ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONIMICS

DEPARTMENT OF MANAGEMENT (POST GRADUATE PROGRAM)

ASSESMENT OF INTERNATIONAL BANKING PRACTICE (PARTICULARLY IMPORT EXPORT)OF SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA.

BY: KELEMEWORK NIGUSSIE

RESEARCH SUMMITTED TO ADDIS ABABA UNIVERSITY DEPARTMENT OF MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUREMENTS FOR MASTERS DEGREE OF SCIENCE IN INTERNATIONAL BUSINESS (IMPORT EXPORT)

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DECLARATION

I, the under signed, declare that this thesis entitled "**Assessment of International Banking Practice and Payment Method (Particularly Import Export) Of Selected Private Commercial Banks In Ethiopia**.", is my original work and has not been presented for degree in any other university or organization, and that all sources of material used for the thesis have been duly acknowledged.

Declared by:	**Confirmed by Advisor:**
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MANAGEMENT PROGRAM

This thesis, written by Kelemework Nigussie, and entitled "**Assessment of International Banking Practice (Particularly Import Export) Of Selected Private Commercial Banks In Ethiopia.**" and summited in partial fulfillment of the requirement for the degree of Master of Science in International business (Import Export). Complies with the regulation o university and meet the acceptable standards with respect to originality and quality. Approved by Board of Examiners:

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ABSTRACT

The primary goal of the study was to conduct a critical assessment of the international banking service practices of selected private commercial banks in Ethiopia. The study, address problem areas, identify challenges, evaluate employee commitment and knowledge gaps, assess the effectiveness of international banking practice, and determine the current situation in selecting the most suitable methods. The research used descriptive study; it incorporates different demographic status of the respondent, Management members, and professional staff members, senior and intermediate international banking officers in order to assure creditability of the study outcomes.

Moreover, according to the study findings, banks operating under limited foreign exchange resource, approving foreign currency for traders based on their own interests, specifically for holders of diaspora accounts and retention accounts, rather than prioritizing customers on a first-come, first-served basis. On the other hand, the problem of foreign currency liquidity leads to delays in the payment for document settlement.

Consequently, the study outcome indicate remedial measures in improving international banking practice by implement meticulous and effective internal controls for the management of international banking services, to ensure timely and secure transactions, utilizing robust technology. Additionally, banks should adopt a customer-centric approach, granting foreign currency to customers based on a fair and transparent "first come, first served" basis. Beside to this, in try to address that periodic training should be provided to personnel in the international banking department. This training should cover topics such as trade payment methods, Uniform Rules for Collection; Uniform Customs Practice, and the relevant directives of the National Bank of Ethiopia.

Key words: Trade Service practice, international payment methods, Challenges, International Trade, Cash against Document, Letter of Credit, Purchase

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The term international banking refers to the practice of providing financial services across international boundaries. Banks provide services such as accepting deposits, issuing loans, facilitating payments, and offering investment products to customers around the world. International trade exposes the trading partners to various difficulties and risks due to the physical distance between parties, different time zones and currencies different legal rules applicable to the transaction as well as the fact that the parties may not generally know each other. Banks facilitate international commerce through a variety of products which include managing their international payments, mitigating the risks, and providing working capital.

In order to create smooth and effective implementation of international banking practice throughout the world; banks has been used international standard of banking practices. Since its initial publication in 2002 (Publication 645), International Standard Banking Practice (ISBP) has become an invaluable aid to trade finance professionals when creating documents for presentation under, or for the examination of documents presented under, a documentary credit. It comprises a compilation of banking practices that are to be applied when working with documentary credits that are subject to UCP 600. ISBP demonstrates how the principles and content of UCP 600 should be integrated into day-to-day practice by providing readers with detailed practices that are to be considered and applied when working with different trade documents (invoices, transport documents, insurance documents, and certificates of origin). ISBP also provides coverage of documents which are not specifically mentioned in UCP. (PublicationN.645:2002)

Ethiopian commercial banks actively participate in international trade by offering trade service products, which generate significant income through service charges and commissions. These services contribute to 30 to 40% of the total income for most banks (Buyinza, 2010). However, trade service products come with their own risks and challenges. The banking sector's engagement in international and global banking depends on factors such as endowments, banking technology, service fees, and interest rates. Ethiopian commercial banks actively participate in international trade but face risks and challenges in providing trade service products. (Moses: 2005)

Therefore, according to facts reviewed no study completely addressed such international banking practice gap and related issues. This uncovered part may leave the room to undertake further study on such problem area.

1.2. STATEMENT OF THE PROBLEM

International trade and practices mainly concerned with business transaction that takes place between different nations. It increases due to uneven distribution of resources in different countries which give rise to relative difference in cost and price of goods and services. International trade demands a flow of goods from seller to buyer and payment from buyer to seller. There is no doubt that importing or exporting goods and services bring exciting new opportunities. Raw material can be cheaper, earning and profit can be higher and dependency on domestic markets can be reduced. Taking this opportunities is not without challenges but banking professional are dedicated to helping people mitigate the risks whether commercial, currency or political.

The capability to see and predict demand is one of the key challenges facing trade finance today. To escape from this challenge, banks must consider new solutions based on better market knowledge and knowing your customer expertise as well as releasing key professionals from constraints of location. International trade relies as much as on smooth cross-border financing as on the smooth cross-border flow of goods. As importers and exporters become more sophisticated in their demands, they will give their trade business to banks that can work within multiple time zones and currencies that have on-the-ground experience of their markets and counterparts, and have expertise to pull these offerings together in one seamless transaction. Asked what they look for when choosing a bank for their financing needs, importers and exporters increasingly cite some key factor sufficient trade finance knowledge, banking service excellence and currency resource pull are positively impact enhancement of commercial banks international banking practice and prospects. And also Banks need to equip themselves sufficiently to operate in such a competitive environment, enhancement of customer service, diversifying products and services (Viswanathan, 2008)

In the context of Ethiopia, a study conducted by Tom.M (2014) emphasized the importance of developing a vibrant private banking system alongside the existing public sector to promote the country's economic progress. Additionally, research by Robert E. et al. (2008) highlighted the challenges faced by the banking system in handling international trade, largely due to the unique nature of banking services and the regulatory requirements imposed by nations.

An empirical study by (European Investment Bank, 2013) focused on the banking challenges and opportunities in sub-Saharan Africa. The findings revealed that financial and banking systems in the region remain underdeveloped, characterized by low intermediation and concentration. Despite relatively low barriers to entry and exit, competition in the market remains limited, even with the presence of foreign banks.

Further research by Niepmann Friederik and Tim Schmidt-Eisenlohr (2015) emphasizes the significant challenges faced by exporters and importers in international trade. Additionally, a study by Panagiotis P. et al. (2013) sheds light on the international banking system, highlighting the concept, advantages, and risks involved. It mentions that the cost of internationalizing banking activities can be reflected in income loss for countries, as internationalization often leads to capital outflows to countries offering higher interest rates or with lower capital requirements from commercial banks. These studies underscore the importance of a strong and efficient banking sector in supporting international trade and economic growth, while also highlighting the challenges and risks that need to be addressed for optimal outcomes.

Despite various study that have investigated about international banking a significant gap remains in the literature regarding international payment method practice used by selected private commercial banks in Ethiopia, the previous study have investigated about international banking at Commercial Bank of Ethiopia(CBE) this research focuses on selected private Commercial Banks of Ethiopia, in addition to this, according to the researcher preliminary gathering and review; insufficient trade finance knowledge, banking service excellence and limited currency resource pull seems to be abandoned by most commercial banks in Ethiopia which is most importantly happen due to improper understanding of international trade practice from a global perspective, which is not investigated in the previous study.

Thus , the aim of such research undertaking aspire to go through and investigate the possible symptoms and or causes of ineffective international banking practices and its payment method used by selected private commercial banks in Ethiopia

1.3 RESEARCH QUESTIONS

The following questions were developed to guide the study:

- ❖ What are the current practices of international banking services provided by selected private commercial banks in relation to import-export trade?
- ❖ What are the major payment methods used in international banking service and situations to select the best method?
- ❖ What are the major operational problems observed in selected Ethiopian private commercial banks in international banking service providing process?
- ❖ What kind of knowledge gaps observed in the international banking practice of selected commercial banks?

1.4OBJECTIVES OF THE STUDY

1.4.1GENERAL OBJECTIVES OF THE STUDY

The overall objectives of this study were to assess the international banking practice particularly import export of selected private commercial banks in Ethiopia.

1.4.2 SPECIFIC OBJECTIVES OF THE STUDY

The specific objectives of this study were be:-

- ❖ To assess the current practices of international banking in relation to import-export trade within selected private commercial banks.
- ❖ To indicate the major payment methods used in international banking service and situations to select best method.
- ❖ To identify the major operational problems that encountered in international banking service.
- ❖ To identify knowledge gaps observed in the international banking practice of selected commercial banks

1.5. SIGNIFICANCE OF THE STUDY

The research paper focuses on the importance of international banking services, specifically trade services, offered by private commercial banks. These services generate significant revenue and attract customers and depositors. The study aims to provide practical insights and improve the overlooked practices of trade services in banks. The findings of the study are relevant to practitioners, stakeholders, managers, and the government, offering valuable information to improve international trade performance. Additionally, the research fills conceptual gaps in the practices of private commercial banks in Ethiopia regarding international service provision, particularly for traders. It is significant for decision-makers, policymakers, and academicians, providing insights for informed decision-making. The study also addresses current challenges in international banking operations and recommends solutions, helping to bridge the gap between theory and practice. Furthermore, the research assists the organization under study in revising its working procedures and contributes to filling knowledge gaps among various stakeholders. It also serves as a foundation for future researchers looking to conduct further studies in this area.

1.6S COPE OF THE STUDY

The study is limited with in the private banks of Ethiopia and its employees in terms of subject matter, geographic location and time period. Thus, the study delimited its subject on international banking practice and payment method (i.e. those related to import and export transactions) while geographically delimit selected private commercial banks at head quarter of Awash bank, Nib International Bank, Abyssinia Bank, Dashen Bank and Wegagen Bank found in Addis Ababa Ethiopia. The selection of the bank is based on their seniority level; since these banks are older in relation to other private banks they will have more experience in exercising the international banking practices.

1.7DEFINITION OF TERMS

1.7.1Conceptual definition of terms

- ✓ International trade, or foreign trade, is the exchange of capital, goods, and services across international borders or territories. (CGFS, 2014)

- ✓ International banking services are specialized products offered by banks to facilitate international trade transactions, including exports and imports. (Committee on the Global Financial System 2014).
- ✓ International Standard Banking Practice (ISBP):- International standard banking practice for the examination of documents under documentary credits includes reviewing documents such as the commercial invoice, packing list, certificate of origin, and bill of lading/air waybill/truck waybill. ICC(2006)
- ✓ UCP600: - The Uniform Customs and Practice for Documentary Credits (UCP) 2007 Revision, ICC Publication No. 600, is a set of rules that apply to any documentary credit when the credit explicitly states that it is subject to these rules. The UCP provides a standardized framework for the interpretation and application of documentary credits in international trade transactions.
- ✓ URC 522: The URC 522, or the Uniform Rules for Collections, is a set of rules governing the process of collections in international trade. It came into effect on January 1, 1996, and was first published by the International Chamber of Commerce (ICC) in 1956. Revised versions were issued in 1967 and 1978. (International Chamber of Commerce, 1996)
- ✓ URR 525: The Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR 525) became effective on July 1, 1996. The URR 525 consists of seventeen articles that specifically address situations involving banks, such as the issuing bank, claiming bank, and reimbursing bank. These rules supplement and expand upon Article 19 of the UCP 500, which covers the roles and responsibilities of the banks in documentary credit transactions. (Zsuzsanna, 2006)

1.7.2Operational Definition of Terms

- ✓ A Letter of Credit (LC): is considered one of the most secure instruments in international trade. It is an arrangement where the issuing bank commits to honor a complying presentation of documents from the seller. This payment method provides assurance to both the buyer and seller, as payment is contingent upon meeting the specified terms and conditions. The use of LCs helps mitigate risk and build trust in international trade transactions.

- ✓ An export letter of credit: is a foreign bank's undertaking on behalf of an importer. The issuing bank specifies the requirements and commits to honoring drafts drawn in accordance with the credit terms and conditions.
- ✓ An import letter of credit: is a commitment made by a bank to pay the seller of goods or services a specified sum, on the condition that the seller presents the documents as outlined in the terms of the credit. This letter of credit serves as a guarantee of payment to the seller, ensuring that they will be compensated upon meeting the required documentation.
- ✓ Import Documentary Collection: refers to the process where banks handle drafts and documents based on the instructions of the principal (importer) with the aim of obtaining payment or acceptance from the drawee (buyer). This method follows the guidelines outlined in the Uniform Rules for Collections, as published by the International Chamber of Commerce (ICC Publication 522).
- ✓ Advance payment: is a payment method in which the buyer provides funds to the seller upfront before the goods or services are delivered. In this arrangement, the buyer pays in advance and then waits for the seller to send the goods or provide the services at a later date. There is usually a limit on the amount that can be transferred for imports when using this payment method.

1.8 ORGANIZATION OF THE RESEARCH REPORT

This thesis is organized in five chapters. Chapter One of the report consists of background of the study, basic research questions, objectives of the study, definition of terms, significance of the study and delimitation/scope of the study, and organization of the study. Chapter two of the study has content of relevant review of related literature. While Chapter three of the thesis deals with methodology of the study while, chapter four deals with describe data presentation, analysis and interpretation. The last chapter also deals with summary of major finding, conclusion and recommendation of the study.

CHAPTER TWO

2.Related Literature Review

2.1. Theoretical Framework

According to (Seyoum, 2009) International Banking is a process that involves banks dealing with money and credit between different countries across the political boundaries. It is also known as Foreign/Offshore Banking. In another words, International Banking involves banking activities that cross national frontiers. It concerns the international movement of money and offering of financial services through off shore branching, correspondents banking, representative offices, branches and agencies, limited branches, subsidiary banking, acquisitions and mergers with other foreign banks. All the basic tools and concepts of domestic bank management are relevant to international banking. However, special problems or constraints arise in international banking not normally experience when operating at home. In particular: Business activities have to be transacted in foreign languages and under foreign laws and regulations.

Early concepts of international trade suggest that countries engage in trade for the same reasons as individuals engage in commercial trade. Just as individuals have varying capacities to produce the goods and services they require, countries also possess different capabilities. Therefore, countries can benefit from specializing in the production of goods they excel at and fulfill their other needs and wants through trade. This emphasis on specialization and trade leads to a larger global output of goods and services compared to a world without trade (Sawyer and Sprinkle, 2005).Adam Smith, a renowned classical economist, was a strong proponent of free trade and emphasized its role in promoting the international division of labor. Smith argued that through free trade, nations have the opportunity to specialize in producing goods in which they have an absolute advantage, meaning they can produce those goods at a lower cost compared to other countries. This specialization allows countries to capitalize on the benefits of the division of labor. Smith's principle of absolute advantage suggests that nations should focus on producing goods in which they are most efficient and import goods that they produce at a higher cost. This approach leads to increased efficiency and overall welfare for nations engaged in international trade, (Carbaugh, R. J. 2004).

Indeed, David Ricardo expanded upon Adam Smith's concept of absolute advantage and introduced the theory of comparative advantage. According to Ricardo, comparative advantage is determined by a country's ability to produce a particular good at a lower opportunity cost compared to another country. (Sawyer and Sprinkle, 2005).John Stuart Mill later developed the theory of reciprocal demand, which suggests that the actual price of trade is determined by the interacting demands of trading partners. Modern trade theory asserts that International trade patterns are influenced by disparities in supply and demand conditions globally (Carbaugh, 2004). However, international trade poses challenges due to factors such as physical distance, different time zones, currencies, and varying legal regulations. These complexities require the involvement of additional mediators and highlight the importance of global trade infrastructure and cooperation. Furthermore, the unfamiliarity between parties is a significant factor. In today's society, banks play a crucial role in economic development, particularly in terms of industrial growth and the modernization of agriculture. Banks promote these activities by mobilizing small deposits from the public and providing financial resources to large industries. Capital formation is indeed a vital function performed by banks (Buckova, M., 2011).

Reasons for Engaging in International Banking

Banks undertake international operations in order to expand their revenue/profit base, acquire resources from foreign countries, or diversify their activities. (Cherunilam, F., 2006) Specific reasons expanding operations in order to obtain economy of scale. Further motives for operating internationally are as follows: Commercial risk can be spread across several countries

Facilitation of international businesses and trade ,Involvement in international banking can facilitate experience curve effect ,Economies of scope might become available, Reduce cost of service delivery , Recognition and reputation abroad include the saturation of domestic market; discovery of lucrative opportunities in other countries; desire to expand volume of operations

2.1.1 THE ROLE OF BANKS IN INTERNATIONALTRADE

Banks play a crucial role in facilitating international trade by providing essential financial services and mitigating associated risks. Various studies have shed light on the significance of this role and the challenges faced by banks in the context of international trade. According to

(Niepmann and Eisenlohr 2014), banks have a vital role in supporting economic development through efficient financial services. They provide financing and help manage risks for exporters and importers engaged in international trade. Research by (Tom.M (2014) emphasizes the importance of developing a vibrant private banking system alongside the public sector in Ethiopia to promote the country's economic progress. This highlights the relevance of banks in facilitating international trade and supporting overall economic growth. The European Investment Bank (2013) conducted a study on banking challenges and opportunities in sub-Saharan Africa. The findings revealed that financial and banking systems in the region remain underdeveloped, characterized by low intermediation and concentration. This highlights the need for banks to play a more active role in supporting international trade and fostering economic growth in the region. Moreover, (Panagiotis et al. 2013) discuss the concept, advantages, and risks of the international banking system. They mention that internationalizing banking activities can lead to capital outflows from countries, resulting in income loss. This underscores the need for banks to carefully manage risks while engaging in international trade activities.

2.1.2.INTERNATIONAL BANKING SERVICE

2.2. TRADE SERVICE PRODUCTS

Banks differentiate themselves from other financial companies primarily through the provision of deposit and loan products, as stated by Heffernan (2005). To maximize profitability, banks have to effectively control these deposit, which represent in debit for them. Therefore, the key function of banks is They serve as a bridge between individuals and businesses who have excess funds to save and those who require capital for various purposes. Additionally, banks offer trade finance services, facilitating international trade, as explained by In international trade, exporters and importers must address the financing and risk allocation aspects of their transactions. This was highlighted by (Niepmann and Eisenlohr 2014). They emphasized the need for determining the party responsible for financing the trade and assuming the associated risks. Banks step in by providing financing and risk mitigation. In the case of the open account payment method, exporter's ship goods to the buyer, who makes payment upon receiving them, are resulting in the exporter pre financing the transaction. Conversely, for cash-in-advance payment method, importers pay before the exporter ships the goods. In both scenarios, banks usually provide working capital financing, either to the exporter or importer, depending on the method.

2.3. THE FIVE MOST COMMON TRADE PAYMENT METHODS

2.3.1 CASH IN ADVANCE**(**TELEGRAPHIC TRANSFER)

According to (Cherunilam, 2006), the cash-in-advance payment term, where payment is received before the shipment of goods, primarily benefits the seller. Importers typically hesitate to make advance payments, but in cases where the consignment is custom-made to the importer's order and specifications, sellers often require advance payment.

According to (Niepmann and Eisenlohr, 2014), the cash-in-advance terms place the importer in the role of a pre-financer, with the exporter receiving payment before incurring production costs. However, this arrangement carries a risk for the buyer, as there is a possibility that the seller may not deliver the goods after receiving payment. Additionally, (Cherunilam, 2006) highlights that advance payment may be necessary when the seller holds a monopolistic position, giving the buyer less bargaining power and requiring payment in advance of shipment. Similarly, the cash-in-advance terms place the importer in a pre-financing role, exposing the buyer to the risk of non-delivery by the seller (Niepmann, 2014). In addition, (Cherunilam, 2006) highlights that advance payment may be required when the supplier holds over control status, diminishing the tendency of changing the price of goods and necessitating payment prior to the shipment of the goods.

2.3.2 CASH AGAINEST DOCUMENT\OPEN ACCOUNT

To the opposite of Telegraphic transfer, Cash against document payment method involves the supplier shipping goods before the importer makes payment. This means that the exporter has to finance the transaction by covering the production and distribution costs without receiving payment upfront. Indeed, as pointed out by (Niepmann, 2014), the risk to the exporter in cash-in-advance terms arises when the importer fails to make payment for the goods after receiving them. Similarly, (Cherunilam, 2006) also explains that under Cash against document area, a sellertakes the financial burden without any supporting documents, except for the commercial invoice. This method involves a high level of risk, which is why it is typically used between affiliated companies or when both parties have long time partnership.

2.3.3 **CONSIGNMENT SELLING**

Consignment selling is a business arrangement where the owner of goods (consignor) entrusts them to another party (consignee) to sell on their behalf. In this arrangement, the consignor retains ownership of the goods until they are sold. According to Bowersox, Closs, and Cooper (2012), consignment selling provides benefits to both the consignor and the consignee. The consignor benefits from increased market reach and reduced inventory holding costs, as they only receive payment for the goods once they are sold. On the other hand, the consignee benefits from having a wider range of products to offer customers without the financial risk associated with purchasing inventory upfront.

Consignment selling can be especially useful in industries where products have a high value or slow turnover, such as art, luxury goods, or specialty items. It allows consignors to showcase their products in different locations or through various channels, increasing their chances of finding interested buyers.

2.3.4 DOCUMENTARY COLLECTION (D/C)

(Niepmann, 2014) explains that in a documentary collection payment method, banks handle shipping documents according to the seller's instructions. Under this payment method, the buyer can only obtain the documents after making payment for the document value. Without payment, the buyer cannot receive the goods from customs. Therefore, a documentary collection offers a higher level of payment reliability compared to an open account basis.

In this arrangement, the importer enjoys the benefit of not having to make advance payment for the goods, while the exporter has the ability to retain the necessary documents that enable the importer to take possession of the shipped goods until payment is received. A documentary collection refers to a transaction where the exporter entrusts the collection of payment to the remitting bank, which then sends the documents to a collecting bank along with payment instructions. The funds are received from the importer and remitted to the exporter through the involved banks in exchange for the documents. The banks' responsibility is limited to forwarding and releasing the documents upon payment, acceptance, or a promise of payment by the importer (Committee on the Global Financial System, 2014).Indeed, as (Niepmann, 2014) points out, even with a documentary collection arrangement, there is still a risk for the exporter if the buyer refuses to take up the documents. In such cases, the exporter may face challenges in receiving payment for the goods. It highlights the importance of establishing trust and ensuring clear communication to mitigate the potential risks associated with documentary collections.

As highlighted by (Giovannucci, 1996), documentary collection entails the risk that the buyer may fail to make payment for the goods upon receiving the draft and documents. In such instances, it becomes the responsibility of the seller to either find an alternative buyer or bear the costs of returning the goods. This risk underscores the importance of carefully assessing the creditworthiness and reliability of the buyer before engaging in a documentary collection transaction.

Indeed, as (Niepmann, 2014) explains, documentary collections can be categorized into two types: documents against payment and documents against acceptance. In the case of documents against payment, also known as cash against documents, the seller ships the goods to the overseas buyer, but the shipping documents are processed through the banking channel and released to the buyer only upon payment. This method provides assurance to the seller that payment will be made before the buyer can take possession of the goods. Indeed, as (Cherunilam, 2006) elaborates, under the method of payment involving documents against payment, the title to the goods remains with the seller until the buyer pays for the value of the goods. This arrangement ensures that the seller retains ownership and control over the goods until the buyer fulfills their payment obligations. It provides added security for the seller in the transaction. According to the definition provided in the URC 522, "Collection refers to the banks' handling of documents based on received instructions, with the purpose of obtaining payment and/or acceptance, delivering documents against payment and/or acceptance, or delivering documents under other specified terms and conditions" (International Chamber of Commerce, 1996, p. 5). This definition highlights the key activities involved in the process of documentary collection as outlined by the International Chamber of Commerce.

As per the URC 522, there are two types of documents in a collection: financial documents and commercial documents. Financial documents include bills of exchange, promissory notes, cheques, or similar instruments used for monetary payment. On the other hand, commercial documents encompass invoices, transport documents, documents of title, or other similar documents, excluding financial documents. Additionally; the URC 522 introduces the concept of clean collection, which refers to the collection of financial documents without the presence of commercial documents. In contrast, documentary collection involves the collection of both financial and commercial documents together. These distinctions help to categorize and clarify the types of documents involved in the collection process, providing a framework for efficient and accurate handling of collections.

As per the guidance provided by the International Chamber of Commerce (1996, p. 6), the URC 522 distinguishes between two types of collections based on the accompanying documents: Financial documents accompanied by commercial documents: This refers to a collection where both financial documents (such as bills of exchange, promissory notes, cheques, etc.) and commercial documents (such as invoices, transport documents, documents of title, etc.) are presented together. Commercial documents not accompanied by financial documents: This refers to a collection where only commercial documents, excluding any financial documents, are presented.

2.5.5 DOCUMENTARY LETTERS OF CREDIT (L/C)

DEFINITION OF AN L/C

Indeed, as highlighted by (Cherunilam, 2006), a letter of credit is a financial instrument that involves a bank's commitment to honor a draft drawn by a seller or beneficiary, subject to specific terms, conditions, and a predetermined amount. In other words, it serves as a guarantee from the bank to make payment to the seller or beneficiary once the required documentation is presented and meets the specified requirements. Letters of credit are widely used in international trade to provide assurance to sellers and mitigate the risk of non-payment.

L\C credit guarantees that the will receive full payment for the value of the goods shipped, as long as they fulfill the regulation (things to be done) of the credit. Moreover, this method of payment allows the seller to receive pay back from a local bank by presenting the shipping documents immediately after the goods have been shipped. Hence, the letter of credit plays a significant role in international trade for both exports and imports. The Documentary letter of credit functions as a three-party transaction. The buyer, who is the customer of the issuing bank, requests the credit. On the other hand, the owner or the one who have a right to get the payment refers to the seller of the goods to the buyer, who benefits from the credit. This transaction occurs through the letter of credit. The bank's involvement serves to provide a guarantee or assurance of payment, creating a separate contractual relationship between the bank, the buyer, and the seller. This separation of transactions helps to establish clear rights, obligations, and responsibilities for each party involved in the trade transaction.

The popularity of commercial credits stems from their ability to substitute the credit rating of the buyer, which is often unknown, with the established and reliable credit rating of one or more banks. This substitution provides a significant advantage in terms of risk mitigation (Lipton, 1998).The implementation of a letter of credit offers a valuable advantage to both the buyer and seller by involving a trusted intermediary, typically a bank, in the payment process. This intermediary ensures that the seller receives full payment if they have shipped the goods and fulfilled the agreed-upon terms outlined in the letter of credit. This method of payment distribution effectively mitigates risks for both parties involved in the transaction. For the seller, the use of a letter of credit guarantees that they will receive payment once they have met the specified conditions of the letter. This provides them with a sense of security and eliminates concerns about non-payment. The seller can confidently proceed with shipping the goods, knowing that they will be compensated appropriately. On the other hand, the buyer benefits from the involvement of a letter of credit as well. By utilizing this payment method, the buyer can have reasonable confidence that they will receive the ordered goods in accordance with the agreed-upon terms. The buyer can be assured that payment will only be made once the documents specified in the letter of credit are presented, ensuring that they receive the goods they expect. Furthermore, the use of documentary credits streamlines commercial transactions by eliminating the need for significant delays between shipment and payment. With a letter of credit in place, the seller can receive prompt payment from the bank upon fulfilling the conditions of the credit. This eliminates the need for the seller to seek provisional financing or wait for an extended period for payment, resulting in smoother cash flow and improved business operations.

TYPE AND CLASSIFICATION OF L/C

L\C can be divided into various categories. However, they can generally be classified into two main types: commercial letters of credit, which function as a method of payment, and standby letters of credit, which primarily serve as guarantees. While commercial and standby letters of credit may have similarities, there are significant differences between them in terms of their commercial purposes, how the credit is honored, and the level of risk involved. When it comes to fraudulent claims, the risk is higher in standby letters of credit transactions compared to commercial L\C. due to this reason, in a commercial L\C, the owner of the payment is required to submit a comprehensive set of documents, typically drafted by out of the parties. In contrast, for a standby L\C, the payment seeker is generally responsible for producing the document themselves (Mueller, 2013).

According to (Lipton, 1998), the standby credit can be paid based on a written demand as specified in the stipulated document. Alternatively, it can also be paid based on a demand accompanied by other specified documents, such as a certificate from a third party confirming nonperformance under the underlying contract. This flexibility allows for different options to trigger payment under a standby credit arrangement. While the irrevocable letter of credit is commonly used in international trade, it's important to note that letters of credit can also be revocable, which means the exporter can receive payment unless it is revoked by the importer prior to that. Documentary credits can be drawn either at sight or at a specific maturity date. Additionally, it is worth mentioning that most letters of credit permit the beneficiary to transfer their rights to another party (Folsom et al., 2005). This flexibility in the types and terms of letters of credit provides options for both exporters and importers in conducting international trade transactions.A confirmed letter of credit (L/C) refers to a situation where a bank, other than the issuing bank, adds its own confirmation to the credit. In such cases, the beneficiary's bank submits the required documents to the confirming bank for payment (ICSI, 1999). On the other hand, in a back-to-back credit, the exporter, who is the beneficiary of the initial L/C, requests their bank to issue an L/C in favor of their supplier. This allows the exporter to procure raw materials or goods based on the export L/C they have received (ICSI, 1999).

Indeed, an L/C itself is not a negotiable instrument. However, the bills of exchange that are drawn under an L/C are considered negotiable. This means that they can be legally transferred to other parties, allowing for flexibility in the payment process.

PRINCIPLES OF LETTER OF CREDIT

As stated by (Folsom et al., 2005), the autonomy principle is a fundamental aspect of letters of credit. This principle establishes that the obligation of the issuing bank to make payment under a credit, when accompanied by documents that meet the credit's conditions, is separate from the performance of any party involved in the underlying contract. In other words, the bank's responsibility to honor the payment is independent of whether the parties fulfill their obligations in the contract. This principle provides assurance to the beneficiary that they will receive payment as long as the required documents are presented in compliance with the terms of the credit.

According to (Mueller, 2013), the autonomy of the bank's obligation is the crucial aspect of any letter of credit, irrespective of the applicable rules. This autonomy refers to the bank's obligation being independent of the underlying contract and any associated agreements. This characteristic of letters of credit has contributed to their widespread use and popularity. It ensures that the bank's commitment to payment is separate from the performance of the parties involved in the underlying contract, providing security and reliability to both buyers and sellers.

As mentioned by (Mueller, 2013), the principle of strict compliance, as outlined in Articles 7, 8, and 15 of the UCP 600, aligns with the autonomy principle in letters of credit. This principle states that the beneficiary must adhere to the specified documentary requirements stated in the letter of credit. The autonomy principle plays a crucial role in letters of credit, ensuring that the issuing bank's commitment remains unaffected by any irregularities or interference related to the underlying contract. This principle provides a valuable assurance that the bank's obligation will not be influenced by any discrepancies or issues with the underlying contract, establishing a level of security and reliability in the transaction process.

While the autonomy principle gives advantage to the beneficiary ('pay first, argue later'), the strict compliance doctrine benefits the applicant insofar as he will have to reimburse the issuing bank only against presentation of a complying set of documents." (Mueller, 2013)

ISSUING BANK'S OBLIGATION UNDER AN L/C

Primary responsibilities of the issuing bank include issuing the L\C upon petition from a petitioner, making the credit accessible to the grantee through a notifying bank, examining the submitted records, deciding whether to approve or disapprove the records, honoring or dishonoring the payment assurance, and reimbursing the paying bank. That accepted, a compliant submitting the required documents to the issuing bank (Mueller, 2013).

As per the URC practices for Documentary Credits, 2007 modification, once the specific paperwork or records are presented to the issuing bank and comply with the terms and conditions of the letter of credit, the issuing bank is obligated to make payment to the presenter. This ensures that the presenter receives payment upon fulfilling the necessary requirements outlined in the letter of credit.

According to (Alphonse, 2010), once the opening bank has issued the letter of credit, it assumes an unconditional liability. This means that the bank is obligated to fulfill its payment obligations as long as the seller meets the stated obligations outlined in the terms of the letter of credit. This ensures that the seller can rely on the bank's commitment to payment, provided they comply with the specified terms and conditions.

PARTIES TO A LETTER OF CREDIT

There are four parties to a letter of credit: namely the beneficiary, applicant, the issuing bank and the advising bank. The beneficiary under a letter of credit is the exporter of the goods in whose favor the letter of credit is issued. The applicant, on the other hand, is the party responsible for initiating the import of goods and providing instructions to the bank to establish the letter of credit. (Jain, 2012) The applicant is the party on whose request the credit is issued. He is obliged to lodge security as demanded by the issuing bank and to reimburse and pay the issuing bank fees for payments made under the letter of credit. (Mueller, 2013)

An issuing party refers to bank in the buyer country that issues the L\C upon an importer's application. On other hand, the advising bank is lender in the seller's country that is permitted by lender to provide advice regarding the L\Cfor recipient (Jain, 2012).A confirming bank is usually the bank in the exporter's country, the confirming bank, upon the application of recipient, adds confirmation to the L\C. This confirmation ensures that the beneficiary will receive As per (Alphonse, 2010), situation where the confirming bank assumes the obligation to make payment under a letter of credit, but without the right to seek reimbursement or recourse from the issuing bank. In other words, the confirming bank takes on the responsibility of payment to the beneficiary without the ability to recover the funds from the issuing bank. This arrangement provides an additional layer of assurance to the beneficiary, as they can rely on the confirming bank's commitment to payment, even if there are any discrepancies or issues with the issuing bank.

FOUR AUTONOMOUS CONTRACTS PERTAINING TO AN L/C

THE MECHANISM OF L/C

According to (Mueller, 2013), the letter of credit comprises three distinct contracts. Firstly, there is the underlying sale contract between the buyer and the seller, wherein the seller agrees to provide the goods and the buyer agrees to pay the purchase price. Secondly, there is a contractual agreement between the buyer and the issuing bank, outlining the bank's commitment to issue the letter of credit for the benefit of the seller. In return, the buyer agrees to reimburse the bank for payments made under the letter of credit, including any applicable commissions. Lastly, there is the undertaking of the issuing bank towards the seller, wherein the bank promises to honor the beneficiary's drafts when accompanied by a set of documents that conform to the requirements of the letter of credit.

Furthermore, here exists commitment with in the two banks. This contract grants the confirming bank the authority to make payments to the seller upon presentation of the required documents. The confirming bank is also responsible for as stated by (Lipton, 1998); the confirming bank will send the documents to the issuing bank once it has received reimbursement for the amounts paid out. In cases where the seller is located in a jurisdiction where there is no accessible branch of the issuing bank to handle credit transactions, a confirming bank is often utilized. The confirming bank acts as an intermediary, ensuring that the documents are forwarded to the issuing bank for review and processing. This arrangement provides convenience and efficiency in situations where direct access to the issuing bank is not readily available.

According to (Moses, 2005), banks play a crucial role in ensuring that only reliable and creditworthy buyers are able to secure letters of credit. As a result, most buyers who apply for letters of credit are reputable companies that are genuinely interested in conducting business. These buyers are generally willing to overlook minor discrepancies in the seller's documents. By waiving these minor issues, they enable the letter of credit to be honored. This demonstrates the trust and willingness of buyers to accommodate minor deviations in order to facilitate successful transactions.

In accordance with (Moses, 2005), the exporter manages over the cargo receipt serves as an motivation for L\C to be honored even when there is no legal obligation to make payment. Exporters utilizing L\C should be aware that if they do not maintain management of the goods through the cargo receipt, they expose themselves to the peril of failure to pay, as the L\C may not provide enough security. In such cases, if the buyer takes possession of the goods and discovers discrepancies in the documents, they can exploit the seller by delaying the waiver of variations or attempting to bargain a least price. This highlights the importance for sellers to retain control over the bill of lading to mitigate potential risks and maintain the effectiveness of the letter of credit.

AMENDMENT TO AN L/C

An amendment is the term used for any changes made to a letter of credit after it has been issued. In order for the seller to alter the terms of an irrevocable letter of credit, they must formally request an amendment from the buyer. The process of amending a letter of credit usually involves the following steps:

As per Vaidya (1990) and UCP 600, the process for amending a letter of credit involves several steps. Firstly, the seller requests a modification or amendment to address any questionable terms in the letter of credit. Secondly, if the buyer and issuing bank agree to the changes, the issuing bank will make the necessary adjustments to the letter of credit. Thirdly, the buyer's issuing bank notifies the seller's advising bank about the amendment, and finally, the seller's advising bank informs the seller about the amendment. This ensures that all parties involved are aware of and can comply with the updated terms of the letter of credit.

As per the UCP 600 guidelines, an issuing bank is legally obligated by an amendment once it issues the amendment. This means that the issuing bank's commitment to the amendment is irrevocable from the moment it is issued. On the other hand, a confirming bank, as stated by the International Chamber of Commerce (2007), has the choice to extend its confirmation to an amendment in a letter of credit. Once the confirming bank advises the amendment, it becomes legally bound by the terms of the amendment and cannot revoke its commitment. These provisions ensure that any approved amendments to the letter of credit are binding and enforceable for all parties involved.

The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication no. 600 (UCP) are a set of rules that govern the use of documentary credits. These rules are applicable while a message of the debit explicitly states that it is subject to the UCP (International Chamber of Commerce, 2007).

As per Article 2 of the UCP600 a L\Cis:

According to the UCP600, "honor" means the definite commitment of the issuing bank to fulfill its obligation and make payment upon the presentation of documents that conform to the terms and conditions specified in the letter of credit. In other words, once the issuing bank determines that the presentation of documents is in compliance with the requirements of the letter of credit, it is obligated to honor the payment to the beneficiary. The term "honor" signifies the fulfillment of the bank's commitment to make payment under the letter of credit.

a) a) If the credit allows for sight payment, the payment will be made immediately upon presentation.

b) If the credit allows for deferred payment, the payment will be made at the specified maturity date.

c) As per the International Chamber of Commerce (2007), in cases where the letter of credit permits acceptance, the buyer agrees to accept a bill of exchange issued by the beneficiary and make payment upon its maturity. This involves the buyer acknowledging the bill of exchange and committing to honoring it at the specified future date of payment.

In 1996, the US Council on International Banking released a paper called "Standard Banking Practice for the Examination of Letters of Credit Documents." This publication presented a comprehensive checklist for banks to follow when examining documents related to letters of credit. The checklist served as a guide to ensure that all relevant factors were taken into account during the document inspection process. In an effort to minimize the number of rejected document presentations by banks, the International Standard Banking Practice for the Examination of Documents under Documentary Letters of Credit (ISBP) was developed. The ISBP sets a standardized framework for document checkers to follow. It was officially approved during the Commission meeting in Rome in October 2002, as mentioned by Zsuzsanna (2006). The ISBP aims to enhance consistency and improve the efficiency of document examination processes in relation to documentary letters of credit.

2.5.6 GUARANTEE

Jain (2012) provides a definition of guarantee as a contractual arrangement between a named beneficiary and the issuing bank. The purpose of this guarantee is to foster the uninterrupted progression of trade and commerce, both domestically and internationally. Although the initiation of a bank guarantee arises from the underlying contract between the parties, it functions as an independent and self-governing entity.

As per Jain (2012), a bank guarantee is a commitment made by the issuing bank to make unconditional payment to the beneficiary when the first claim is received. Unlike a letter of credit, which ensures the smooth execution of a transaction, a bank guarantee is designed to mitigate potential losses in case the transaction does not proceed as intended. A bank guarantee represents the bank's obligation to be accountable for the debt, default, or non-performance of its client.

According to Jain (2012), a bank guarantee can be utilized in the context of an open account transaction, where goods are delivered to the buyer prior to the exporter receiving payment. This guarantee serves as a warranty against potential default by the buyer. Similarly, the bank can also provide a guarantee to the buyer who has made an advance payment to the exporter before the shipment of goods. In the case of a bank guarantee, the bank or guarantor assumes secondary liability to the obligee if the primary obligor or applicant fails to fulfill their obligations.

2.6. ***DOCUMENT FORINTERNATIONAL STANDARD BANKING PRACTICE (ISBP)***

The International Standard Banking Practice (ISBP) is a significant document that provides guidelines and standardization for the examination of documents under documentary letters of credit. Approved by the International Chamber of Commerce (ICC), the ISBP serves as a valuable resource for banks, traders, and other stakeholders involved in international trade.

2.6.1**COMMERCIAL INVOICE**

Smith (2021) provides a comprehensive guide on best practices for creating commercial invoices in international trade. The author discusses the essential elements that should be included in a commercial invoice, such as the seller and buyer details, description of the goods, quantity, unit price, total value, and applicable Incoterms. The article emphasizes the importance of accurately completing commercial invoices to ensure smooth customs clearance, facilitate accurate payment, and comply with international trade regulations. Smith's research offers valuable insights into creating effective commercial invoices that meet industry standards and regulatory requirements.

2.6.2 PACKING LIST

Johnson (2020) explores the best practices for creating packing lists in the context of international trade. The author highlights the importance of accurately documenting the contents, quantities, weights, and dimensions of each package or container. The article emphasizes the role of packing lists in facilitating smooth logistics operations, customs clearance, and accurate inventory management. Johnson's research provides valuable insights into creating effective packing lists that comply with industry standards, enhance supply chain visibility, and support efficient international trade processes.

2.6.3. CERTIFICATE OF ORIGIN

Lee (2019) provides comprehensive guidelines and requirements for Certificates of Origin in the context of international trade. The author discusses the importance of accurately documenting the origin of goods and the role of Certificates of Origin in determining eligibility for preferential trade agreements, customs duties, and import regulations. The article highlights the necessary information that should be included in a Certificate of Origin, such as the exporter's details, description of the goods, country of origin, and applicable rules of origin. Lee's research offers valuable insights into creating effective Certificates of Origin that comply with international trade standards and facilitate smooth customs procedures.

2.6.4 BILL OF LADING

A Bill of Lading (B/L) is a crucial document in international trade and shipping. It serves as a contract, receipt, and title of goods between the shipper, carrier, and consignee. The B/L outlines the terms and conditions of transportation, including the description of the goods, their quantity, and the agreed-upon destination.

According to Smith (2020), the B/L plays a vital role in facilitating smooth and organized international shipping. It serves as evidence of the contract of carriage and receipt of goods by the carrier. The B/L also acts as a document of title, allowing the holder to claim the goods upon arrival at the destination port. There are different types of B/Ls, such as straight, order, and negotiable B/Ls, each carrying its own implications. In the case of a negotiable B/L, it can be transferred to a third party, enabling the transfer of ownership of the goods during transit (Smith, 2020). Accurate completion and endorsement of the B/L are crucial to ensure the proper delivery of goods, minimize disputes, and comply with international shipping regulations. It is important for all parties involved in the trade transaction to carefully review and verify the information contained in the B/L to avoid any discrepancies or delays. In conclusion, the Bill of Lading is a critical document in international shipping, serving as a contract, receipt, and title of goods. Its accurate completion and proper endorsement are essential for the smooth flow of goods and compliance with international trade regulations (Smith, 2020).

2.6.5 **AIRWAY BILL**

An Airway Bill (AWB) is a vital document used in the transportation of goods by air. It serves as a contract of carriage between the shipper, the airline, and the consignee. The AWB contains essential information about the shipment, such as the origin and destination airports, the description of the goods, the weight, and the number of packages.

According to Johnson (2018), the AWB plays a crucial role in facilitating the smooth and efficient movement of goods by air. It serves as a receipt of the goods by the airline and acts as proof of the contract of carriage. Unlike a Bill of Lading used in sea freight, the AWB is a non-negotiable document and cannot be transferred to a third party. The AWB also includes information about any special handling instructions, such as temperature control requirements or hazardous materials. It is important for both the shipper and the consignee to carefully review and verify the accuracy of the information on the AWB to ensure that the goods are transported correctly and in compliance with aviation regulations.

In conclusion, an Airway Bill (AWB) is a crucial document used in air freight that serves as a contract of carriage and a receipt for the goods being transported. Its accurate completion and verification of information are essential to ensure the smooth movement of goods by air (Johnson, 2018). In light of the increasingly large-scale and rapid growth of international trade, which follows the global trend of opening up economies, international trade has become more complex. International payments play a crucial role in overall international trade and specifically in import-export operations. However, this sector is also high-risk due potential fraud in both export and import activities. For instance, the import-export sector faces challenges such as payment discrepancies, insolvency issues, and document errors. Each payment method described above has its unique characteristics. Therefore, by using appropriate payment methods, the risks involved in transactions, particularly credit risk, can be significantly reduced.

Will enhance the bank's obligation in the transaction and the bank will share the credit risks trade faced by the business. Furthermore, selecting the appropriate payment method aids companies in reducing costs. For small import-export companies with low-value transaction contracts and a generally excellent relationship, using payment methods like open account or cash in advance rather than more difficult ways like LC or collection is suitable. It will help businesses save costs as well as not need to spend time and effort to prepare complicated papers, documents or procedures. According to research conducted by Chau (2018), businesses have been increasingly favoring money transfer and direct payment methods over the years. As a result, they have been less inclined to adopt preventive measures and payment methods through banks or credit institutions in order to reduce costs. However, there is a potential risk for companies using these methods, especially within the online business community, as they become targets for technological thieves. It is worth noting that banks often charge fees in proportion to the risk they face and the responsibilities they hold. As a result, when importing and exporting businesses, conducting high-value transactions, and dealing with new partners, They will be required to implement more secure methods at a higher cost in order to prevent danger. The bank has a greater responsibility in this transaction; it will guarantee payment to the exporter and also review the importer's documents. This helps businesses reduce risks that could have been avoided (Hinkelman, 2002). The time factor of the international payment process is also crucial as it ensures the successful execution of the agreed contract between the parties.

If there is a backlog at the payment step, it may result in late payment or delivery delays, etc. Failure to make payments on time as agreed between the parties will result in financial loss as well as a disruption in both parties' goods and business operations. Choosing an effective international payment method helps businesses reduce financial loss due to lengthy transit time, especially when they import and export particular products, such as commodities with substantial price fluctuations in the market. Yes, the choice of international payment methods has a direct impact on the interests of exporters and importers. When engaging in import and export transactions, both buyers and sellers need to reach an agreement and select a suitable payment method. The chosen payment method will determine how the funds will be transferred, the level of risk involved, the timing of payment, and the responsibilities and obligations of each party. It is crucial for both parties to consider factors such as trust, cost, speed, security, and convenience when deciding on the payment method that best suits their needs and protects their interests. Therefore, for international trade and international payments, businesses need to carefully research their partners before transacting, and businesses must consider carefully before choosing a payment method fit.

2.7. Situations in selecting international payment method

2.7.1. Situations depending on Types of goods

As highlighted by Chau (2018), enterprises often select different payment methods based on the specific characteristics of the goods involved in import and export activities. For goods that are easily exchangeable or tradable on the market, businesses may opt for simpler payment methods. This ensures a streamlined and efficient transaction process, taking into account the nature of the goods being traded. By considering the unique characteristics of the goods, businesses can make informed decisions regarding the most appropriate payment methods to facilitate their import and export operations. ndeed, the complexity of commodities plays a significant role in determining the appropriate payment method for enterprises. For goods that involve intricate items such as machinery, equipment, or production lines, it may be necessary to utilize more secure and binding payment methods. In some cases, a combination of different methods may be employed to ensure a smooth transaction process. Additionally, it is crucial for the parties involved to consider the value of the shipment. Higher-value shipments often require payment methods that offer high levels of security and low risk to safeguard the interests of all parties. By carefully assessing the nature and value of the goods being traded, enterprises can make well-informed decisions regarding the most suitable payment methods to utilize. Furthermore, Taking into account the seasonality of the product and consumer preferences is crucial. If a delay in the transaction time can negatively impact the quality of the goods, importers may opt for a payment method that guarantees timely delivery. Similarly, if the product experiences significant price fluctuations in the market, parties involved may decide to choose a complex and highly secure payment method. As suggested by Chau (2018) and Petersen (2009), it is important to select the most optimal payment method in terms of time to avoid any adverse effects on the quality of the goods. For transactions involving high-value goods, the use of a Letter of Credit (L/C) is often preferred. This provides a level of security and assurance for both parties involved.

2.7.2. The political and economic situation of partner (MA)

Import and export activities are fundamental in foreign trade, involving the exchange of goods or services between countries. It is important for the parties involved to consider the unique characteristics of each foreign market. Consequently, they should inquire about the political and economic conditions prevailing in the importer and exporter's respective nations. When engaging in international trade, it becomes crucial to monitor the political situation in each country. Factors such as import/export policies and tariff barriers should be given careful consideration to ensure smooth and successful trade transactions.

Trade policies implemented by each country are designed to create favorable conditions for domestic enterprises to enter and expand in overseas markets. These policies aim to fully utilize the comparative advantages of the domestic economy. Import and export activities generate substantial value in terms of goods and materials for each participating country. Additionally, tax policies associated with these activities contribute to increased tax collection over time, playing a crucial role in the state budget. Moreover, it is important to note that economic growth rates differ significantly among countries. Some nations are developed, while others are still in the process of development, and many are classified as under developed. As noted by Chau (2018), if a trading partner operates in an economically unstable environment with frequent adjustments, the associated risks are high. Likewise, when a country alters its policies regarding foreign exchange reserves, taxes, or import and export regulations, it directly impacts international payment activities for all involved parties, particularly import and export enterprises. These policy changes can create uncertainty and challenges in conducting international trade transactions. In fact, these changes often make banks and related parties difficult to fulfill their commitments, causing the payment process to be delayed or even canceled, causing damage to the parties. Indeed, changes in interest rates and exchange rates pose additional risks in the realm of monetary policy. When these rates fluctuate, it can lead to a shift in the financial capacity of enterprises. Some may experience an increase in financial capacity, while others may face a decrease. This dynamic can create disparities and challenges for businesses operating in international trade, as it directly impacts their competitiveness and profitability. It is crucial for enterprises to closely monitor and adapt to these changes in order to mitigate potential risks and optimize their financial positions. Causes of economic risk often change the value of each country's currency and are the main cause of exchange rates between currencies.

2.8.3. Characteristics of each payment method (PA)

Based on Chau's (2018) and Thuy (2014), payment terms play a crucial role in any negotiation. When businesses are selecting a suitable payment method, they must consider the unique characteristics associated with each option. Each method has its own set of advantages and disadvantages, which can impact both the importer and exporter. Common issues to consider include the cost associated with the method, the level of risk involved, whether the interests of the transaction participants are adequately protected, and the speed of payment processing. All of these characteristics significantly influence the decision-making process for businesses when choosing a payment method.

2.9. EMPIRICAL STUDIES

(Claessens et al., (2014) asserted that access to external funds is crucial not only for domestic production but especially for firms engaged in exporting. This particular study illustrates the necessity of financing exporters to ensure a sustainable influx of foreign currency for a country. The study further elucidated that various papers have demonstrated that countries with robust financial institutions tend to witness higher levels of exports, particularly in sectors that are financially vulnerable (e.g., Beck, 2002). (Claessens, 2014) also acknowledged the study's limitation concerning import and export business. While banks can facilitate trade through financial means, they can also potentially address information asymmetries and agency issues between importers and exporters. Jain (2014) observed that, even if informed that the shipped merchandise does not meet the contracted quality, a bank is legally obliged to fulfill payment under a letter of credit. Any disputes regarding the goods' quality may arise and undergo litigation between the buyer and seller at a later stage; however, the issuing bank remains obligated to honor drafts drawn by the seller, provided they conform to the terms and conditions of the letter of credit. A documentary credit holds immediate legal implications.

According to Moses (2005), there is an irony in the use of letters of credit as a secure payment method. While letters of credit are generally effective in facilitating payments, there is a common occurrence where banks refuse to honor drafts due to even minor discrepancies. This means that even the slightest deviation from the specified terms and conditions can release the issuing or confirming bank from their obligation to honor the draft and associated documents. This discrepancy-based refusal can sometimes create challenges and frustrations for parties involved in trade transactions relying on letters of credit.

According to Hashim (2000), the principle of strict compliance in relation to letters of credit is designed to protect the interests of importers. Importers often face challenges in physically inspecting or supervising the loading of goods in the exporter's country due to geographical distance. In such cases, the documents accompanying the shipment become the only means of security for the importer. These shipping documents serve as evidence that the goods have been delivered in accordance with the terms and conditions specified in the sale contract. The principle of strict compliance ensures that the documents presented by the exporter accurately reflect the agreed-upon terms, providing assurance to the importer that the transaction has been carried out as intended. According to Moses (2005), banks involved in letters of credit transactions focus solely on the presented documents and do not deal with the physical goods themselves. The bank's responsibility is not to investigate or verify whether the underlying transaction between the buyer and seller has actually taken place. Instead, the bank's obligation is limited to examining whether the required documents have been presented in the correct form as stipulated in the letter of credit. The bank's role is primarily to ensure that the presented documents comply with the specified terms and conditions, rather than to verify the actual occurrence of the transaction. According to Moses (2005), an empirical study of 500 transactions involving letters of credit revealed that the documents presented did not comply with the requirements of the letter of credit in 73 percent of the cases. However, it was also observed that in nearly every instance, the buyer promptly waived the discrepancies, allowing payment under the letter of credit to proceed. As the seller's right to receive payment is lost if the discrepancies cannot be resolved, in most cases where documentary presentations are made, the bank will make the payment if the buyer decides to waive the defects in the seller's presentation. This suggests that, despite the high occurrence of non-conforming documents, the willingness of the buyer to waive discrepancies effectively facilitates payment under the letter of credit.

According to the findings of Abeba Tadesse (2016) and Zelalem Hailu (2017), there seems to be a lack of knowledge among some trade service staff in local banks regarding international standard banking practices for trade service products and relevant rules, directives, and procedure manuals. The absence of adequate job knowledge is often the root cause of most malpractices and instances of non-compliance within banks. Banks face a significant challenge in generating an adequate amount of foreign currency through exports and remittances to meet their demand. This scarcity of foreign exchange creates a competitive environment among customers and often leads to their dissatisfaction due to unfair treatment. In the worst cases, this situation can result in corrupt practices if clear procedures are not defined and enforced properly. Consequently, banks may experience loss of customers and damage to their reputation, ultimately leading to substantial financial losses.

2.10. Research gap

While previous studies are investigate about international banking practices there still gap in literature regarding the payment methods and situations to select best method, in addition Little research was conducted international payment method practice of the bank, so in order to assess international payment method practice of the bank, the research is necessary. Therefore this research assess and investigate international banking practice and its payment methods of some selected commercial banks in Ethiopia; and try to address possible gaps allowing with its way forwards.

Most of the study focuses on commercial bank of Ethiopia further research could specifically investigate the experiences, practices, and challenges related to international banking within private commercial banks in Ethiopia. This could involve examining the differences in operational processes, regulatory compliance, risk management, and customer satisfaction between private commercial banks and other types of banks in the country.

By addressing this research gap, a more comprehensive understanding of the international banking practice within the Ethiopian banking sector can be gained. This knowledge can provide valuable insights for private commercial banks to enhance their international payment services, improve customer experiences, and strengthen their overall competitiveness in the market.

CHAPTER THREE

RESEARCHMETHODOLOGY

3.1. Research Design and Approach

In line with the aim of the study, which is to assess the existing practices and challenges of international banking services and payment methods in selected private commercial banks, a descriptive research design was employed. According to Kothari (2004), descriptive research aims to describe the current state of affairs. In this type of research, the researcher does not have control over the variables but rather reports on the observed practices and challenges, as well as potential strategies to mitigate those challenges. The descriptive research design allows for a comprehensive understanding of the current situation and provides insights into the research topic. In order to achieve the main objective of this research, the study used mixed methods approach, which means both Qualitative (to make adscription of the findings) and Quantitative (to compute respondents answer in a distribution table numerically. .

3.2 Data Type and Source

In order to get data about the practices & and payment methods of international banking service of selected private commercial banks, an author used both primary and secondary data sources for the study. The primary data was collected from selected Division managers, Relationship managers, senior international banking officers and officers in the banks head office. Although The data was collected through questionnaires administered in person and semi-structured interviews. Secondary sources, such as banks' annual reports and relevant literature, were also utilized to gather additional data on trade service products and related topics.

3.3 Research Instrument

According to Kothari (2007), study are primarily focused on narrating, recording, processing, & give meaning current situations, relationships, opinions, and ongoing processes. In line with this understanding, the survey method has been chosen for this study. The study involves the use of questionnaires and interviews to gather data and insights from participants, allowing for a comprehensive exploration for the current practices and problems in the field of global banking services.

A questionnaire was adopted from the study of Zelalem Hailu &Abeba Tadesseto meet the objective of the study this give us confidence in the validity of data collected to make an assessment on international banking practices in selected private commercial banks of Ethiopia & practice of their payment method. Scale up the knowledge level of trade finance staffs in the selected banks. In order to gather the data used for the study the author used questionaries' as a primary data tools, and hopefully it will provide valid as wel as reliable information from the given respondents.

3.4. Population and Sampling Techniques

As per the information from each banks department attendance the total population comprises 175 from this the study select the following samples from different international banking department like division managers, relationship managers, senior international banking officers & officers.***it is*** a non-probability sampling technique in which researchers consciously select specific individuals or cases that possess the desired characteristics or qualities relevant to their research objectives. This sampling method involves a deliberate selection process based on the researcher's judgment and understanding of the population under study.

As defined by Babbie (2016), purposive sampling "involves selecting individuals or cases that are especially informative about the questions being investigated." The goal is to purposefully choose participants who can provide valuable insights and information that align with the research aims. . Having this in mind number of respondents consists 62IBS professionals with different tears of experience and duty at head office in international banking department. Respondents are selected from different positions to ensure a diverse representation of perspectives and experiences. By including individuals from various positions, such as Division managers, Relationship managers, and Senior officers, researchers can gain a comprehensive understanding of the research topic in addition to this By selecting respondents from different positions, researchers can obtain a more holistic and balanced view of the subject matter, leading to richer and more nuanced research findings. As a result the sample size was determined based on data saturation.

The sample will be selected in equal proportion, taking into consideration the leading private bank in Ethiopian banking history, Awash Bank, which has extensive experience. Additionally, Nib International Bank, where I currently work, will be included in the sample. The remaining banks will also be selected in equal proportion to ensure a balanced representation.

Table 3.1: No of Respondents with Name of banks were Questionnaires distributed.

S.NO	Name of Banks	Number of respondents in different position	Years of Establishment (G.C)
1	Awash Bank	17	1994
2	Nib international bank	15	1999
3	Abyssinia bank	10	1996
4	Dashen bank	10	1996
5	Wegagen bank	10	1997

3.5Type of data to be collected

In my study I used both primary and secondary data sources Accordingly, the basic data sources was trade finance/ international banking department of selected banks and its professional employees and executives. In the same way, other secondary sources of data were collected from procedures of national bank, commercial banks specific manuals and procedures, import and export transaction files and data base.

3.6.Data Collection Method

Data were collected to the study using different method that can possibly suitable particularly to this study. I used mainly, interview and structured questionnaire as a data collecting method. Interview assists me to collect direct response from management members while questionnaires were used for collection of wide range of data to be collected from staff.

3.7 Data Analysis

The collected data from the questionnaire was coded using the Statistical Package for Social Sciences (SPSS) program. Descriptive data analysis techniques such as frequency, percentage, tabulation, and graphical representations were applied to analyze the data. These methods provided a comprehensive understanding of the data and allowed for a clear presentation and interpretation of the findings.

3.8 Ethical considerations

Before all process, the researcher has sought and gained formal permission to conduct the study from Addis Ababa University and sacrifices my maximum effort in order to obtain a convenience data from the respondents. The respondent's voluntarily participated and they have also been confirmed about confidentiality of the information they provide will not be disclosed to anyone. Each respondents agreed to participate was made to fully understand of the purpose of the study and why it is necessary. In addition to this, before the research conducted, the author give highlight about the objectives of the study, and was consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting the privacy, and protecting the anonymity of all respondents. A researcher must consider these points because the law of ethics on research condemns conducting a research without the consensus of the respondents for the above listed reasons

3.9. Reliability of the data

o assess the reliability of the study, the author utilized Cronbach's alpha, which is widely accepted as a measure of reliability. Cronbach's alpha determines the extent to which the items in a questionnaire are interrelated (Fubara&Mguni, 2005). The coefficient alpha value ranges between 0 and 1, with higher values indicating a greater level of internal consistency.

When interpreting reliability coefficients, different authors may have varying guidelines. George and Mallery (2003) offer the following rules of thumb:

Reliability Coefficient	≥0.9	≥0.8	≥0.7	≥0.6	≥0.5	_0.5
value	excellent	Good	acceptable	Questionable	Poor	Unacceptable

Table 3.2: Reliability of the research questionnaire

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.702	.709	20

Source: Own survey, 2022

In the research, the author calculated the Cronbachs alpha coefficient for the questionnaire. Table 3.2 above shows that the value of Cronbachs Alpha for the entire questionnaire equals 0.702this result indicates that which acceptable reliability. Therefore, it can be said that the above questionnaire is more or less reliable

CHAPTERFOUR

DATA PRESENTATION ANDANALYSIS

After all data collected and organized the study tried to presented with use of tables, graphics, percentiles, and statements to analyze the data based on the objectives of the thesis. Semi-structured questionnaires were distributed to 62 professionals from the IBS (International Banking Services) department of selected commercial banks. Out of these, 60 respondents completed the questionnaires sufficiently, resulting in an aggregate response rate of 97% as indicated in Table 4.1. Furthermore, face-to-face interviews were conducted with 5 IB (International Banking) division managers. The results from these interviews have been organized along with the data collected from the questionnaires. The data presentation may include tabular formats presenting the survey responses, graphical representations such as charts or graphs to visualize data trends, percentiles to analyze distribution patterns, and statements summarizing the findings. These methods are used to effectively present and analyze the collected data in line with the objectives of the thesis.

Table 4.1: Position of Respondents

Position	Number of questionnaires distributed	Number of Questionnaires Returned	Approximate Percentage (%)
Division managers	**5**	**5**	**100%**
Relationship Manager–Trade Service	**10**	**10**	**100%**
Senior International Banking Officers	**25**	**25**	**100%**
International Banking Officers	**22**	**20**	**91%**
	62	**60**	**97%**

4.1 Demographic status of the respondent

The information collected from the participants includes their demographic details and variables related to their sex, educational background, working experience, and responsibilities. Here is a description of each variable:

Sex: This variable captures the gender of the respondents, distinguishing between male and female participants.

Educational Background: This variable indicates the educational qualifications of the respondents, highlighting their academic achievements and areas of specialization.

Working Experience: This variable represents the number of years of work experience that each participant has accumulated in their respective roles within the banking sector.

Responsibilities: This variable describes the specific job responsibilities and roles held by the participants, providing insights into their positions, such as division managers, relationship managers, senior officers, or intermediate international banking officers.

By analyzing these variables, we can gain a better understanding of the diverse backgrounds and profiles of the employees who participated in the data collection process.Information in the table below implies that majority of the respondents were female consists of 60% in proportion to male participants.

Table 4.2: Gender of Respondents

Sex

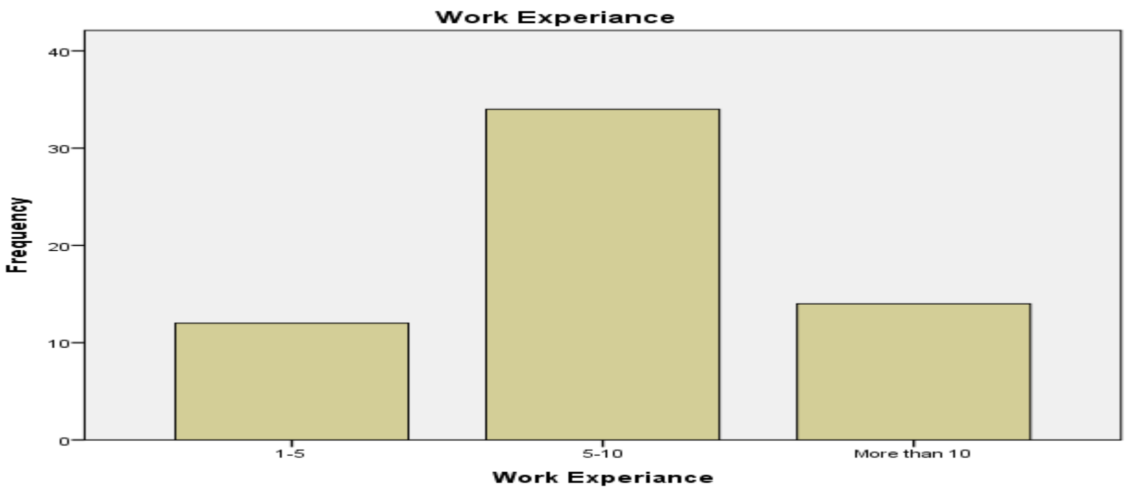
Gender		Frequency	Percent
Valid	Male	24	40.0
	Female	36	60.0
	Total	60	100.0

Table 4.3: Education Level of Respondents

Education background

		Frequency	Percent
Valid	Degree	47	78.3
	Masters and Above	13	21.7
	Total	60	100.0

Figure 4.1:work experience of respondents



As indicated in the above from 60respondents,47,(78.3%) had 1st degrees however the other 13,(21.7%)had earned MSc degree

When we look work experience from the total of 60 respondents, out of which5 6 %had5 to 10 years total experience, with this information in mind, it is evident that 24% of the respondents had a service tenure of 10 years, while the remaining respondents, accounting for 20%, had less than 5 years of experience. In terms of their positions, 36.25% held managerial roles such as division managers and relationship managers within their respective banks. The majority, comprising 63.75%, were professional staff members, including senior and intermediate international banking officers.

4.2 General International Banking Service Issue

1-Strongly Disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree

Descriptive Statistics

Item	N	Mean	Std. Deviation
The department of international banking offers prompt foreign exchange services.	60	3.4333	.74485
The foreign currency operations of our bank are executed with high efficiency.	60	2.7833	1.34154
Foreign exchange transactions are conducted promptly and utilize highly secure technology.	60	2.4667	.76947
The employees exhibit a strong sense of responsibility and accountability when delivering foreign exchange services.	60	3.8833	.90370
The employees possess the necessary expertise and proficiency to effectively and efficiently handle foreign banking services.	60	3.5833	.96184
There is a robust internal control system in place to diligently monitor and regulate the entire foreign exchange operation conducted by traders.	60	2.5833	.76561
The bank follows a "first come, first served" approach when granting access to foreign currency for its traders. Furthermore, priority is given to individuals holding diaspora accounts and retention accounts.	60	2.9500	1.08025
Number	60		

Table 4.4: General International banking service issues

In the second part of the questioner which is about general international banking servicewas requested and respondents answer were summarized with their position as indicated below. The output of the study as replicate in According to Table 4.4, the majority of respondents agree that there is a lack of well-organized and effectively managed services, as well as effective internal controls, to oversee the entire foreign exchange operation. Additionally, there is a need for timely and secure technology to facilitate foreign exchange transactions. Furthermore, the banks seem to only permit foreign currency for traders based on their own interests, specifically for holders of diaspora accounts and retention accounts, rather than prioritizing customers on a first-come, first-served basis. This indicates a potential gap in customer satisfaction and fairness in the allocation of foreign currency. Based on the interview responses, it is evident that banks generally lack effective internal controls in their international banking service operations. To address this issue, the National Bank of Ethiopia has implemented a centralized foreign currency request database. This database operates on sequence of their existence and aims to prevent clients from submitting many requests across different banks. This measure helps to ensure better control and management of foreign currency allocation.

4.3. Operational Challenges in foreign currency utilization that the bank facing

Descriptive Statistics

Items	N	Mean	Std. Deviation
The situation where foreign currency generated through exports, remittances, and other sources does not meet the bank's expected plan can present challenges.	60	3.9500	.67460
The bank generates insufficient foreign currency to meet the demand for customers (demand/supply)	60	4.4000	.80675
The bank lacks a well-organized scheme for generating foreign currency.	60	3.9167	.84956
The bank lacks transparency in the allocation and utilization of foreign currency.	60	3.1833	1.01667
The bank does not have a dedicated staff or committee assigned to specifically mobilize foreign currency.	60	2.3833	.73857
The bank faces foreign currency liquidity issues when handling the settlement of documentary collections.	60	4.2167	.41545
The bank has a poorly developed foreign currency manual that does not adequately address all aspects of the foreign currency management process.	60	2.4500	1.09583
The bank's foreign currency policies and procedures have limitations that can potentially facilitate the misuse of foreign currency.	60	3.5167	.94764
Valid N (list wise)	60		

Table 4.5 Operational Challenges the banks are facing on Foreign Currency Utilization

From the respondent response on the major challenges the bank are facing, it's found that all items except item no. 3, fall under "agree and Strongly agree" response, however, item no. 3, its "Neutral and Dis agree". Based on the survey results, it is evident that 63% of the respondents have indicated a mean score of 3.5. This suggests that one of the first problems faced by banks operating under limited foreign exchange conditions is the difficulty in generating foreign currency through exports to meet the demand. This highlights the critical effect of scarce foreign exchange on the operations of banks in addressing the needs of their customers.This condition of stiff competition and scarce resources can lead to dissatisfaction among customers and may even result in corrupt practices if not properly managed. It is crucial for banks to have openly defined procedures in place and enforce them accordingly to prevent such outcomes. Failure to do so can lead to loss of customers and damage to the bank's reputation, ultimately resulting in significant financial losses. Implementing transparent and robust processes is vital for maintaining customer trust, mitigating risks, and safeguarding the bank's financial well-being.

According to the survey results, one of the major problems faced by banks is the shortage of foreign currency cash for document settlement. This shortage is often attributed to an excess of purchase orders and a high number of approved requests that exceed the banks' foreign exchange capacity. The delay in payments for these international transactions can have a negative impact on correspondent banks, potentially affecting future business partnerships.

4.4. Problems of International Banking Service Measurement

Descriptive Statistics

Items	N	Mean	Std. Deviation
Excess demand of foreign currency in relation to supply	60	3.7500	1.01889
Delays in payments for traders engaged in international transactions can be a significant challenge.	60	3.3833	1.10610
Malpractice regarding to foreign currency request for traders	60	1.9833	1.08130
Unfair treatment of traders	60	2.1333	.89190
Corrupt practices in the utilization of foreign currency can pose a serious issue.	60	2.4833	1.45546

The lack of trained manpower in managing foreign currency can create challenges and inefficiencies in the utilization of funds.	60	2.5833	.88857
Valid N (listwise)	60		

Table4.6: problem area of International Banking Service Measurement

As shown in the table 4.6 in this section of the questionnaire the mean result indicates the employee's perception on major problem area of international Banking service as item no. 1, of the questioner with the mean score of (mean=3.8) implies that all private banks faces the problem of foreign currency shortage. In a similar vein, 20% of respondents admitted that banks only infrequently effect payment to the remitting bank automatically once the buyer takes possession of the documents. The problem of foreign currency liquidity leads to delays in the payment for document settlement. Similarly, according to the survey results from interviews, the majority of payments under documentary collection are delayed up to one or two and a half months after importers settle the documents.

4.5. Issue Related To Employee Commitment & Knowledge Factor

Descriptive Statistics

Items	N	Mean	Std. Deviation
I am dedicated to providing customers with the highest level of service to ensure their complete satisfaction.	60	4.1333	.76947
The provision of high-quality service has a positive impact on the perceived value of international banking services.	60	3.8333	1.07619
Our bank facilitates knowledge transfer through formal procedures.	60	3.2833	1.15115
I view employee knowledge as a valuable organizational asset rather than an individual's sole source of strength.	60	4.0667	.68561
I possess a clear understanding of the directives issued by the National Bank of Ethiopia (NBE) and the International Standard Banking Practice (ISBP).	60	3.6833	.85354
Our bank places a strong emphasis on continuous training to address any knowledge gaps among our staff members.	60	2.2833	.92226
Valid N (listwise)	60		

Table 4.7 Issue Related To Employee Commitment &Knowledge Factor

According to the information provided, the respondents were asked to investigate the level of awareness among bank employees regarding various aspects related to trade services. Specifically, the investigation aimed to assess their understanding of the mechanism of trade service, the Uniform Rules for Collection, the Uniform Customs Practice for Documentary Credits, and the directives issued by the National Bank of Ethiopia.

By conducting such an investigation, the goal was likely to evaluate the knowledge and familiarity of bank employees with these important guidelines and regulations. The results of this investigation would provide insights into the extent to which employees were equipped with the necessary understanding of trade processes and compliance requirements set by the National Bank of Ethiopia.

Understanding these aspects is crucial for bank employees involved in trade operations, as it ensures accurate and efficient handling of transactions, adherence to industry standards, and compliance with regulatory directives. The investigation would help identify any knowledge gaps and highlight the need for periodic training and updates to enhance employees' understanding of these critical aspects of trade services.

The result indicates that their level of familiarity is moderate with the mean score of (mean=3.7) 66% of respondents agree that they clearly understand the national bank directive and international standard banking practice. Having this in mind 79% of participants disagree about the training schedule of the banks to fill the knowledge gap of their employees. Similarly, the result of interview reveals that training is not scheduled in frequent way and offered to the banks employees to the international banking staff periodically.

4.6. Issues about methods of international payment systems are currently practiced and the most widely used payment methods in the selected commercial banks

Descriptive Statistics

Items	N	Mean	Std. Deviation
Cash against document (Open Account)	60	3.6833	1.55674
Documentary Collections	60	2.9167	1.10916
Letter of Credits/ Documentary Credits	60	3.5000	.79191
Cash in Advance (Telegraphic Transfer)	60	3.8833	.66617
Consignment sale	60	1.7667	.42652
Valid N (listwise)	60		

Table 4.8 most widely used payment methods in the selected commercial banks

As per the respondent's response all selected commercial banks used the under listed payment methods in different scenario and situations,

In recent times, the growth rate of international payment methods in commercial banks has undergone significant changes. Based on statistics from various banks, there has been an increase in the use of cash in advance (telegraphic transfer) and a decrease in payment by Letter of Credit (L/C).

The main forms of payment include telegraphic transfer, trade finance (primarily L/C and collection), cash in advance, and consignment sale, with consignment sale being the least popular at around 4-5% usage.

Customers predominantly prefer to use international money transfers, specifically telegraphic transfer, due to its speed and convenience, particularly when dealing with close partners.

This shift in preference can be attributed to the efficiency and ease of telegraphic transfers, which allow for quick and secure transactions. Additionally, the close relationships between partners may foster a higher level of trust, making cash in advance a favorable option.

It is important for banks and businesses to adapt to these changing trends and ensure they offer a range of payment options that meet the evolving needs and preferences of customers.

According to the provided table, the data indicates that Cash in advance (Telegraphic Transfer)

Reimbursement is the most commonly used payment method by businesses, accounting for 35.71% of all transactions. Cash against document is trusted by 25.63% of respondents, making it the second most popular payment method. Letter of Credit is utilized by a significant portion of companies, representing 20.33% of the total. Collection is used by a relatively smaller number of companies, with a percentage of 16.48%. Consignment sale has the lowest proportion among all the methods, accounting for only 5% of transactions.

The frequency of the method to be used were stated as almost 82% of the respondent select "Often & Always" for Telegraphic transfer from the scale of measurement this implies that this method is the most widely used in international trade service for payment settlement. While the second most widely used methods comprises that L/C with the mean score of (3.8)

4.7. Issues related to the situation of using international payment methods by selected commercial Banks

Descriptive Statistics

Item	N	Mean	Std. Deviation
We will recommend to choose the most optimal payment method in terms of time to avoid affecting the quality of the goods	60	3.8500	1.08651
For the transaction with large value goods, the L/C method is preferable	60	2.8667	1.08091
For items with strong price fluctuations in the market, customers use the L/C method to avoid risk of transactions	60	3.4833	.77002
When there is a shortage in foreign currency in the market cash in advance is preferable	60	3.8833	.66617
For the same recurring and revolving shipments, they always use revolving L/C	60	1.5000	.79191
If a country has an economic crisis, the solvency of businesses will decrease and vice versa	60	4.0000	.68889
For countries with constantly fluctuating currency rates, cash in advance methods are preferred	60	3.8333	.86684

For countries with political instability (terrorism, war,...), we certainly use the L/C method to limit the risk of delay in implementation of their obligations	60	2.5833	1.13931
Valid N (listwise)	60		

Table 4.9 the **situation of using international payment methods**

The adoption of the cash in advance payment method can offer cost-saving benefits for businesses compared to using safer payment methods such as documentary collection or payment by Letter of Credit (L/C) through banks. By requiring upfront payment from buyers, businesses can avoid the fees and charges associated with bank transactions and the administrative processes involved in documentary collection or L/C payments. This shift to cash in advance can streamline payment procedures and reduce financial risks for businesses, ultimately leading to cost savings in the long run. However, it is essential to carefully assess the specific circumstances and risks involved before opting for this payment method to ensure it aligns with the overall objectives and financial stability of the business. Of course with this method, While prompt payment may be expected, it is important to acknowledge that businesses can face risks when the payment is solely reliant on the ethics and goodwill of the importer. In such cases, there is a potential for delays or even non-payment, as the importer's commitment to timely payment may be uncertain. This highlights the importance for businesses to carefully assess and mitigate these risks before engaging in transactions that rely heavily on the importer's ethical conduct and willingness to fulfill payment obligations. Situations: as per the survey result the 75% of respondents agree with the question about recommending customers in selecting the best method in different situations, similarly with the situation of customers having large value goods respondents indicates that L\C methods used with mean score value of (mean=3.8), while 60% of at a shortage of foreign currency in the market cash in advance method is preferable. Item no five indicates that when there is recurring and revolving shipment L\C method is suitable, 82% of and the respondent agree. Similarly as per data survey 64% of the respondents agree that when there is political instability L/C method is the smart choice. This indicates that L/C method is the safest method in harms conditions. Analysis of the current situation of using international payment methods at selected commercial banks shows that the trend of using money transfer and collection is increasing; the method of payment by L/C tends to decrease shortly.

4.6. Discussion of results

The findings of our study on the trade service practices of private banks in Ethiopia align with previous research conducted on the private Commercial Bank of Ethiopia ZelalemHailu. (2017) found that there is acknowledge gap among the international trade practice of the banks, the major problems of the banks in international banking is foreign currency liquidity issue and the most widely used payment method is cash in advance and letter of credit.This study confirmed this trend, as i observed a similar prevalence of there is acknowledge gap among the international trade practice of the banks and the major problems of the banks in international banking is foreign currency liquidity issue. In addition to this the most widely used method is cash in advance.

However, our research also revealed some noteworthy deviations from the existing literature. Abeba.T (2017) highlighted the limited adoption of Letter of Credit payment method in the Ethiopian banking sector. Surprisingly, our study uncovered a significant increase in the use of Letter of credit by private banks, indicating a shift in Cash against document practices compared to previous research, in addition to this the study fill the gap that in the above findings not investigated, about the situation in selecting the best payment methods in the private banks.

These discrepancies may be attributed to the evolving dynamics of the Ethiopian banking industry or variations in the sample composition. Nevertheless, it is crucial to acknowledge the existing literature while discussing our results, as it provides a foundation for understanding and contextualizing the changes observed in the trade service practices of private banks.

In conclusion, my study contributes to filling the gap in the literature by examining and updating the current international trade service practices and payment methods of private banks in Ethiopia. The discussion of our results in relation to the relevant references enhances the validity and reliability of our findings, enabling a comprehensive understanding of the evolving landscape of trade service practices in the Ethiopian banking sector

CHAPTER FIVE

SUMMERY, CONCLUSION AND RECOMMENDATION

After presentation, detailed analysis and interpretation of the data collected, the study was summarize major finding, drawn conclusions and finally forward possible recommendations to the study findings.

5.1. SUMMARY OF MAJOR FINDINGS

After all data gathered, presented, analyzed and interpreted, the study summarizes major findings of the study as follows;

- ✓ As can be seen in the study, demographic status of the respondent such as their sex, educational background, working experience and responsibilities has been reviewed.
- ✓ According to the study, the majority, comprising 63.75%, were professional staff members, including senior and intermediate international banking officers
- ✓ The study depicts, it is evident that 63% of the respondents have indicated a mean score of 3.5; related to problems faced by banks operating under limited foreign exchange conditions is the difficulty in generating foreign currency through exports to meet the demand.
- ✓ As indicated by the study, banks seem to only permit foreign currency for traders based on their own interests, specifically for holders of diaspora accounts and retention accounts, rather than prioritizing customers on a first-come, first-served basis. This indicates a potential gap in customer satisfaction and fairness in the allocation of foreign currency. Moreover, based on the interview responses, it is evident that banks generally lack effective internal controls in their international banking service operations
- ✓ As can be seen in the study, one of the problems faced by banks operating under limited foreign exchange conditions is the difficulty in generating foreign currency through exports to meet the demand.
- ✓ According to the study, shortage of foreign currency cash for document settlement. it attributed to an excess of purchase orders and a high number of approved requests that exceed the banks' foreign exchange capacity.

- ✓ As it is depicted in the study, the problem of foreign currency liquidity leads to delays in the payment for document settlement. On the other hand, the majority of payments under documentary collection are delayed up to one or two and a half months after importers settle the documents.
- ✓ The result indicates that their level of familiarity is moderate with the mean score of (mean=3.7) 66% of respondents agree that they clearly understand the national bank directive and international standard banking practice. Having this in mind 79% of participants disagree about the training schedule of the banks to fill the knowledge gap of their employees.
- ✓ As it is indicated by the study, the frequency of the method to be used were stated as almost 82% of the respondent select “Often & Always” for Telegraphic transfer from the scale of measurement this implies that this method is the most widely used in international trade service for payment settlement
- ✓ Finally, the study shows that, 75% of respondents agree with the question about recommending customers in selecting the best method in different situations, similarly with the situation of customers having large value goods respondents indicates that L\C methods used with mean score value of (mean=3.8), while 60% of at a shortage of foreign currency in the market cash in advance method is preferable.
- ✓ As it is indicated by the study, there is recurring and revolving shipment L\C method is suitable, 82% of and the respondent agree. Similarly as per data survey 64% of the respondents agree that when there is political instability L/C method is the smart choice.

5.2. CONCLUSION

In Based on the findings derived from the study, the author draws the following conclusions:

Based on the findings, the author concludes that employee commitment and knowledge in the international banking trade service area are at a moderate level, indicating room for improvement in enhancing expertise and dedication in this domain.The study reveals a high staff turnover rate in banks, which can have negative implications for the continuity and stability of trade service operations.

Based on the finding of the assessment of the existing International Banking

practice in relation to import export trade we can conclude that:

The lack of communication between banks regarding non-payment instructions and failure to inform the remitting bank about the status of documents can have a negative impact on future correspondent banking relationships. Surprisingly, it has been found that banks rarely send timely advice of non-payment or non-acceptance to the remitting bank. This practice represents non-compliance with international banking standards and can ultimately lead to the deterioration of banking relationships.

According to the study of identifying the major challenges that encountered in international banking service it becomes evident that

There is a lack of effective internal control and well-managed services to monitor foreign exchange operations in terms of timely and secure foreign exchange transactions. Furthermore, the permission to access foreign currency is primarily based on the banks' interests rather than ensuring customer satisfaction on a first-come, first-served basis. This indicates a disregard for prioritizing customer needs.

Additionally, there is poor management in controlling the level of approved purchase orders, which are essential for documentary collections. The National Bank of Ethiopia does not consider approved purchase orders as liabilities for banks. Under the directive on open position, which involves a daily report on the bank's foreign currency assets and liabilities, only Letters of Credit (L/C) are recognized as liabilities. This omission creates difficulties for banks in allocating and reserving the necessary foreign currency required to settle documentary collections.

As a result of these issues, banks face challenges in effectively managing and reserving the foreign currency needed for the timely settlement of documentary collections. This can lead to delays, discrepancies, and customer dissatisfaction in international trade transactions..

Problems with respect to trade service products:

Both documentary collection and cash-in-advance payment methods in international trade expose trade partners to different risks. For example, with documentary collection, there is a risk that the buyer may refuse to accept the documents presented after the goods have been hipped, which puts the exporter at risk of non-payment. On the other hand, with cash in advance, the importer risks losing their money if the seller proves to be dishonest and fails to ship the goods as agreed.

It is evident that Ethiopian businessmen involved in import and export activities are vulnerable to the risks of non-payment and non-performance by their trade counterparts. This vulnerability arises from a lack of awareness regarding the advantages and disadvantages of various trade payment methods. To mitigate these risks, it is crucial for Ethiopian businessmen to enhance their understanding of the different trade payment methods available and the associated risks. By having a comprehensive awareness of the pros and cons of each method, they can make informed decisions and choose the most suitable payment method for their specific trade transactions. This knowledge will enable them to effectively manage and mitigate the risks associated with non-payment and non-performance, ultimately promoting smoother and more secure international trade operations..

From the issue of Assessing employee commitment and knowledge gap among trade service staff

The research indicates that there is an insufficiency, and in some cases a complete lack, of periodic training for international banking staff. Consequently, the level of job knowledge among many staff members falls below what is considered sufficient. This deficiency in job knowledge often leads to malpractices and non-compliance issues within banks.

It is crucial for banks to prioritize the acquisition of more than sufficient job knowledge among their staff members. With a high level of job knowledge, employees are better equipped to adhere to local and international standards and regulations, avoiding malpractices and violations.

By investing in regular and comprehensive training programs, banks can bridge the knowledge gap and ensure that their staff members possess the necessary expertise to perform their roles effectively. This will not only help prevent malpractices and non-compliance but also contribute to the overall integrity and success of the bank's operations.

Based on the finding from the issue of indicating major payment methods used in international banking service of the bank, we can conclude that:

From the study above that we can conclude that the payment methods applied in the selected private banks are Advance Payment (Telegraphic transfer), Cash against document, Documentary collection and Letter of credit.in addition Telegraphic transfer is the most widely used payment methods among the alternatives

According to the study ofoverview the situation in choosing international payment methods in import-export activities can evident that:

L/C method is the safest method in harms conditions. However, the analysis of selected commercial banks indicates that the use of money transfer and collection methods is increasing, while the use of the Letter of Credit (L/C) method is decreasing.The shift to the cash in advance payment method can offer cost-saving advantages for businesses. Compared to using safer payment methods like Documentary Collection or payment by Letter of Credit (L/C), cash in advance eliminates the need for complex banking processes, documentation, and associated fees. With cash in advance, businesses receive immediate payment, allowing for improved cash flow and reduced financial risk. However, it is important to recognize that cash in advance also comes with inherent risks. In this payment method, the importer is required to make the payment upfront before the goods are shipped or services are provided. This means that businesses are dependent on the importer's honesty, integrity, and financial capacity to fulfill their payment obligation.

There is a risk that the importer may fail to make the payment as agreed, resulting in potential financial loss for the exporter. This risk is particularly significant when dealing with new or unknown trading partners, as there may be limited trust or established business relationships. To mitigate these risks, businesses can consider implementing safeguards such as conducting due diligence on the importer's reputation and financial stability, obtaining guarantees or letters of credit, or using escrow services to hold the funds until the goods are delivered or services are rendered.

While cash in advance can provide immediate payment and cost-saving benefits, businesses must carefully assess the risk-reward tradeoff and consider the credibility and trustworthiness of their trading partners before opting for this payment method.

5.3. RECOMMENDATION

Based on the conclusion drown, the study forward the following way forwards and/or recommendations;

The possible recommendation regarding major challenges that encountered in international banking service is that:

Banks should implement meticulous and effective internal controls for the management of international banking services, particularly concerning foreign exchange transactions. These controls should be designed to ensure timely and secure transactions, utilizing robust technology. Additionally, banks should adopt a customer-centric approach, granting foreign currency to customers based on a fair and transparent "first come, first served" basis.

Furthermore, it is essential for banks to prudently manage their assets and liabilities in foreign exchange to avoid liquidity issues when settling letters of credit and documentary collections. This entails maintaining a balanced and well-managed portfolio of foreign currency holdings to meet the demands of these transactions.

By implementing these measures, banks can enhance the security, efficiency, and customer satisfaction of their international banking services while mitigating the risk of liquidity problems in relation to letters of credit and documentary collections. It is recommended that the National Bank of Ethiopia revises its Open Position directive to permit banks to include 100% of their outstanding approved purchase orders as liabilities. This revision would enable banks to allocate the required foreign exchange reserves for the settlement of associated documentary collections.

Additionally, the researcher suggests that periodic training should be provided to personnel in the international banking department. This training should cover topics such as trade payment methods, Uniform Rules for Collection; Uniform Customs Practice, and the relevant directives of the National Bank of Ethiopia. Such training would enhance the knowledge and proficiency of staff members in handling international banking operations effectively.

By implementing these recommendations, the National Bank of Ethiopia can facilitate smoother and more efficient trade transactions, improve foreign exchange management, and strengthen the expertise of banking personnel in international trade practices..

Thoroughly understand the foreign partners

Prior to engaging in any transaction, it is crucial for businesses to gather information and understand the situation of their potential partners.

Careful market research should be conducted by businesses to assess and rank the credit and business risks associated with foreign partners. This can be achieved through public sources, reputable verification services, or utilizing channels such as diplomatic missions and commercial offices.The payment stage poses significant challenges for import and export businesses. Factors like lack of market information, geographical distance, and trade protection barriers make managing risks and ensuring customer satisfaction difficult.

Online transactions have become common in business dealings. However, many Ethiopian businesses, due to their trust in partners, may transfer substantial deposits without going through the necessary steps of partner verification and information gathering.

Hence, it is crucial for businesses to exercise caution and remain vigilant against potential scammers, including fake websites and ghost companies. To mitigate risks, the Ministry of Industry and Trade strongly advises businesses to gather sufficient information about their partners, target markets, and export policies. Active participation in trade promotion activities such as market surveys, trade fairs, and specialized exhibitions is also recommended. It is particularly important for businesses to be cautious when encountering deals that appear excessively attractive, as they may carry hidden risks.

To mitigate risks and protect their interests, enterprises should establish stringent terms during contract negotiation and implementation. When entering into import and export contracts, domestic enterprises should consider utilizing the payment method of irrevocable Letter of Credit (L/C) with confirmation. Additionally, they should request customers to make an upfront payment of at least 40-50% of the shipment value in advance.

The author gives the following suggestion on the issue of employee commitment and

knowledge gap among trade service staff

To assist businesses in selecting the most appropriate payment method, it is essential for bank employees to possess comprehensive and standardized knowledge. Banks should promote a culture of continuous information updating and awareness building among their employees regarding the terms and prerequisites of each payment method. This ensures that the best interests of businesses are safeguarded.

Banks have the opportunity to offer training courses on international payments and invite industry experts to provide comprehensive training for their employees. The authors suggest a specific online course titled "Increase Skills and Prevention of Faults in International Payment" as a valuable resource for businesses to consider. Furthermore, to enhance their understanding of rights and responsibilities, businesses should also focus on strengthening their knowledge of regulations such as the UCP (Uniform Customs & Practice for Documentary Credits) or URC (Uniform Rules for Collections).

In particular, UCP is based on guidance and regulation on Letters of Credit (LCs) will help businesses understand the entire process and terms of L/C payment methods, The URC (Uniform Rules for Collections) is a valuable resource that assists all parties involved in the collection process of debts, owned money, or assets. These rules were specifically designed to address the various aspects of daily operational activities and provide a framework for effectively resolving collection matters.

Recommendation about the situation of selecting payment method:

Both parties involved in a transaction should have a thorough understanding of the situation and carefully select the most suitable payment method. According to the study, cash against documents and advance payment methods are quick but carry higher risks. On the other hand, the Letter of Credit (L/C) method is considered the safest option, although it involves a more complex implementation process. Therefore, businesses should conduct a thorough analysis before deciding on each payment method. Factors such as partner background, market research, and other relevant investigations should be taken into consideration to ensure a secure and successful transaction. Making informed decisions through proper analysis can help mitigate risks and maximize the efficiency of the chosen payment method

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APPENDIX I

Addis Ababa University

School of graduate studies

Department ofManagement MSC Program

Questionnaire

Questionnaire for the‘’Practice of International Banking Serviceand payment methods”: The Case of selected PrivateCommercialBanksinEthiopia

I am a master's degree student MSC in International Business (Import Export) from Addis Ababa University. I am Carrying out a study on Assessment of international Banking practice and Payment method the case of private banks in Ethiopia. Hence, to gather information, I kindly request your assistance in responding to the questions listed below. I assure you that your responses will be kept confidential. You are not expected to write your name.

Any information obtained in connection with the study will remain strictly confidential.
The quality of this research highly depends upon the genuineness of the answers you provide to this questionnaire. I, therefore, humbly urge you to give your honest and accurate responses.

ResearcherKelemeworkNigussie
Contact Address

Mobile no; 0913593040
E-mailkelemeworkniggusie@gmail.com

Thank you very much for yoursignificantcontribution to theaccomplishment of the research.

Instruction: -

.Pleasedon't writeyourname

.Put "√ "mark as perthequestions required in theboxor answerin thespaceprovided

.Incaseyouhaveanyquestionplease, contact mycellphoneandemail address

Part one:Personal Background

1.Sex1=Male□2=Female□

2.Educational BackgroundDiploma□Degree□Masterand above□

3.Work experience (Yeas)

1-5 □ 5-10□ Morethan 10□

I. Position1=Division Manager□2=Relationship Manager□3=SeniorForeignOfficer□ 4=Officer□

Part two: This section is designed to collected relevant information regarding to General International Banking Service and Compliance issue with international, domestic standards and directives. Please, check "√" and rate yourself honestly based on what you are actually dogiven the statement using the following scales:

1=Never 2=Rarely 3=Sometimes 4=Often 5= Always

NO	Descriptions	1	2	3	4	5
1	International bankingdepartment provides foreign exchange servicepromptly					
2	Foreigncurrencyoperations ofyourbank arebeingperformed Efficiently.					
3	Theforeignexchangetransaction madetimelywith highly secured technology					
4	Theemployeesarehighlyresponsible andaccountablein foreign exchangeserviceprovision					
5	Theemployees havenecessaryskills in foreign bankingservice					
6	Employeesarecommitted in foreign bankingserviceprovision					
7	Thereis effectiveinternal control system tomonitor andcontrol overallforeignexchangeoperation oftraders					
8	Thebank permit foreigncurrencyforits traders onthe basisof first comefirst served thanforthose who havediasporaaccount and retention account.					

Part three:this sectionis designedto collect relevant information regardingMajor**Operation Problems and Malpracticesand issues related toRiskareaofInternationalBanking Service.**Please,check"√"andrateyourselfhonestlybasedonwhatyouactuallydogiventhestatement usingthe followingscales:

1- Strong Disagree 2-Disagree 3-Neutral 4- Agree 5- Strong Agree

NO	Questions	1	2	3	4	5
1	Foreign currency generated through export, remittance and other source does not meet the bank expected plan					
2	Thebankgenerates insufficient foreigncurrencytomeet the demand forcustomers(demand/supply)					
3	Thebank does nothaveawell-organized foreign currency generation scheme					
4	Thebank lacks transparencyin foreign currency Allocation/utilization.					
5	Thebank does nothaveadedicated staff/committeeassigned to mobilize foreigncurrency					
6	The Bank has foreign currency liquidity problem when handling the settlement of documentary collection					
7	Thebankhaspoorlydevelopedforeigncurrencymanualsoas to deal with allaspectofforeigncurrencymanagement process					
8	Thebank'sforeigncurrencypolicesandprocedurehave limitationsthat facilitatemisuseof foreign currency					

Problem area of International Banking Service

NO	Questions	1	2	3	4	5
1	Foreign currency demand is more than supply					

2	Delay of payments for traders in international transaction					
3	Malpractice regarding to foreign currency request for traders					
4	Unfair treatment of traders					
5	Corrupt practice in the utilization of foreign currency					
6	Lack of trained manpower in managing foreign currency					

Part Four : This section is designed to collected relevant information regarding to employeecommitment and knowledge of trade service staffs Please, check " √ " and rate yourselfhonestly based on what your actually do given the statement using the following scales:

NO	Questions	1	2	3	4	5
1	Iamequipped with thenecessaryskills of serviceeprovision fortraders					
2	Ido haveand maintaina good qualityof servicedelivery, which has apositiveeffect on perceived value ofthe international bankingservice					
3	Iclearlyunderstand the objectives of ourbank on international trading and committed for its achievement.					
4	Iam readyto takecustomers feedback ,comment and suggestion on myserviceprovision'					
5	Our bankknowledgetransfer through formal procedures					
6	Iconsider that employeeknowledge asanorganizational asset and not their own sourceof strength					
7	Iclearlyunderstand NBEdirectives& International Standard BankingPractice(ISBP)					
8	Ourbankgives forthestaffatrainingcontinuallyto fill					

	knowledgegap ofthestaffon the areaofinternational banking Servicefortraders.					

Part Five; which methods of international payment systems are currently practiced in your bank? (The respondent can fill all options) Please, check "√" and rate yourself honestly based on what you actually do

- ✓ Cash-in-Advance (Telegraphic Transfer) ( )
- ✓ Documentary Collections ( )
- ✓ Letter of Credits/ Documentary Credits ( )
- ✓ Open account ( )

Part six; this section is designed to collect relevant information regarding most widely used payment methods of international trade. Please, check "√" and rate yourself honestly based on what you actually do given the statement using the following scales:

1= Never 2= Rarely 3=Sometimes 4= Often 5= Always

NO	Methods	1	2	3	4	5
1	Cash against document (Open Account)					
2	Documentary Collections					
3	Letter of Credits/ Documentary Credits					
4	Cash in Advance (Telegraphic Transfer)					
5	Consignment sale					

Part Seven;This section is designed to collected relevant information regarding to information about the situations of selecting payment methodsPlease, check " √ " and rate yourself honestly based on what your actually do given the statement using the following scales:

NO	Methods	1	2	3	4	5
1	We will recommend to choose the most optimal payment method in terms of time to avoid affecting the quality of the goods					
2	For the transaction with large value goods, the L/C method is preferable					
3	For items with strong price fluctuations in the market, customers use the L/C method to avoid risk of transactions					
4	When there is a shortage in foreign currency in the market cash in advance is preferable					
5	For the same recurring and revolving shipments, they always use revolving L/C					
6	If a country has an economic crisis, the solvency of businesses will decrease and vice versa					
7	For countries with constantly fluctuating currency rates, cash in advance methods are preferred					
8	For countries with political instability (terrorism, war,...), we certainly use the L/C method to limit the risk of delay in implementation of their obligations					

APPENDIX II

Addis Ababa University

School of graduate studies

Department ofManagement MSC Program

Interview Questions for Managers

1. Do you have the practice of effective internal controls to monitor foreign exchange operation?

2. Do you make a close follow up the bank foreign currency request, utilization at the same time settlement?

3. What challenges, problems, malpractices and instances of non-compliance with NBE directives and international standard practice do you observe with regards to international Banking service?

4. How do you assess the level of job knowledge of employees at the International Banking Department especially with regards the mechanism of trade payment methods.

6. Do you advice your customers in choosing the best payment methods?

7. In international payment transactions, how long is the payment delay (if any)? What is the reason for the delay (if any)?