization for three consecutive years.
- Comparing the rate of growth in utilization of pre shipment export credit with the growth or expansion in the export business.
- Assessing the quality of banks’ loan service and government export credit quality scheme.
- Determining the problems that have been encountered by banks in providing this loan.
- Determining the problems that have been faced by the exporters with respect to using the loan.
- Assessing the impact of the existing pre-shipment loan provision and utilization over the export business of agricultural products in Ethiopia.
- Identifying the other mechanisms in which exporter’s uses to minimize shortage of working capital in exporting agricultural products.
- Weigh the usefulness and impact of these export working capital financing mechanisms against that of the pre-shipment loan.
1.4 SIGNIFICANCE OF THE STUDY

This study on the utilization of pre-shipment loan for a particular period basically helps to review the performance and development of the provision and utilization of the loan in Ethiopia in a particular period. It also helps to evaluate the impact of the loan on the export business of agricultural products.

Moreover, the study also contributes a lot towards improving the provision and utilization practice of pre-shipment loan in Ethiopia.

Furthermore, the study can also be used as impute for policy makers who are involved in designing and implementing policies with regard to promoting the export business.

Above and beyond, the study can be taken as a foundation for further studies to be carried out in the area.

1.5 DELIMITATION OF THE STUDY

AREA DELIMITATION

The target groups of the research are only those agricultural product exporters who are expected to have a significant influence over the export business of agricultural products.
SUBJECT DELIMITATION

This study is restricted to the evaluate the utilization of pre-shipment loan in Ethiopia by agricultural product exporters

1.6 LIMITATIONS OF THE STUDY

- Limited time and financial resources as well as wide spread of exporters through Ethiopia; forces the researcher to restrict the sample size of the exporters to a minimum size.

- Bureaucratic procedure to gather data from commercial bank of Ethiopia, which provides services for a significant proportion of exporters, makes the researcher to exclude it from the sample.
1.7 METHODOLOGY

For this study data were collected from July 1, 2007 up to July 31st, 2007. This time included the period to undertake interviews with three selected bank officials (Awash international Bank, United Bank, and Dashen Bank) and the time to gather data from the target group of exporters using questionnaires.

1.7.1 METHODS OF SAMPLING

Currently in Ethiopia there are 10 private commercial banks and the total agricultural products constitute more than 80% of the export business. Accordingly, the study was carried on three of the commercial banks and on sample exporters.

To take sample from the whole commercial banks, the researcher used purposive sampling considering ease of information access, the existing market share, and improvement in market share. The similarity of commercial banks in their nature and operation in Ethiopia, however, strengthens the representativeness of the sample.

On the other hand, to take sample from the exporters the researcher applied stratified sampling. To do this, first the researcher targeted only on those agricultural product exporters that constitute the large proportion of agricultural export business (coffee, hides and skins, chat and the like). This was be followed by classifying them in to three major groups (strata) based on their capital. Subsequently, a total of 13 exporters were selected among the entire group.
1.7.2 VARIABLES

The research used the following measuring variables to evaluate the utilization of pre shipment loan in exporting agricultural products in Ethiopia for three consecutive years.

- Rate of pre-shipment loan utilization as compared to other loans
- Growth in pre-shipment loan utilization over a specific period
- Service quality of commercial banks
- Effectiveness of export credit guarantee program and others

1.7.3 STRATEGIES OF INQUIRY

DATA COLLECTION PROCEDURE

As stated at the beginning of the methodology part both primary and secondary data were gathered from July 1, up to July 31st, 2007. To collect the data structured interview schedule and questionnaire were used. Then the data that are collected through interviews and questionnaire were held using inquiry protocols until they are analyzed and interpreted.

DATA ANALYSIS AND INTERPRETATION

During data analysis the researcher primarily organized the data categorically and chronologically. Then the data were reviewed repeatedly and continually coded.
Then after the output of the analysis were interpreted. At this point the researcher sometimes used *member-checking* (taking the final report or specific description back to the respondents and determined whether these participants feel that they are accurate) to ensure the accuracy of the findings especially for those data that are collected from commercial banks.

**METHODS OF PRESENTATION**

Subsequent to proper analysis and interpretation of the data, the information are presented in a manner that makes the finding clear and easily understandable. As a result the researcher tried to comprise different presentation techniques like discussion, tables, graphs, different types of charts and so on.
CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 FOREIGN TRADE/ INTERNATIONAL TRADE

The term foreign trade indicates the exchange of goods and services between nations. Goods can be defined as finished products, as intermediate goods used in producing other goods, or as agricultural products and foodstuffs.

International trade enables a nation to specialize in those goods it can produce most cheaply and efficiently. Trade also enables a country to consume more than it would be able to produce if it depended only on its own resources. Besides, trade enlarges the potential market for the goods of a particular economy. Hence, trade has always been the major force behind the economic relations among nations. (Microsoft Encarta 2007)

2.1.1 EMERGENCE OF MODERN FOREIGN TRADE

Although foreign trade was an important part of ancient and medieval economies, it acquired new significance after about 1500. As empires and colonies were established by European countries, trade became an arm of governmental policy. The wealth of a country was measured in terms of the goods it possessed, particularly gold and precious metals. The objective of an empire was to acquire as much wealth as possible in return for as little expense as possible. This form of international trade, called mercantilism, was commonplace in the 16th and 17th centuries.
International trade began to assume its present form with the establishment of nation-states in the 17th and 18th centuries.

Heads of state discovered that by promoting foreign trade they could mutually increase the wealth, and thus the power, of their nations. During this period new theories of economics, in particular of international trade, also emerged. (Microsoft Encarta 2007)

2.1.2 ADVANTAGES OF FOREIGN TRADE

In 1776 the Scottish economist Adam Smith, in *The Wealth of Nations*, proposed that specialization in production leads to increased output. Smith believed that in order to meet a constantly growing demand for goods, a country's scarce resources must be allocated efficiently.

According to Smith's theory, a country that trades internationally should specialize in producing only those goods in which it has an *absolute advantage*—that is, those goods it can produce more cheaply than can its trading partners. The country can then export a portion of those goods and, in turn, import goods that its trading partners produce more cheaply. Smith's work is the foundation of the classical school of economic thought.

Half a century later, the English economist David Ricardo modified this theory of international trade. Ricardo's theory, which is still accepted by most modern economists, stresses the principle of *comparative advantage*. 
Following this principle, a country can still gain from trading certain goods even though its trading partners can produce those goods more cheaply. The comparative advantage comes if each trading partner has a product that will bring a better price in another country than it will at home.

If each country specializes in producing the goods in which it has a comparative advantage, more goods are produced, and the wealth of both the buying and the selling nations increases.

Besides this fundamental advantage, further economic benefits result when countries trade with one another. International trade leads to more efficient and increased world production, thus allowing countries (and individuals) to consume a larger and more diverse bundle of goods. A nation possessing limited natural resources is able to produce and consume more than it otherwise could. As noted earlier, the establishment of international trade expands the number of potential markets in which a country can sell its goods. The increased international demand for goods translates into greater production and more extensive use of raw materials and labor, which in turn leads to growth in domestic employment. Competition from international trade can also force domestic firms to become more efficient through modernization and innovation.

Within each economy, the importance of foreign trade varies. Some nations export only to expand their domestic market or to aid economically depressed sectors within the home economy.
Other nations depend on trade for a large part of their national income and to supply goods for domestic consumption. In recent years foreign trade has also been viewed as a means to promote growth within a nation's economy.

Developing countries and international organizations have increasingly emphasized such trade. (Microsoft Encarta 2007).

2.1.3 BARRIERS OF FOREIGN TRADE

Despite the mutual advantages of global trade, governments often adopt policies that reduce or eliminate international trade in some markets. Historically, the most important trade barriers have been tariffs (taxes on imports) and quotas (limits on the number of products that can be imported into a country). In recent decades, however, many countries have used product safety standards or legal standards controlling the production or distribution of goods and services to make it difficult for foreign businesses to sell in their markets. For example, Russia recently used health standards to limit imports of frozen chicken from the United States, and the United States has frequently charged Japan with using legal restrictions and allowing exclusive trade agreements among Japanese companies. These exclusive agreements make it very difficult for U.S. banks and other firms to operate or sell products in Japan.

2.2 INTERNATIONAL TRADE/EXPORT IN ETHIOPIA

Recently, the issue of accelerated economic growth is gaining much attention by many development economists.
The decline in economic growth of most of the Sub-Saharan African countries and other the least developed countries (LDCs) coupled with the alarming population growth resulted in stagnation and even a continual decline in the per capita income of these countries.

This led to closer scrutiny into their economic structure to determine factors determining their growth and hence help these countries achieve a sustained economic growth.

One area that has been given much focus in order to promote the economic performance of these countries is external trade. Trade is viewed as an "engine" if not as a "handmaiden" of growth playing a supportive role in the economic growth of LDCs.

In Ethiopia, owing to structural problems and policies that were pursued by the different regimes that came to power, the performance of the export sector has been less satisfactory.

Different trade policies have been implemented by the different governments that have ruled the country for the last four decades. The policy adopted in the pre-1991/92 period (both in the imperial and military government of Ethiopia) was characterized by strongly inward-oriented development strategy that had a negative impact on export through influencing directly or indirectly the profitability and competitiveness of export.

The current government that came to power in 1991/92 has undertaken trade policy reforms, which aimed at promoting exports through diversifying the country’s commodity exports.
2.2.1 TRADE AND INVESTMENT LIBERALIZATION IN ETHIOPIA

Since 1992/93 Ethiopia has undertaken a series of Structural and Enhanced Structural Adjustment Programs under the guidance and support of international financial institutions, the IMF and the World Bank.

Under these programs a number of macro and sectoral policies, with a decidedly different orientation from what prevailed in the previous decade and a half, have been introduced.

One of the central elements of the new policy regime is to increasingly open the economy to foreign competition with a view of benefiting the economy from expanded markets and increasing its efficiency. Enhancing international competitiveness and export promotion require a host of interrelated and reinforcing measures, which have the added objective of inducing structural changes in the economy. Isolated policy actions focusing on just export related aspects alone may not lead to successful export performance. In fact sustainable international competitiveness is a derivative of successful industrialization. Broad economic reform measures, which are also relevant for promoting exports, have been undertaken over the last decade. Most important of these reforms include external sector liberalization, monetary and exchange rate policies, financial sector reform, investment policy, and public enterprise reform.

External sector policy: Substantial liberalization of the exchange and trading system has been undertaken. Import tariffs have been progressively reduced; the maximum rate today stands at 40 percent while the average is about 19.5 percent. The tariff band, excluding the zero-duty band, has been reduced down to six.
Non-tariff barriers are generally lifted except in areas meant to enforce national security, environment, health, and safety regulations. [IMF, 2001]

Some specific measures to encourage exports are also effected. A duty drawback system is made operational on a differed payment basis-allowing exporters to import inputs at world prices up-front, though its implementation is still not efficient enough.

The need for further improving and simplifying the operation of the duty drawback system and exemption schemes are also believed necessary.

Export duty, except on coffee, is long lifted. The government seems to recognize the task of fostering private sector development through regular consultation between policy makers and the private sector. Also, the need for particular measures for improving exporters’ access to finance and land seem to be appreciated by the government.

In the exchange system, foreign exchange surrender requirement is eliminated and replaced with a conversion requirement, permitting the use of foreign exchange proceeds for current account transactions within four weeks. Exporters are now able to sell their foreign exchange receipts (90 percent of total proceeds) to any bank or Forex bureau at freely negotiated rates over the conversion period, holding the 10 percent indefinitely. An inter-bank market for foreign exchange, and hence the partial market determination of the exchange rate, is already made operational replacing the auction system. Foreign investors in the export sectors are now allowed to buy foreign exchange for remittances.
Monetary policy: Monetary policy will remain geared toward containing inflation and achieving the international reserve targets, while leaving scope for adequate growth in domestic credit to the private sector. Commercial Bank lending rates were deregulated, except the minimum deposit rate. The latter has to remain positive in real terms. Inter-bank money market is also made operational.

Financial sector reform: To promote financial intermediation and improve resource allocation through the Banking system, the minimum amount of treasury bills offered is made to be reasonably low, and a long-term bond market for private and public sector investments is planned to be operational.

Also, to increase the level of competitiveness and scope of services in the financial system, foreign exchange bureaus are allowed to engage in all approved external current account transactions. There are now eight private banks and over eight insurance companies.

Investment policy: The investment regime has also been liberalized through a series of revised investment codes. Accordingly, wide economic sectors, including telecommunications and power, are now open for the participation of foreign investors. [UNCTAD, 2000] To ease administrative hurdles, the Ethiopian Investment Authority, is established to serve as a one-stop-shop for the promotion of foreign investment.
Though further measures on this line is still required, many regulatory and policy constraints have already been removed. Privatization or liquidation of public enterprises, albeit slow, is proceeding. Already over 175 enterprises are privatized over the years.

Despite all these policy reforms, however, there is still a bias against exports that calls for active government intervention to create a favorable atmosphere for an effective export performance. For example, the export sector constitutes small proportion of the nation’s GDP.

Moreover, the nation's output and exports are highly concentrated in agricultural commodities. Primary agricultural products accounted for about 80-90 percent of the merchandise export earnings of Ethiopia. In addition to this, there is geographical concentration of exports that makes the country vulnerable to the economic conditions (demand) of its trading partners. Manufactured exports, which are crucial for a rapid structural transformation of production is also very weak. *(Exports and economic growth in Ethiopia - Debel Gemechu)*

Actually export success is not depends only on the support from a government. However, it is a cumulative end product of a host of interrelated and reinforcing measures. Particularly, in developing economies like Ethiopia where inward oriented growth strategy remained dominant for long, a number of factors influence export performance.
2.2.2 EXPORT PERFORMANCE IN ETHIOPIA

1. EXPORT PERFORMANCE IN ETHIOPIA FROM 1981-2000

According to the study made by Berhanu Nega and Kibre Moges from the year 1981-2000, the volume of export has not shown a clearly discernible and sustainable positive trend, except a sharp rise in the second half of the 90s. Considering the five major export commodity groups, namely coffee, pulses and oilseeds, hides and skins, fruits and vegetables, and Chat, which today accounts for over 85 percent of total export earning, the volume of export of each commodity category, except fruits and vegetables, have been fluctuating.

As it can be shown in the table below, only in the second half of the 90s, exports of most commodities showed a sort of leapfrog. One presumes that the shift in policies introduced in the early 90s, as explained above, might have contributed to the rise in exports, however, whether this would be sustainable is yet to be seen.

Table 1. Volume of export: five years average 1981-2000 (000 m. tons)

<table>
<thead>
<tr>
<th>Period</th>
<th>Coffee</th>
<th>Pulses &amp; Oilseeds</th>
<th>Hides &amp; Skins</th>
<th>Fruits &amp; Vegetables</th>
<th>Chat</th>
</tr>
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<tr>
<td>1981-85</td>
<td>84.2</td>
<td>45.0</td>
<td>9.3</td>
<td>7.2</td>
<td>2.4</td>
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<tr>
<td>1986-90</td>
<td>80.5</td>
<td>20.7</td>
<td>9.8</td>
<td>10.2</td>
<td>1.9</td>
</tr>
<tr>
<td>1991-95</td>
<td>61.8</td>
<td>15.0</td>
<td>5.2</td>
<td>12.3</td>
<td>2.1</td>
</tr>
<tr>
<td>1996-2000</td>
<td>109.7</td>
<td>65.3</td>
<td>7.7</td>
<td>19.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Avr. Annual Growth - %</td>
<td>3.3</td>
<td>15.8</td>
<td>-0.5</td>
<td>8.1</td>
<td>18.0</td>
</tr>
</tbody>
</table>

The above table shows five years period average of exports in the last two decades. As shown in this table in two of the major export commodities, coffee and hides and skins, no appreciable growth was recorded over the decades. The volume of export in hides and skins actually declined in absolute terms, while coffee, after a steep decline until the mid 90s, recovered significantly thereafter. However, even during this recovery period, there has been a great deal of fluctuations. After a substantial increase (26 percent) in 1996/97 over the previous year, the volume of export declined consecutively in the next two years by 2.5 and 8.2 percent respectively. [NBE, Vol.16, No.3] In 1998/99 there was another recovery.

What can be inferred from this table is that while the trend in the last two decades had been dismal, the resurgence in the second half of the last decade is impressive. However, given no structural change in the economy (still weather dependent agricultural export) and the short time period of the recovery in the second half of the 90s as well as the annual fluctuation in this period, there is little ground to expect that the high export growth recorded in recent years could be sustained in the future.

2. EXPORT PERFORMANCE IN ETHIOPIA FROM 2001-2007

The level of development of the economy, resource endowments, policies and development strategies pursued are some of the determining factors of the export structure of a country. Being underdeveloped economy that heavily depends on agriculture, the structure of Ethiopian export is dominated by agricultural products which used to account for more than 90% over a long period except recent years when the export share of other products showed relative increases.
A. EXPORT PERFORMANCE IN ETHIOPIA FROM 2001/2-2005/6

Since 2001/2 to 2002/3 the country’s export amount has shown slight increase of 5.2% in total value of export.

However, Ethiopia's export performance from 2003/4 to 2005/6 has shown a great leap in foreign exchange revenue. In 2003/4 budget year the country earned 824 million USD, which show an increase of 27.2% (647.9 million USD) in revenue from the previous fiscal year. The 2005/6 Budget year revenue stood at 1354.7 million USD, exceeding by 172.3 million USD that of the 2004/5 Ethiopian budget year.

The 2005/6 budget year export trade performance, when viewed in relation to that of the past five consecutive years, it has shown an increase both in variety and quantity of export items. Similarly, export destinations are also on the rise. In the aforementioned budget year 1354.7million USD revenue is generated from exported products to more than 100 destinations. In general, the 2005/6 budget year export revenue is much higher than any of the previous years.

Among the exported items in 2005/6, 39 % of the export products were exported to Asia and Middle East, which exceeds 2001/2 export percentage by16.7%.

Apart from Asia and Middle east other major destination of Ethiopia's export commodities for the 1998 Ethiopian budget year was Europe with more than 165 million USD which exceeds 2001/2 export value by 13.9 %.( yearly macro economic indicators – National Bank of Ethiopia)
B. EXPORT PERFORMANCE IN ETHIOPIA IN 2007

This year’s nine months total export, when compared to last year’s total nine months export, the country has shown increment by about 19 percent by obtaining an additional around 123 mln USD. It has generated a total of some 645 mln USD in nine months and now this figure is increased to some 768 mln USD for the same period.

Coffee as usual is taking the lion’s share by generating more foreign exchange. This year it generated in nine months an additional 70 mln USD than last year for the same period. Coffee is followed by cereals, spices and oilseeds altogether.

During this period, the foreign currency generated from other items, which do not belong to the major export items including gold has also shown decline of more than 13 mln USD, when compared to last year’s same period’s export performance. In nine months last year from these sectors, Ethiopia has obtained more than 78 USD, while this year for the same period the amount declined to 65 mln USD for the same period. (Budget report, September 2007 – National Bank of Ethiopia.)

However, in the last quarter of 2007, according to the report of national bank of Ethiopia coffee generates 127.8 mil. USD, which makes it again to lead the export market share. Coffee is followed by cereals, spices & oilseeds in total and then chat which generated 47.8 and 46.6 USD in the last three quarters of 2007 respectively.
Table 2 - Ethiopia’s export by product from year 2001/02-2005/06

<table>
<thead>
<tr>
<th>Product</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Value in millions of U.S. dollars; volume in thousands of metric tons; and price in U.S. dollars per thousand metric tons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>163.2</td>
<td>165.2</td>
<td>223.6</td>
<td>336.2</td>
<td>354.3</td>
</tr>
<tr>
<td>Volume</td>
<td>110.3</td>
<td>126.1</td>
<td>156.4</td>
<td>161.1</td>
<td>147.7</td>
</tr>
<tr>
<td>Price</td>
<td>1.5</td>
<td>1.3</td>
<td>1.4</td>
<td>2.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Pulses</td>
<td>32.9</td>
<td>19.9</td>
<td>26.7</td>
<td>35.4</td>
<td>37.0</td>
</tr>
<tr>
<td>Volume</td>
<td>109.2</td>
<td>66.2</td>
<td>77.8</td>
<td>121.7</td>
<td>110.4</td>
</tr>
<tr>
<td>Price</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>32.6</td>
<td>46.5</td>
<td>83.6</td>
<td>125.0</td>
<td>211.4</td>
</tr>
<tr>
<td>Volume</td>
<td>76.6</td>
<td>83.0</td>
<td>102.8</td>
<td>170.8</td>
<td>265.7</td>
</tr>
<tr>
<td>Price</td>
<td>0.4</td>
<td>0.6</td>
<td>0.8</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Sugar and molasses</td>
<td>10.0</td>
<td>17.7</td>
<td>10.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume</td>
<td>58.0</td>
<td>77.0</td>
<td>16.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>0.2</td>
<td>0.2</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>55.5</td>
<td>52.0</td>
<td>44.3</td>
<td>67.6</td>
<td>75.0</td>
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<tr>
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<td>13.1</td>
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<td>15.4</td>
</tr>
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<td>5.0</td>
<td>3.4</td>
<td>4.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Live animals</td>
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<td>0.5</td>
<td>2.1</td>
<td>12.8</td>
<td>27.6</td>
</tr>
<tr>
<td>Volume</td>
<td>0.2</td>
<td>0.6</td>
<td>3.1</td>
<td>21.2</td>
<td>33.3</td>
</tr>
<tr>
<td>Price</td>
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<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Meat, canned and frozen</td>
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<td>2.4</td>
<td>7.7</td>
<td>14.6</td>
<td>18.5</td>
</tr>
<tr>
<td>Volume</td>
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<td>4.0</td>
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<td>8.0</td>
</tr>
<tr>
<td>Price</td>
<td>1.6</td>
<td>1.4</td>
<td>1.9</td>
<td>2.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Fruits and vegetables</td>
<td>9.4</td>
<td>9.6</td>
<td>7.2</td>
<td>16.1</td>
<td>13.2</td>
</tr>
<tr>
<td>Volume</td>
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<td>25.3</td>
<td>29.4</td>
<td>37.9</td>
<td>34.8</td>
</tr>
<tr>
<td>Price</td>
<td>0.3</td>
<td>0.4</td>
<td>0.2</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Flowers</td>
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<td>21.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume</td>
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<td>6.3</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>3.1</td>
<td>3.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chat</td>
<td>49.0</td>
<td>57.5</td>
<td>88.0</td>
<td>100.2</td>
<td>89.1</td>
</tr>
<tr>
<td>Volume</td>
<td>9.4</td>
<td>11.0</td>
<td>13.8</td>
<td>19.4</td>
<td>22.3</td>
</tr>
<tr>
<td>Price</td>
<td>5.2</td>
<td>5.2</td>
<td>6.4</td>
<td>5.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Gold</td>
<td>35.0</td>
<td>42.1</td>
<td>48.7</td>
<td>59.4</td>
<td>64.7</td>
</tr>
<tr>
<td>Volume</td>
<td>5.0</td>
<td>5.0</td>
<td>6.2</td>
<td>6.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Price</td>
<td>7.0</td>
<td>8.4</td>
<td>7.9</td>
<td>9.9</td>
<td>13.0</td>
</tr>
<tr>
<td>Other exports 3/</td>
<td>62.9</td>
<td>69.4</td>
<td>58.3</td>
<td>73.0</td>
<td>87.9</td>
</tr>
<tr>
<td>Total exports</td>
<td>452.4</td>
<td>482.7</td>
<td>600.4</td>
<td>847.2</td>
<td>1000.4</td>
</tr>
<tr>
<td>(excluding coffee)</td>
<td>289.2</td>
<td>317.5</td>
<td>376.6</td>
<td>512.0</td>
<td>646.2</td>
</tr>
<tr>
<td>(In percent of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee exports</td>
<td>2.2</td>
<td>2.1</td>
<td>2.4</td>
<td>2.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Noncoffee exports</td>
<td>3.9</td>
<td>4.0</td>
<td>4.0</td>
<td>4.5</td>
<td>4.9</td>
</tr>
<tr>
<td>(In percent of total exports)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>36.1</td>
<td>34.2</td>
<td>37.2</td>
<td>39.6</td>
<td>35.4</td>
</tr>
<tr>
<td>Pulses</td>
<td>7.3</td>
<td>4.1</td>
<td>4.4</td>
<td>4.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>7.2</td>
<td>9.6</td>
<td>13.9</td>
<td>14.8</td>
<td>21.1</td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>12.3</td>
<td>10.8</td>
<td>7.4</td>
<td>8.0</td>
<td>7.5</td>
</tr>
<tr>
<td>Chat</td>
<td>10.8</td>
<td>11.9</td>
<td>14.7</td>
<td>11.8</td>
<td>8.0</td>
</tr>
<tr>
<td>Gold</td>
<td>7.7</td>
<td>8.7</td>
<td>8.1</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Other</td>
<td>18.6</td>
<td>20.6</td>
<td>14.2</td>
<td>14.7</td>
<td>16.9</td>
</tr>
</tbody>
</table>

Sources: National Bank of Ethiopia and Ethiopian Customs Authority.
Table 3-Ethiopia’s export by country of destination from year 2001/02-2005/06

<table>
<thead>
<tr>
<th>Type of Export</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In millions of birr)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>1,386.3</td>
<td>1,341.3</td>
<td>1,593.8</td>
<td>2,574.7</td>
<td>2,511.7</td>
</tr>
<tr>
<td><strong>Belgium and Luxembourg</strong></td>
<td>118.8</td>
<td>76.6</td>
<td>169.6</td>
<td>375.4</td>
<td>234.0</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>111.3</td>
<td>273.6</td>
<td>98.0</td>
<td>127.2</td>
<td>177.9</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>437.9</td>
<td>352.9</td>
<td>560.3</td>
<td>1,068.7</td>
<td>875.9</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>391.9</td>
<td>183.2</td>
<td>307.0</td>
<td>384.8</td>
<td>473.9</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td>55.2</td>
<td>142.0</td>
<td>79.4</td>
<td>259.4</td>
<td>334.9</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>139.8</td>
<td>76.7</td>
<td>183.0</td>
<td>219.6</td>
<td>238.1</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>131.4</td>
<td>236.3</td>
<td>196.5</td>
<td>139.7</td>
<td>177.0</td>
</tr>
<tr>
<td><strong>Eastern Europe 2/</strong></td>
<td>29.0</td>
<td>13.6</td>
<td>11.2</td>
<td>39.1</td>
<td>34.9</td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td>0.0</td>
<td>0.4</td>
<td>9.5</td>
<td>17.9</td>
<td>14.4</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>29.0</td>
<td>13.2</td>
<td>1.7</td>
<td>21.2</td>
<td>20.5</td>
</tr>
<tr>
<td><strong>Other Europe</strong></td>
<td>235.5</td>
<td>93.0</td>
<td>628.3</td>
<td>486.6</td>
<td>715.8</td>
</tr>
<tr>
<td><strong>Switzerland</strong></td>
<td>285.5</td>
<td>79.8</td>
<td>434.1</td>
<td>327.0</td>
<td>577.5</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>13.2</td>
<td>194.2</td>
<td>159.6</td>
<td>138.4</td>
<td></td>
</tr>
<tr>
<td><strong>Total Europe</strong></td>
<td>1,650.8</td>
<td>1,447.0</td>
<td>2,233.3</td>
<td>3,096.1</td>
<td>3,256.8</td>
</tr>
<tr>
<td><strong>Western Hemisphere</strong></td>
<td>216.2</td>
<td>356.1</td>
<td>268.0</td>
<td>467.4</td>
<td>482.4</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>165.9</td>
<td>340.1</td>
<td>254.7</td>
<td>389.9</td>
<td>418.0</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>50.3</td>
<td>16.0</td>
<td>33.3</td>
<td>77.5</td>
<td>64.4</td>
</tr>
<tr>
<td><strong>Asia and Middle East</strong></td>
<td>1,292.5</td>
<td>854.2</td>
<td>1,570.8</td>
<td>2,261.7</td>
<td>3,387.9</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>91.0</td>
<td>22.5</td>
<td>109.6</td>
<td>362.8</td>
<td>1,166.7</td>
</tr>
<tr>
<td><strong>Israel</strong></td>
<td>149.0</td>
<td>201.0</td>
<td>169.8</td>
<td>170.9</td>
<td>178.0</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>294.6</td>
<td>188.4</td>
<td>530.4</td>
<td>554.7</td>
<td>676.1</td>
</tr>
<tr>
<td><strong>Saudi Arabia</strong></td>
<td>229.5</td>
<td>182.4</td>
<td>293.6</td>
<td>437.9</td>
<td>531.1</td>
</tr>
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<td><strong>Other</strong></td>
<td>528.4</td>
<td>259.8</td>
<td>467.4</td>
<td>726.8</td>
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<td><strong>Africa</strong></td>
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<td>910.7</td>
<td>1,033.8</td>
<td>1,460.0</td>
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<tr>
<td><strong>Djibouti</strong></td>
<td>272.1</td>
<td>289.8</td>
<td>533.8</td>
<td>389.2</td>
<td>498.4</td>
</tr>
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<td>9.2</td>
<td>134.3</td>
<td>2.4</td>
<td>17.9</td>
<td>21.1</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>139.6</td>
<td>367.9</td>
<td>374.5</td>
<td>656.7</td>
<td>940.4</td>
</tr>
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<td><strong>Australia</strong></td>
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<td>4.4</td>
<td>11.7</td>
<td>12.0</td>
<td>28.5</td>
</tr>
<tr>
<td><strong>Other (including unspecified)</strong></td>
<td>285.0</td>
<td>687.7</td>
<td>162.2</td>
<td>460.2</td>
<td>69.7</td>
</tr>
<tr>
<td><strong>Total exports, f.o.b.</strong></td>
<td>3,864.3</td>
<td>4,142.4</td>
<td>5,176.7</td>
<td>7,331.3</td>
<td>8,685.4</td>
</tr>
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</table>

(In percent of total)

<table>
<thead>
<tr>
<th>Type of Export</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>European Union</strong></td>
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<td>32.4</td>
<td>30.8</td>
<td>35.1</td>
<td>28.9</td>
</tr>
<tr>
<td><strong>Belgium and Luxembourg</strong></td>
<td>3.1</td>
<td>1.8</td>
<td>3.3</td>
<td>5.1</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>2.9</td>
<td>6.6</td>
<td>1.9</td>
<td>1.7</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>11.3</td>
<td>8.5</td>
<td>10.8</td>
<td>14.6</td>
<td>10.1</td>
</tr>
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<td>5.9</td>
<td>5.2</td>
<td>5.5</td>
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<td><strong>Netherlands</strong></td>
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<td>3.4</td>
<td>4.5</td>
<td>3.5</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>3.6</td>
<td>1.9</td>
<td>3.5</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>3.4</td>
<td>5.7</td>
<td>3.8</td>
<td>1.9</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Eastern Europe 2/</strong></td>
<td>0.7</td>
<td>0.3</td>
<td>0.2</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Other Europe</strong></td>
<td>6.1</td>
<td>2.2</td>
<td>12.1</td>
<td>6.6</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Total Europe</strong></td>
<td>42.7</td>
<td>35.0</td>
<td>43.1</td>
<td>42.2</td>
<td>37.5</td>
</tr>
<tr>
<td><strong>Western Hemisphere</strong></td>
<td>5.6</td>
<td>8.6</td>
<td>5.6</td>
<td>6.4</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>4.3</td>
<td>8.2</td>
<td>4.9</td>
<td>5.3</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>1.3</td>
<td>0.4</td>
<td>0.6</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Asia and Middle East</strong></td>
<td>33.4</td>
<td>20.6</td>
<td>30.3</td>
<td>30.8</td>
<td>39.0</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>2.4</td>
<td>0.5</td>
<td>2.1</td>
<td>4.9</td>
<td>13.4</td>
</tr>
<tr>
<td><strong>Israel</strong></td>
<td>3.9</td>
<td>4.9</td>
<td>3.3</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>7.6</td>
<td>4.5</td>
<td>10.2</td>
<td>7.6</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Saudi Arabia</strong></td>
<td>5.9</td>
<td>4.4</td>
<td>5.7</td>
<td>6.0</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>13.7</td>
<td>6.3</td>
<td>9.0</td>
<td>9.9</td>
<td>9.6</td>
</tr>
<tr>
<td><strong>Africa</strong></td>
<td>10.7</td>
<td>19.1</td>
<td>17.6</td>
<td>14.1</td>
<td>16.8</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Other (including unspecified)</strong></td>
<td>7.4</td>
<td>16.6</td>
<td>3.1</td>
<td>6.3</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Sources: National Bank of Ethiopia and Ethiopian Customs Authority.
2.3 FACTORS AFFECTING EXPORT PERFORMANCE

As stated above, quite a few factors have an effect on export performance. These factors can be broadly classified into domestic and external factors.

External factors involve international/regional and individual country’s trade and related policies. The rules established by international organizations such as the World Trade Organization (WTO) may in the long run promote external trade. In the short run, however, the degree to which globalization pressurizes developing economies to open-up without allowing enough time to prepare for the challenges, could have a serious repercussion on their export performance. (Shafeaddin, 2000a)

Similarly, the tendency of some regional organizations to protect their markets from external competition could deny access to export markets for developing countries. [Ibid, 2000a] Protective policies of countries (through tariff and non-tariff barriers), such as, for instance, the agriculture policies of some European countries, under pressure from internal industries, constrain exports of developing countries.

Domestic factors could be classified into two categories: factors that are internal and external to the firm. Those that are internal to the firm primarily affect total productivities, which is the fundamental determinant of competitiveness. Such factors include labor skill/education, personnel and engineering management, level of technology employed, planning, accounting, and other professional services, etc.
Irrespective of what condition exists outside a firm, attaining a comparable level of productivity is a necessary condition, though not sufficient, for competitiveness.

Domestic factors that are external to the firm include government policies and incentives, the overall level of development/industrialization, and export support services. Government macroeconomic and sectoral policies, such as the exchange rate regime, fiscal and monetary policies, trade and investment, and industrial policies all have direct impact, not only on transaction costs but also on the productivity levels of enterprises. (McKean, et al. 1994 & Bonaglia, et al. 2001).

But for such policies to help encourage exports they need to be tailored to the specific feature and structure of the economy (particularly, the industrialization level of the country) at issue. (Amsden, 1989)

In hostile macroeconomic policy environments, where the private sector is not supported for its active involvement in international trade, export success cannot be expected. Also, the legal and regulatory framework (anti-corruption, custom administration, the bureaucracy, etc.) has a direct bearing on transaction costs. (Ibid, 1994)

For firms in developing economies where competition against technologically well-established corresponding firms from developed countries has always been swimming upstream, government incentive structure specifically tailored to promote exports is important, at least in the initial stage.
Incentives that are achievement oriented, time bound and with limited scope could be effective promotional instruments. \cite{Shafaeddin2000b} Particularly, at the early stage of industrialization where export experience has not yet developed, subsidized services to exporters can have appreciable payoffs by speeding up export growth and creating a bandwagon effect.

The stage of development or level of industrialization is also an important determinant of external competitiveness and export performance through externalities. The level of development of infrastructure, the overall institutional framework for economic management, level of education of the workforce, the efficiency of transportation and communication system in the country, the availability and degree of domestic supply of inputs to exporting firms, the nature of home demand for export commodities, etc., influence the performance of a country’s exports.

A recent study on the productivity and competitiveness of the leather sector in Africa clearly showed that irrespective of natural resource endowment, African countries that are resource poor but relatively better industrialized, are found to be much more internationally competitive than less industrialized but resource rich countries in the region. \cite{BerhanuNega&KibreMoges}

While most of the factors stated above, influence export performance largely indirectly, export support services have direct impact on export success.
Such services range from information on foreign markets, such as price and quality standards, to highly specialized services, as production-related technical services.

For the purpose of this study export support services broadly involves pre-export support services including export-finance provision, technical assistance and government support services.

2.3.1 EXPORT FINANCE

Increasing globalization has created intense competition for export markets. Importers and exporters are looking for any competitive advantage that would help them to increase their sales. Flexible payment terms have become a fundamental part of any sales package. All sellers want to get paid as quickly as possible, while buyers usually prefer to delay payment, at least until they have received and resold the goods. This is true in domestic as well as international markets.

Selling on open account, which may be best from a marketing and sales standpoint, for example places all of the risk with the seller. In essence, the seller ships and turns over title of the product on a promise to pay from the buyer. On the other hand, Cash-in-advance terms place all of the risk with the buyer as they send payment on a promise that the product will be shipped on time and it will work as advertised. Cash-in-advance often places the seller at a competitive disadvantage.

Export trade finance provides alternative solutions that balance risk and payment. However, the following factors are important to consider in making decisions about financing:
• The need for financing to make the sale. In some cases, favorable payment terms make a product more competitive. If the competition offers better terms and has a similar product, a sale can be lost. In other cases, the buyer may have preference for buying from a particular exporter, but might buy your product because of shorter or more secure credit terms.

• The length of time the product is being financed. This determines how long the exporter will have to wait before payment is received and influences the choice of how the transaction is financed.

• The cost of different methods of financing. Interest rates and fees vary. Where an exporter can expect to assume some or all of the financing costs, their effect on price and profit should be well understood before a pro forma invoice is submitted to the buyer.

• The risks associated with financing the transaction. The riskier the transaction, the harder and more costly it will be to finance. The political and economic stability of the buyer's country can also be an issue. To provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment, a letter of credit (possibly confirmed), or export credit insurance or guarantee.

• The need for pre-shipment finance and for post-shipment working capital. Production for an unusually large order, or for a surge of orders, may present unexpected and severe strains on the exporter's working capital.
Even during normal periods, inadequate working capital may curb an exporter's growth. However, assistance is available through public and private sector resources.

Export trade finance is a specific topic within the financial services industry. It's much different, for example, than commercial lending, mortgage lending or insurance. A product is sold and shipped overseas; therefore, it takes longer to get paid. Extra time and energy is required to make sure that buyers are reliable and creditworthy. In addition, foreign buyers - just like domestic buyers - prefer to delay payment until they receive and resell the goods. Due diligence and careful financial management can mean the difference between profit and loss on each transaction.

Generally, there are different types of pre export financing mechanisms like Counter trade, Documentary credit, Supplier’s credit, Pre-shipping financing, Factoring, Buyer’s credit, and Post-shipping financing. However, this study accentuate the utilization of one of these financing means in Ethiopia, Pre-shipment financing.

2.3.2 PRE SHIPMENT EXPORT FINANCING

Access to working capital is one of the most important components of the export transaction, providing a means for companies to process and acquire goods and services to fill purchase orders and to ship and extend credit to their buyers.

To cover their working capital need, exporters mainly use working capital loan programs which are normally associated with pre-shipment financing.

Mostly there are three types of Pre-shipment export financing: Pre-shipment export credit, revolving export credit and advance on export bills.
The pre-shipment export credit is a loan granted to non-coffee exporters starting from the procurement of inputs until the date of shipment of goods against the guarantee given by export guarantee programs.

The revolving export credit facility is an advance extended to exporters with a limited margin before goods are loaded on board upon presentation of all relevant export documents to the bank except a bill of loading. In such kind of export credit, no guarantee is required for the loan provided by the bank.

Advance on export bills is conversely a post shipment export credit provided to exporters with a margin against presentation of all necessary export documents.

**RISK ASSOCIATED WITH EXPORT RELATED LOANS**

In financing trade transactions, financial institutions are confronted by at least three types of risks, or perceptions of risk, associated with the pre- and post shipment export financing:

- **Nonpayment risk or buyer risk**: the risk that the foreign buyer does not pay exporters.

- **Nonperformance risk or supplier risk**: the risk that the exporter will not fulfill the export order, cannot manufacture the product for technical reasons, or cannot deliver it on time and according to the price and quality standards identified in the export order or the letter of credit (L/C).
• Third party risk: other risks that are involved in the transactions process, such as risks related to transport.

If these risks, or perceptions of risks, are higher relative to the return on lending, financial institutions will not provide financing for export transactions. In response, credit enhancement instruments have been developed to cover a part of these risks, during both pre- and post shipment stages of export transactions, export credit insurance and pre shipment export finance guarantees.

2.3.3 EXPORT FINANCING AND CREDIT ENHANCEMENT INSTRUMENTS

Enterprises require pre shipment financing to fulfill export orders. This can come from the exporter’s own resources, buyer credit or short-term credit from financial institutions. In fact, the bulk of pre shipment financing is provided by financial institutions. However, financial institutions may serve pre shipment finance needs of large, well-known exporters more easily than emerging and small exporters (ESEs).

One reason is that banks in many countries have underinvested in systems and training necessary to adequately appraise nonperformance risks, especially for ESEs. Instead, they mainly favor collateralized lines of credit, which firms use at their discretion.

As such, large and well-known exporters can generate pre shipment working capital from bank overdraft facilities backed by the exporters’ collateral.

ESEs, on the other hand, do not have adequate internal resources and they lack access to short-term bank loans or credit because of their high perceived credit risks.
Even if these exporters hold a confirmed L/C, banks may still require a pledge of the exporter’s assets before they extend the pre shipment loan.

The reasons behind this market failure are the informational asymmetries on the part of banks about ESEs’ ability to execute export orders according to buyers’ standards of quality, cost, and delivery (that is, nonperformance).

Consequently, the objective of *Pre shipment Export Finance Guarantees (PEFGs)* is to encourage financial institutions to provide pre shipment financing to ESEs with viable export contracts whose perceived nonperformance risk is greater than actual risk. The PEFG does this by guaranteeing a portion of short term pre shipment export loans, thus assuming a portion of (perceived) risks, on a temporary basis. As such, it allows financial institutions to evaluate the nonperformance risks of ESEs over time, therefore serving as a catalyst for developing sustainable pre shipment financing for ESEs. PEFG facilities could be established, operated, and administered by a government agency (normally the Central banks, export credit insurance agencies or export import banks).

*Export credit insurance* offered by most export insurance agencies on the other hand do not address this market failure. Instead, they protect exporters and banks granting export finance against foreign buyers’ nonpayment risks, rather than exporters’ nonperformance.
PRINCIPLES OF PRE SHIPMENT EXPORT FINANCE GUARANTEES

1. Assuring simplicity. PEFGs’ designs must be simple so that participation by banks does not increase ESEs’ transaction costs or create too large a burden on ESEs through the guarantee fee charged.

The information required from exporters interested in PEFGs should be focused on the export transaction rather than on the detailed asset, liability, and net worth information of the firm.

2. Maximizing social benefits. PEFGs should not be thought of as profit-making instruments. Instead, social benefits of PEFG operation must be higher than its social costs. Social benefits are additional export value-added, taxes, and jobs created. Social costs include net defaults (gross defaults minus recoveries), administrative costs, and the opportunity cost of the PEFG fund.

3. Minimizing moral hazard (loan misuse). Exporters must self-finance a part of their pre shipment export finance needs. Similarly, commercial banks must take a part of the export finance default risks.

4. Making PEFGs easily accessible. ESEs, including indirect exporters, should be able to benefit from PEFGs as long as they possess either of the following: (a) confirmed export L/Cs issued in buying countries with little political risk; (b) export credit insurance coverage for non L/C-based exports or exports to politically risky countries; or (c) back-to-back domestic L/Cs.
5. *Rapidly disbursing banks in case of default.* The PEFG should cover both perceived and actual risks of exporters’ manufacturing on performance. When there is default based on nonperformance or bad faith, the PEFG would bear that cost rather than the banks.

6. *Assessing risk, but on an ex post basis.* The PEFG agency would screen out exporters with inadequate production facilities through enterprise visits by guarantee officers and the support of well-developed information networks. It will also screen out on an ex post basis exporters that have loan misuse risks (bad faith).

However, the PEFG agency or banks should not attempt to evaluate individual exporters’ manufacturing nonperformance risks on an ex ante basis. Accurately evaluating such risks would require significant capabilities and expertise, which are normally too costly to develop in a PEFG agency.

7. *Establishing credibility, a good reputation, and trust with exporters and banks.* Four conditions must be met to achieve these objectives: (a) a strong and proactive management team with aggressive guarantee officers; (b) availability of sufficient resources to cover claims; (c) clear rules for PEFG coverage and payments, and (d) speedy and transparent processing of guarantee applications and claims based on these rules.
CHAPTER THREE

3 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

3.1 COMMERCIAL BANKS AND PRE SHIPMENT LOAN PROVISION

3.1.1 COMMERCIAL BANKS AND EXPORT RELATED LOANS IN ETHIOPIA

In Ethiopia, the commercial bank industry has shown better expansion since the eradication of the centrally planned economic system. Up to the end of year 2005/2006 ten commercial banks were actually launched their operations. Out of these banks three of them are public banks and the remaining seven are private. Under the public bank category Commercial Bank of Ethiopia, Development Bank of Ethiopia, and Construction & Business Bank are included. On the other hand, the private banks under operation are: Awash International Bank, Dashen Bank, Bank of Abyssinia, Wegagen Bank, United Bank, Nib International Bank, and Cooperative Bank of Oromia.

The development of this financial sector, though it needs a significant improvement both in number and quality, has contributed a lot to the expansion of the export business in the country. For instance more than 2.8 billion birr loan is provided by the commercial banks industry to finance the export business in Ethiopia in the year 2004/5 and 2005/6. These banks offer different types of export financing loans including pre shipment export credit, advance on export bills (post shipment credit), and bank overdraft.
Among all the commercial banks in Ethiopia United bank, Dashen bank, and Awash bank are selected as a sample for the study. The researcher employs three basic criteria to pick these banks from the industry. These are ease of information access, the existing market share, and improvement in market share.

**BANKS COVERED UNDER THE STUDY AND RELATED BACKGROUND INFORMATION**

Table 4: Background information about sample banks

<table>
<thead>
<tr>
<th>Year</th>
<th>BANKS</th>
<th>Year Of Establishment</th>
<th>Capital Amount In Birr</th>
<th>Capital Market Share (%)</th>
<th>Branches Number</th>
<th>Branches Market Share (%)</th>
<th>Loans And Advances Amount In Birr</th>
<th>Loans And Advances Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>UNITED</td>
<td>September 1998</td>
<td>125</td>
<td>2.62</td>
<td>17</td>
<td>4.4</td>
<td>342.5</td>
<td>3.63</td>
</tr>
<tr>
<td></td>
<td>DASHEN</td>
<td>November, 1991</td>
<td>242.3</td>
<td>5.07</td>
<td>33</td>
<td>8.5</td>
<td>1,181.2</td>
<td>12.52</td>
</tr>
<tr>
<td></td>
<td>AWASH</td>
<td>November 1994</td>
<td>226.8</td>
<td>4.75</td>
<td>33</td>
<td>8.5</td>
<td>1,050.4</td>
<td>11.14</td>
</tr>
<tr>
<td>2006</td>
<td>UNITED</td>
<td>193.2</td>
<td>3.6</td>
<td>22</td>
<td>5.2</td>
<td>629.8</td>
<td>5.08</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DASHEN</td>
<td>311.1</td>
<td>5.7</td>
<td>37</td>
<td>8.8</td>
<td>1676.4</td>
<td>13.52</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AWASH</td>
<td>304.3</td>
<td>5.6</td>
<td>36</td>
<td>8.6</td>
<td>1409.5</td>
<td>11.37</td>
<td></td>
</tr>
</tbody>
</table>

From the above table we can first observe that this study on average covers 13.7% of the commercial banks’ industry as to capital; 22% of the commercial banks’ industry with regard to outreach and 28.63% of the commercial banks’ industry regarding loans disbursed.
In addition to this, it can be easily identified from the above table that, all the three banks have shown progress in their capital, number of branches and loan disbursement in the year 2004/5 and 2005/6. The progress in the loan disbursement for the year 2004/5 and 2005/6 is presented graphically below:

**Figure 1** loan disbursement by sample banks

![Graph showing loan disbursement by sample banks](image)

**3.1.2 ANALYSIS OF PRE SHIPMENT LOAN PROVISION FOR THREE CONSECUTIVE YEARS**

In this part of the third chapter the provision of pre shipment loan for three consecutive years is analyzed in three sections. The first section assesses the amount of pre shipment export credit disbursed by sample banks for thee consecutive years. In the second part the pre shipment export credit disbursed by the commercial banks for three consecutive periods is compared with the amount of total loan provided in the same period. Finally the aggregate growth trend in the pre shipment export credit for three consecutive years is compared with the growth of export during the same period.
1. COMPARISON OF AMOUNT OF PRE SHIPMENT LOAN PROVIDED (employing general price index)

Generally the amount of pre shipment loan provided by the banks for the three years considered has shown an increment in all banks. These pre shipment loan figures for the three consecutive years are presented below for each bank separately. However, to avoid the effect of inflation, all the figures are treated by the inflation rate in each year.

A. PRE SHIPMENT LOAN AMOUNT FROM SEPTEMBER 2005- AUGUST 2007 IN UNITED BANK

<table>
<thead>
<tr>
<th>Year</th>
<th>Original amount (in birr)</th>
<th>Inflation rate</th>
<th>Inflation free figure (in birr)</th>
<th>Amount (in birr)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>19,844,308.81</td>
<td>5.5</td>
<td>18,809,771.38</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>40,825,836.02</td>
<td>12.6</td>
<td>36,257,403.21</td>
<td>17,447,631.8</td>
<td>92.8</td>
</tr>
<tr>
<td>2007</td>
<td>73,714,078.81</td>
<td>14.88</td>
<td>64,210,870.04</td>
<td>27,953,466.8</td>
<td>77.1</td>
</tr>
</tbody>
</table>

The above table is prepared to explain pre shipment loan trend in united bank for the consecutive three years from 2005-2007. It indicates that the pre shipment loan amount increases successively by 17,447,631.8 birr and 27,953,466.8 birr between 2005 & 2006 and 2006 & 2007 respectively. This increment in pre shipment loan disbursement is depicted in the diagram below:
As can be seen from the above diagram even if the pre shipment loan disbursement increases between the year 2006 & 2007 by higher amount than the previous year, the rate of increment from the year 2006 to 2007(92.8%) is less than the rate of growth from the year 2005 to 2006(77.1%).

B. PRE SHIPMENT LOAN AMOUNT FROM JANUARY 2004- DECEMBER 2006 IN AWASH INTERNATIONAL BANK

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount in birr</th>
<th>Increment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original amount(in birr)</td>
<td>Inflation rate</td>
</tr>
<tr>
<td>2004</td>
<td>14,351,088</td>
<td>5.57</td>
</tr>
<tr>
<td>2005</td>
<td>37,800,650</td>
<td>11.01</td>
</tr>
<tr>
<td>2006</td>
<td>130,274,906</td>
<td>12.44</td>
</tr>
</tbody>
</table>
The above table states pre shipment loan trend in Awash international bank for the successive years from 2004-2006. It shows that the annual growths in pre shipment loan amounted 20,457,664.57 birr and 81,810,137.43 birr respectively in the period between 2004 and 2006. These increments in pre shipment loan disbursement are portrayed in the diagram below:

In the period under consideration, i.e. from the year 2004-2006, note only the amount but also the rate of growth is higher in the year from 2005 to 2006 than the growth between the year 2004-2005.

C. **PRE SHIPMENT LOAN AMOUNT FROM SEPTEMBER 2004- AUGUST 2006 IN DASHEN BANK**

When we come to the trend of pre shipment loan in Dashen bank for the consecutive years from 2004-2006, it indicates that the pre shipment loan amount increases in sequence by 22,721,577.09 birr and 32,571,192.62 birr annually between 2004 and 2006. This increment in pre shipment loan disbursement is shown in the table below:
Table 7 - pre shipment loan in Dashen bank

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount in birr</th>
<th>Increment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original amount(in birr)</td>
<td>Inflation rate</td>
</tr>
<tr>
<td>2004</td>
<td>14,568,248.82</td>
<td>11.9</td>
</tr>
<tr>
<td>2005</td>
<td>37,706,297.34</td>
<td>5.56</td>
</tr>
<tr>
<td>2006</td>
<td>76,919,040.43</td>
<td>12.6</td>
</tr>
</tbody>
</table>

The diagram below, which is drawn from the above table, indicates that the pre shipment loan disbursement increases between the year 2005 & 2006 by higher amount than the previous year. The rate of increment from the year 2005 to 2006(175%) however is less than the rate of growth from the year 2004 to 2005(91%).

Fig 4. Pre shipment loan – Dashen bank
2. PRE SHIPMENT LOAN UTILIZATION IN COMPARISON TO OTHER LOANS

I. SHARE OF PRE SHIPMENT LOAN OVER TOTAL LOANS AND ADVANCES IN UNITED BANK

Table 8 - pre shipment loan rate over total loans in United bank

<table>
<thead>
<tr>
<th>Year</th>
<th>Total loan (birr)</th>
<th>Pre shipment loan (birr)</th>
<th>Share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>592,511,280.07</td>
<td>19,844,308.81</td>
<td>3.35</td>
</tr>
<tr>
<td>2006</td>
<td>1,003,825,658.83</td>
<td>40,825,836.02</td>
<td>4.07</td>
</tr>
<tr>
<td>2007</td>
<td>1,415,552,887.64</td>
<td>73,714,078.81</td>
<td>5.21</td>
</tr>
</tbody>
</table>

The above table simply explains that the rate of pre shipment loan over the total loans in United Bank. It indicates that the rate of pre shipment loan over the total loans shows a continuous increase from 2005 to 2007.

However, what we can understand from the above table is that pre shipment loan makes up only small proportion of the total loan provided by the bank. This growth can be more visibly demonstrated using the diagram below:

Fig 5. Pre shipment loan amount per total loans in United Bank
II. SHARE OF PRE SHIPMENT LOAN OVER TOTAL LOANS AND ADVANCES IN AWASH BANK

The rate of pre shipment loan over total loans in Awash international bank has also shown annual growth of 1.25%, 2.45%, and 5.29% respectively in the period between 2004 and 2006. Although the share of pre shipment loan continuously grow form year to year in the given period, pre shipment loan still constitute small proportion of the total loan provided by the bank. This can be shown in the diagram below.

Fig 6. -pre shipment loan over total loans in Awash international bank

III. SHARE OF PRE SHIPMENT LOAN OVER TOTAL LOANS AND ADVANCES IN DASHEN BANK

The pre shipment loan percentage over total loans in Dashen bank has also shown annual growth rate of 0.86%, 1.69%, and 2.43% respectively in the period between 2004 and 2006.

Even if the share of pre shipment loan continuously grow form year to year in the given period, pre shipment loan here in Dashen Bank also comprise small part of the total loan provided by the bank. This can be shown in the diagram below.
Fig 7. Pre shipment loan over total loans in Dashen bank

![Pre shipment loan percentage chart]

3. **TREND COMPARISON BETWEEN EXPORT AND PRE SHIPMENT LOAN**

The pre shipment loan provision shows an average increasing tendency of 145% and 149% in the year 2005 and 2006 respectively. This growth in pre shipment loan disbursement is far greater than the rate of export growth in the same period, which is 41.11% and 18.08%. Even though the rate of growth in the pre shipment loan exceeds the incremental export rate of the nation, pre shipment loan still constitute small percentage of the total export loan value in Ethiopia. The diagram presented below shows trends in pre shipment loan and export growth trend.

**Fig 8** - Comparison between export and pre shipment loan growth rate
3.2 ANALYSIS OF QUALITY OF SERVICE

3.2.1 BANKS’ QUALITY OF SERVICE OVER PRE SHIPMENT LOAN PROVISION

It is well known that the quality, in service industries, is an important strategic factor that strongly affects customers’ satisfaction, loyalty, retention, and finally on firms’ performance superiority.

Since commercial banks are one among those in the service industry, their overall performance is affected to a great extent by the quality of service they are providing.

Because of the importance of the quality in service industries, the two most important questions are what is quality service? and how it can be measured, effectively? These questions are important because what we consider as high quality, in reality may not be so high or even may be low.

What is the quality Service? Service quality often defined as the comparison of service expectations with actual performance perceptions (GAP analysis). The central idea in GAP models is that service quality is a function of the different scores between expectations and perceptions. In other words, service quality is the customer’s judgment of overall excellence of the service provided in relation to the quality that was expected.
How can we measure the quality of services, effectively? Several instruments have been developed to facilitate quality measurement in different service industries. These different instruments have identified a variety of dimensions to measure service quality.

Since this study focuses on measuring commercial banks’ service excellence in providing loans, the researcher considers only those quality dimensions that are mainly related with commercial banks services. These are: reliability of the system, Complexity of the system, Requirements to get the loan, Cost of service, and Length of time to get the loan.

Reliability of the system refers to the performance service right and accurate, provision of prompt service to customers, and dependability and ability of employees in handling customers’ service.

Complexity of the system on the other hand indicates how much the system is easy to understand and use, how much the system uses modern looking procedures and equipment, and how much it respond to customers need quickly and efficiently.

Whereas, requirements to get the loan measures strictness of banks’ requirements to provide the loan. These requirements include factors like Experience of the customer in the business, Financial Position of the business, Ownership structure of the business, and Product to be exported.

The last two factors Cost of service and Length of time to get the loan, however represents all the related cost of using the loan and the number of days required to get the loan respectively.
Hence under this study service quality assessment of the banks is entirely based on the responses of selected clients of the commercial banks' (agricultural product exporters) regarding service quality measurement using the above five measuring factors.

**Demographic Finding about Sample Exporters**

In general 13 agricultural product exporters are selected from the three sample banks to evaluate the services quality. Background information about the exporters is given in the table below:

**Table 9- Demographic Finding**

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>CATEGORY</th>
<th>NUMBER OF RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>1</td>
</tr>
<tr>
<td>Age Group</td>
<td>25 And Below</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>26-35</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>46 And Above</td>
<td>5</td>
</tr>
<tr>
<td>Martial Status</td>
<td>Single</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Married</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Widow</td>
<td>-</td>
</tr>
<tr>
<td>Education</td>
<td>Primary and Secondary</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>High School</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>University And Masters Degree</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Doctorate</td>
<td>-</td>
</tr>
<tr>
<td>Exportable Product</td>
<td>Coffee</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Pulses &amp; Oilseeds</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Spices</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Leather And Leather Products</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Chat</td>
<td>3</td>
</tr>
<tr>
<td>Commercial Banks Exporters Usually Work With</td>
<td>Dashen Bank</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>United Bank</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Awash International Bank</td>
<td>4</td>
</tr>
<tr>
<td>Years Of Experience In The Business</td>
<td>Less Than A Year</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>More Than Three Years</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>More Than Five Years</td>
<td>6</td>
</tr>
</tbody>
</table>
The exporters in the table above ranks the service quality of their banks as excellent, very good, good, poor or very poor from five perspectives discussed above. For analysis purpose the researcher assigns weight of 5 for those service’s features ranked excellent and weight of 1 for those ranked to the other extreme. The aggregate result of customers’ response is averaged and presented accordingly:

Table 10-customers’ service evaluation

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>NUMBER OF RESPONDENTS</th>
<th>WEIGHTED AVERAGE EVALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NUMBER OF RESPONDENTS</td>
<td>WEIGHT</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Complexity Of The System</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Reliability Of The System</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Length Of Time To Get The Loan</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Requirements To Get The Loan</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Cost Of Service</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Weighted Average</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

According to the above table the weighted average customers’ evaluation is 3.08 out of 5, ranking reliability of the system and length of time to get the loan as the least services quality and positioning cost of services.
However, as we can see from the demographic finding most of the respondents are exporters who have good experience in the export business as well as maintain good relationship with banks. Nevertheless if it had incorporated those exporters who are newly engaged in the business, the result might be altered.

3.2.2 QUALITY OF GOVERNMENT'S EXPORT GUARANTEE PROGRAM

Here export credit guarantee program refers to the Export Credit guarantee provided by the National bank of Ethiopia (currently by DBE) up to maximum of 180 days to the exporter to cover pre-shipment or Post-shipment export loan extended by the financing bank starting from the issue date of the guarantee.

In Ethiopia, Export credit Guarantee scheme provides non coffee exporters access to pre-shipment and post-shipment finance equivalent to the total value of the previous year export proceeds with out any collateral requirement for existing exporters.

a) QUALITY ASSESSMENT USING PRINCIPLES OF EXPORT CREDIT GUARANTEE SCHEME

In this part this government export credit guarantee program is evaluated according to the seven basic principles of export credit guarantee programs. The assessment is done by five loan officers from sample commercial banks. This is because of the fact that since these officers of the commercial banks frequently work with this guarantee scheme, they are expected to have better knowledge and experience about the guarantee scheme than any one else.
Here also like the service quality assessment the guarantee program is ranked by the selected loan officer as excellent, very good, good, poor or very poor from different point of view based on the basic principles of export credit guarantee. The weighted average results of respondents' assessments are summarized and presented in the table below.

**Table 11- government export guarantee program evaluation**

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>NUMBER OF RESPONDENTS UNDER EACH WEIGHT</th>
<th>WEIGHT</th>
<th>WEIGHTED AVERAGE EVALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplicity</td>
<td>-</td>
<td>1 1  3</td>
<td>2.67</td>
</tr>
<tr>
<td>Maximizing social benefits</td>
<td>-</td>
<td>1 1 3  -</td>
<td>3.67</td>
</tr>
<tr>
<td>Minimizing moral hazard (loan misuse)</td>
<td>-</td>
<td>1 1 - 3</td>
<td>3.33</td>
</tr>
<tr>
<td>Accessibility</td>
<td>-</td>
<td>- - 2 3</td>
<td>2.33</td>
</tr>
<tr>
<td>Disbursement in case of default</td>
<td>-</td>
<td>2 - 1 1</td>
<td>3.67</td>
</tr>
<tr>
<td>Assessing risk on an ex post basis.</td>
<td>-</td>
<td>- - 3 2</td>
<td>2.67</td>
</tr>
<tr>
<td>Establishing credibility, good reputation, and trust with exporters and banks.</td>
<td>-</td>
<td>- 1 - 4</td>
<td>2.33</td>
</tr>
<tr>
<td>Weighted average</td>
<td></td>
<td></td>
<td>2.95</td>
</tr>
</tbody>
</table>

b) **COMPARISON OF EXPORT CREDIT GUARANTEE PROGRAM OF THE ETHIOPIAN GOVERNMENT WITH OTHER SELECTED COUNTRIES**

One of the major problems of exporters is the non-availability of funds. Banks are usually reluctant to finance export transactions particularly at the pre-shipment stage because of the high risk of default involved.
Export credit guarantee facility is designed to protect Banks against the risks of non-payment for loans or advances granted to exporters to meet short-term export contracts. This enables countries to boost their export volume though encouraging large number of exporters.

For this reason countries have to not only maintain a good export credit guarantee program but also should periodically evaluate its performance.

With this respect this part compares the major legal provisions in Ethiopian export credit guarantee directive with that of Nigeria; one among those African countries with strong financial sector operation.

Table 11 in the next page summarizes the Ethiopian export guarantee scheme relative to Nigerian export credit guarantee program.

What can be concluded first form the comparison is that the Ethiopian export credits guarantee program is characterized by narrow scope relative to Nigerian. This is because; first of all the guarantee is given only for working capital financing loans that are provided by commercial banks for exporters. Besides this, it excludes export related loans provided for coffee from being guaranteed. Moreover, the guarantee scheme covers commercial banks only for default risk by the buyer.

In addition to being narrow, the export credit guarantee of Ethiopia is relatively strict regarding requirements and takes more number of days to process and allow the guarantee.
### Table 12 - Government Export Guarantee Program Comparison

<table>
<thead>
<tr>
<th>Legal Provisions</th>
<th>Ethiopia</th>
<th>Nigeria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible Exports</td>
<td>Goods produced in Ethiopia for export and exportable under the laws of Ethiopia except coffee</td>
<td>Goods wholly or partly manufactured in Nigeria for export and exportable under the laws of Nigeria.</td>
</tr>
<tr>
<td>Eligible Exporters</td>
<td>Any Ethiopian exporter that can fulfill the requirements under the directive</td>
<td>Companies duly registered in Nigeria and co-operative societies</td>
</tr>
</tbody>
</table>
| Types of Guarantees       | • Pre-shipment guarantee  
• Post-shipment guarantee | • Pre-shipment guarantee  
• Post-shipment guarantee                                                                                                               |
| Term of guarantee         | not exceeding 180 days for Post-shipment guarantee  
not exceeding 360 days for Pre-shipment guarantee | not exceeding 180 days                                                                                                                   |
| Risks covered             | default by the buyer | Default by the buyer  
Default by the exporter  
Cancellation of export license  
Imposition of restriction on the export of goods                                                                                       |
| Percentage of cover       | Pre-shipment and Post-shipment guarantee: 80% of loans and advances | Pre-shipment guarantee: 75% of loans and advances  
Post-shipment guarantee: 85% of loans and advances.                                                                                       |
| Guaranteed loan           | Pre-shipment and post-shipment working capital loan | Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods for export                                    |
| Average no of days to allow guarantee | 15 days | 7 days |
3.3. PROBLEMS RELATED TO PRE SHIPMENT LOAN UTILIZATION

Several problems are identified by commercial banks and agricultural product exporters regarding utilization of pre shipment export credit. Out of these, the main problems are presented below:

Major problems identified by commercial banks

- Lack of consistent monitoring standards by development bank of Ethiopia (current provider of export credit guarantee program) to supervise the activities of commercial banks in order to provide guarantee for the loan provided to exporters.

- Poor document handling practice by exporters which creates difficulty in evaluating their credibility.

- Lack of awareness, skill, knowledge, and capability by exporters to use opportunities in international market that hinders the growth of export of the nation. For example Ethiopia is one of those nations which use small part of opportunities like AGOA.

- Practice of poor financial management system by some exporters, which makes them to incur additional costs. For instance some exporters request pre shipment loan having sufficient amounts in their current accounts.
Major problems identified by the exporters

- Strict requirements of both commercial banks and export credit guarantee providing agency (development bank of Ethiopia) to get the loan.

- The export credit guarantee scheme is not coffee export inclusive.

- Limited access or unavailability of other financing mechanisms which limits exporters not to borrow additional amounts more than a given amount.

- Extensive number of days required to get the loan (at least 25 days).
CHAPTER FOUR

CONCLUSION AND RECOMMENDATION

4.1 CONCLUSION

Selling products or services in export markets can be a very profitable and a true engine for growth of companies. Manufacturers, service providers and traders can all benefit from adding foreign markets to their portfolio of customers. However, selling into export markets can also deplete cash flows. Hence, access to working capital is one of the most important components of the export transaction, providing a means for companies to process and acquire goods and services to fill purchase orders and to ship and extend credit to their buyers.

Large companies usually have no problems in accessing working capital. This is because of the fact that; either they have a cushion of funds in the bank, or can easily get loans from banks. However, the problem gets worse for smaller and emerging firms.

Consequently, the main purpose of this study was assessing the utilization of pre shipment working capital loan in Ethiopia particularly in exporting agricultural products.

Based on the result of the study it can be concluded that the provision of pre shipment working capital credit is characterized by a continuous increasing trend with annual average growth rate of 147% for the three consecutive years. Besides, the non performing loan percentage of pre shipment working capital credit is also very small.
For instance when we take the case of united Bank the nonperforming rate were 10%, 0%, and 0% for consecutive years from 2005-2007 respectively.

Even though the provision of pre shipment working capital loan increases more than 100% annually, it still constitute small percentage of the total loan provided by the banks. And also the amount of pre shipment export credit in the study period is found to be very low relative to the total export value in the same period in Ethiopia. Moreover, large part of the pre shipment export loan is taken by large exporters who have strong capital basis, better experience in international business, and who already maintains good relationship with the commercial banks.

On the other hand when we come to the service quality of the commercial banks, the assessment by credit customers results weighted average figure of 3.28 out of five, which is in fact more than average. However, the response of the customers also suggests that commercial banks have to take appropriate measures to improve the quality of their services mainly on Requirements and length of time to get the loan.

In addition to provision of pre shipment loan and service quality of commercial banks, the export credit guarantee scheme provided by the development bank of Ethiopia is also assessed under this study.
The result shows that the guarantee program is characterized by narrow scope; strict requirements; lack of credibility, good reputation, and trust with exporters and banks; low accessibility; lack of risk assessment on an ex post basis and requirement of excessive number of days to process and allow the guarantee.

Moreover different problems related with the provision and utilization of pre shipment loan are also identified. Some of these are: Lack of consistent monitoring standards by development bank of Ethiopia; Poor document handling; poor financial management system by exporters; strict requirements of both commercial banks and export credit guarantee scheme; and limited access or unavailability of other financing mechanisms.
4.2 RECOMMENDATION

Enterprises require pre shipment financing to fulfill export orders. This can come from the exporter’s own resources, buyer credit or, short-term credit from financial institutions. In fact, the bulk of pre shipment financing is provided by financial institutions.

This study assessed the provisions and utilization of pre shipment export financing in Ethiopia for three consecutive years. The result in general identifies that the provision of pre shipment working capital credit is characterized by a continuous increasing trend with annual average growth rate of 147% for three consecutive years from 2004-2006. Even though it is growing more than 100% on average annually, it is not yet in a position to support the export development significantly.

In addition, the result of the study also revealed that commercial banks in Ethiopia serve pre shipment finance needs of large, well-known exporters more easily than emerging and small exporters. One reason for this is market failure resulting from informational asymmetries on the part of banks about exporters’ ability to execute export orders according to buyers’ standards of quality, cost, and delivery.

For this reason the researcher recommends that, in order to benefit from the opportunities in the international market by expanding the export business, the disbursement of pre shipment credit should be increased more than what actually exists.
One way of accelerating the utilization of pre shipment export financing loan is encouraging and supporting commercial banks to provide the loan to small and medium emerging exporters who have little experience and knowledge about foreign trade. This can be achieved, for instance, through helping commercial banks to design and implement effective system of appraising non performance risk, which in turn help them to ease their loan requirements.

This is because of the fact that the main reason that makes commercial banks in Ethiopia to favor large and well-known exporters than emerging and small exporter is that they have underinvested in systems and training necessary to adequately appraise nonperformance risks, especially for emerging and small exporter.

The other method to speed up the disbursement and utilization of pre shipment export financing loan is revising the export credit guarantee scheme in order to make the program easily accessible especially for emerging and small exporter.

In order to alleviate the accessibility problem of pre shipment export credit, the Ethiopian government has established pre shipment export guaranty facilities. However, reports showed that up to February, 2007 the NBE has given guarantees to 30 companies only that took loans amounting to 334.5 million birr.
As identified by this study pre shipment export guaranty facility reflects low performance mainly because of narrowness in its scope and strictness of requirements. For this reason it should have to be revised to increase its scope regarding the nature of risks and the export sector it covers and loosen the requirements that makes emerging and small exporter to get the guarantee easily.

The revision of the guarantee scheme should also helps in increasing credibility, reputation, and trust with exporters and banks.

In order to maintain sustainable development in the export sector and achieve one of the major millennium development goals, the Ethiopian government has to strengthen its support and greatly enhance the capacity of the export promotion agency. If possible the researcher recommends a separate institutionalization of a financial institution that solely responsible in financing international businesses in the country.
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APPENDICES

Addis Ababa university
Faculty of business and economics
Department of Accounting and finance

Interview schedule prepared for interview with the selected commercial banks’ loan officers.

1. Do you think shortage of working capital is a major problem for agricultural product exporters?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

2. How do you evaluate the importance of pre-shipment loan towards improving the export of agricultural products in Ethiopia?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

3. When did you start providing pre-shipment loan?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

4. How did you evaluate the rate the utilization since then?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

5. What are your requirements and preconditions to provide the loan?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

6. What are the different types of pre-shipment working capital loan to be provided by your bank (classification can be based on the nature of the loan, time of payment or considering any other criteria)?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

7. How many of your branches in Ethiopia provide this loan?
8. How did you evaluate the rate the utilization as compared to other type of loans that you have provided for the same year?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

9. What are the major problems that affect the utilization of this loan?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

10. What are the measures taken and proposed to be taken further in order to improve its utilization?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

11. What supports do you expect from the government that helps improve the provision and utilization of the loan?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

12. How do you evaluate the service of your bank in terms of Simplicity Maximizing social benefit, Minimizing moral hazard, Accessibility, Disbursement in case of default, Assessing risk on an ex post basis, Establishing credibility, good reputation, and trust with exporters and banks? Please rank each service features as excellent, very good, good, poor, and very poor.

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

13. Do you think that there are other preferable financing mechanisms than pre-shipment loan to solve the shortage of export working capital?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
አንድ ከወንጡ የስር=
- Post shipment loan utilization in exporting agricultural products in Ethiopia

January, 2008

9. From which bank do you get post shipment loan?
   - (Check one)
   □ Commercial Bank of Ethiopia
   □ Agricultural Bank of Ethiopia
   □ National Bank of Ethiopia
   □ Other

10. How much post shipment loan do you get from which bank?
   □ Commercial Bank of Ethiopia
   □ Agricultural Bank of Ethiopia
   □ National Bank of Ethiopia
   □ Other

11. How often do you get post shipment loan?
   □ Monthly
   □ Quarterly
   □ Seasonally
   □ Annually
   □ Other

12. How much do you pay for the post shipment loan?
   □ Commercial Bank of Ethiopia
   □ Agricultural Bank of Ethiopia
   □ National Bank of Ethiopia
   □ Other

13. Are you satisfied with the post shipment loan service?
   □ Yes
   □ No
   □ Other

14. What is the interest rate for the post shipment loan?
   □ Commercial Bank of Ethiopia
   □ Agricultural Bank of Ethiopia
   □ National Bank of Ethiopia
   □ Other

15. Are you satisfied with the interest rate for the post shipment loan?
   □ Yes
   □ No
   □ Other

16. What is the duration of the post shipment loan?
   □ Commercial Bank of Ethiopia
   □ Agricultural Bank of Ethiopia
   □ National Bank of Ethiopia
   □ Other

17. Do you have any other comments on the post shipment loan?

18. Do you have any suggestions for improving the post shipment loan service?
Addis Ababa university  
Faculty of business and economics  
Department of Accounting and finance  
Questionnaire prepare for agricultural product exporters  

This questionnaire is prepared to gather data for the partial fulfillment of MSC degree in accounting and finance in Addis Ababa university. The aim is to collect some data about the utilization of pre shipment loan in exporting agricultural products in Ethiopia. I assure you a head that all data will be kept confidential and will be used for academic purpose only. Knowing that your answer have direct impact on the quality of the research, I kindly request you to answer all of the questions honestly and sincerely.

Thanks in advance

General instruction

☑ Do not write your company name on the questionnaire
☑ For close ended questions use       ✓     or      ☒
☑ For open ended question use the space provided under each questions

1. Age
   ☐ Below 25          ☐ from 26-35
   ☐ From 36- 45       ☐ more than 46

2. Sex
   ☐ male
   ☐ female

3. Educational status
   ☐ Primary and secondary        ☐ high school
   ☐ University and masters degree ☐ Doctorate

4. For how many years you have been in the business
   ☐ Less than a year
   ☐ More than three years
   ☐ More than five year

5. In which of the following export category (ies) does your company involved?
   ☐ Coffee           ☐ tea
   ☐ Horticulture and floriculture products ☐ hides and skins
   ☐ Pulse, oilseeds, or beeswax     ☐ others; please specify_________

6. Is shortage of working capital your major problem?
   ☐ YES         ☐ NO

7. If yes how do you rate its impact in you business as compared to other major problems?
   ☐ Very high       ☐ High
   ☐ Medium          ☐ Low
8. For question number seven is it possible to quantify the impact?  
   For example, how many orders and to what amount you have lost because of shortage of working capital?

9. If your answers for question number eight is NO what are your other problems?  
   □ Lack of foreign market  
   □ Lack of skill and experience in foreign trade  
   □ Inadequate guarantee or any other support from the government  
   □ Too little/poor support from the local financial institution  
   □ Others; specify ________________________________  
   ________________________________  
   ________________________________

10. How much is your average turnover (yearly sale in birr) for the last three consecutive years?

11. Have you used pre-shipment loan to finance shortage of working capital ever since before?
   □ YES  □ NO

12. If yes how many times?
    □ Always  
    □ Sometimes  
    □ Only once

13. If your answer for question number eleven is NO, what were your major reasons?
    □ I didn’t face with shortage of working capital  
    □ I have no idea about the provision of the loan  
    □ High cost of the loan  
    □ The provision process takes long time  
    □ Other reasons, specify ________________________________  
    ________________________________  
    ________________________________

14. How do you rate the importance of the loan to promote the export business in the country?
    □ Very important  
    □ Important  
    □ Not as such important  
    □ Not important

15. What are your main reasons for your answer in question number fourteen?
16. How do you evaluate the support of the government towards encouraging the utilization of this particular loan?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

17. How do you evaluate the service of your bank in terms of reliability, length of time, cost, requirements, and complexity? Please using the space provided below to rank each service features as excellent, very good, good, poor, and very poor.

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

18. What are the main problems you observe regarding the provision and utilization of the loan?
✓ In relation to the service of banks
________________________________________________________________________
________________________________________________________________________

✓ In relation to nature of the loan
________________________________________________________________________
________________________________________________________________________

✓ In relation to borrowers (exporters)
________________________________________________________________________
________________________________________________________________________

✓ In relation to government
________________________________________________________________________

19. What are the possible solutions that help to solve those problems and promote the provision and utilization of the loan?