



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT

**CHALLENGES OF NATIONAL BANK DIRECTIVES ON FOREX
UTILIZATION OF PRIVATE COMMERCIAL BANKS**

BY
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**Challenges of National Bank Directives on Forex Utilization of Private
Commercial Banks**

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Commercial Banks

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Declaration

I hereby declare that this thesis is my original work and has not been presented for a Degree in any other University. Also all sources of materials used for this thesis have been duly acknowledged.

Date _____ Signature _____

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List of Abbreviations

NBE –National Bank of Ethiopia

IB- International Banking

FCY- Foreign Currency

AB- Awash Bank

BOA- Bank of Abyssinia

DB- Dashen Bank

WGB- Wegagen Bank

UB-United Bank

NIB-Nib International Bank

Abstract

The aim of the study was to identify the challenges of Private Banks' Forex utilization due to NBE Directives. NBE is the responsible organ to supervise financial institutions like Banks. There are 16 Private Commercial Banks operating in Ethiopia. Private Banks have been playing an important role in the Country's overall development. But some directives issued by NBE have been seen as a challenge for these Banks to foster their progress as they deemed. The study revealed that the directives issued by NBE have a negative impact on Forex utilization of Private Banks and discouraged Banks to achieve their goals in a specified period of time. Though NBE requirements or directives are not the sole reasons, most Bank professionals believe that these directives have an impact on their progress. Regarding the methods of the study, both quantitative and qualitative research methods were applied to identify the real challenges of Private Banks. The study covered six pioneers Private Banks branches found in Addis Ababa as per the date of establishment. A total of 87 IB Managers/Heads and Officers participated in the study. A combination of primary and secondary data had been taken for the study. Some secondary sources like directives and annual reports were used to supplement the study. Semi-structured interview randomly selected participants was carried out. The data analyzed conducted through a mixture of exploratory and descriptive research design. It adapted a survey approach with the use of questionnaires designed to elicit opinions about the real challenges of NBE Directives on Forex utilization of Private Banks from IB Managers/Heads and Officers point of view. To analyze the quantitative data, descriptive statistics was applied. The result of the study showed that some directives issued in connection with FCY have an impact on the overall performance of these Banks. Although some directives have been revised, the impact remains the same as the previous ones. The study identified real factors which challenges the Forex utilization of Private Banks. The findings suggested that some directives should be revised.

Key words: NBE Directives, Private Commercial Banks, Challenges.

CHAPTER ONE

INTRODUCTION

Under this chapter issues related to the background of the study, statement of the problem, research questions, objectives of the study, significance of the study, and scope of the study are discussed.

1.1. Background of the Study

Banks play a role of considerable Economic significance as intermediaries in mobilizing public savings and canalizing the flow of funds for productive purposes, keeping on the process of the economic growth of the country (Bagyalakshmi, 2014).

Banks channel part of their fund to exporters which enables the Banks and the exporter in a good shape. Export is one of the growth drivers of all growing Economies. The expansion of Exports is well appreciated and takes a major place in the Government Policy (Kumar, 2013). Exports are major factors in the development of an Economy, particularly developing nations (Bagylakshmi, 2014). According to (Aworemi, 2011) most Countries and Company considered export performance as a tool to boost corporate growth, strengthen competitive edge, and ensure company survival in a highly competitive market place. Exporting is extremely attractive to most national governments because it allows the accumulation of foreign exchange reserves, enhances societal prosperity, and helps national industries to develop, improve productivity and create new jobs.

Concepts and Definition of Foreign Trade

As explained by Smith (1776) and Ricardo (1817), the term foreign trade indicates the exchange of goods and services between nations. Goods can be finished products, as intermediate goods used in producing other goods, or as agricultural products and food stuffs. International trade enables a nation to specialize in those goods it can produce most cheaply and efficiently. According to Seyoum (2009), it is the most traditional form of international business activity and has played a major role in shaping world history. Trade also enables a country to consume more than it would be able to produce if it depended only on its own resources. Besides, trade enlarges

the potential market for the goods of a particular economy. Hence, trade has always been the major force behind the economic relations among nations (UNDP, 2012).

The Role of Banks in Export

The role of Banks in any economic development cannot be overemphasized. Banks serve as an important channel for economic growth through mobilizing financial savings from within and outside a country, allocating the financial resources to the most productive use by transforming different risks. Needless to say, Banks play key roles in expanding and enhancing trade, commerce and industry. Efficient and profitable Banks maximize shareholders' value and encourage the shareholders to make additional investments. As a result of which, more employment opportunities will be created and more goods and service will be produced and ultimately bring about economic growth. Banks are crucial for any Country's economy particularly that of the economy of the developing Countries such as Ethiopia, because no growth can be achieved if savings are not efficiently channeled into productive investment opportunities (Tekeste, 2013).

Banking in Ethiopia

The term Bank in the modern times refers to an institution which: (1) deals with money; it accepts deposits and advance loans (2) deals with credit; it has the ability to create credit, (3) is a commercial institution; it aims at earning profits, and (4) creates a demand deposits which serve as a medium of exchange, and as a result, the Bank manages the payment system of the Country. A Bank as a financial institution is the creator of money in the form of Credit money i.e. cheque. (Emebet et al 2016).

Banking is defined as accepting money from the public, for the purpose of lending, or investment of deposits, repayable on demand or otherwise and withdraws by cheque, draft, or order. Thus, we can say that a Bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. It bridges the gap between the savers and borrowers. The provision of deposit and loan products normally distinguishes Banks from other types of financial firms. Deposit products pay out money on demand or after some notice. (Emebet et al 2016).

Currently the Ethiopian Banking industry is highly protected from outside competition through ban of foreign Bank entry and the entrance of new local Private Banks into the market was very restricted. Since the 1991 measure, there appears a growth in the number of Banks but regulation remained tight with the sector entertaining various reform and regulatory measures from the National Bank of Ethiopia. Despite the regulators intent to ensure a robust financial system, it is apparent that some of its measures will have implications on the performance of Banks. (Lipczynski et al.2013). They confirmed that regulation (like ban of foreign Banks, entry capital increase etc.) has a significant impact on the performance and efficiency of Banks. Nevertheless, the effect of regulation on performance is not widely assessed in empirical studies. For instance, previous studies and studies in Africa do not account for the regulatory and institutional factors that are likely to shape competition.

1.2. Statement of the Problem

NBE's stringent law stagnate Private Banks Growth. The Central Bank's recent regulation that compels Banks to surrender 30% (nearly one-third) of their FCY earnings to the National Bank at buying rate has caused the decline of Private Commercial Banks Forex dealing. (NBE, 2018). Stringent requirements by the Central Bank in Forex allocation coupled with the macroeconomic problems of the country were the primary reasons for the disappointing result. The Central Bank's direction, which compels all Banks to provide Forex for anyone who applies for FCY, has severely affected the Bank. Due to these, Banks lost many Customers as they could not provide Customers with Forex while trying to allocate FCY to other applicants. All of the Banks have been scrambling for the Forex that comes into the Country.

The NBE has also ordered Commercial Banks to allocate FCY to importers without restrictions on the number or the value of Proforma Invoices submitted by importers and ordered them not to turn away any requesting FCY. The additional guidelines issued by NBE compel all Commercial Banks to at least accept and register any and all Forex requests from importers regardless of backlog of FCY demand. (NBE, 2018)

This Directive prohibits Banks from allocating FCY collected from exporter for the import business of same outside of the proper procedures stipulated (NBE, 2017). NBE also specified priority areas eligible to receive FCY on first-come-first-served basis. Strengthening the directive,

NBE further limited the discretion of Commercial Banks in allotting FCY for Customers. In this regard, no Bank can refuse any Customer, regardless of whether he/she is a client or an account holder or not, from registering to access FCY. Having an account with a Bank cannot be a prerequisite for registration. In addition, it bars the Banks from placing any restriction based on the number or the value of Proforma Invoices produced by importers. Hence, access to FCY will no longer be attached to any condition as long as the customer complies with the procedures.

In general, since there was no comprehensive research studies previously conducted in showing the challenges of NBE Directives on Forex utilization of Private Banks, the researcher wanted to fill the gap and to find the major effects for Private Commercial Banks operating in Ethiopia due to NBE Directives. In view of the fact that a profitable Bank contribute more to the country, more willing to give extra support for the benefit of the Banks in particular and will be more helpful for the Country in general.

1.3. Research Questions

The fundamental research questions that have been handled during the study were the following:

1. What are the challenges of Private Banks FCY utilization due to NBE Directives?
2. Which Directives need amendment?
3. What others points need emphasis to benefit Private Banks?

1.4. Objectives of the Study

1.4.1. General Objectives

The main objective of this study was to assess the challenges of NBE Directive on FCY utilization of Private commercial Banks operating in Ethiopia.

1.4.2. Specific Objectives

The study also gave due attention for the following specific issues:

1. To know the real challenges of Private Banks due to NBE Directives.
2. To show other factors of these Directives on FCY utilization of Private Banks.

1.5. Significance of the Study

The result of the study can give information for different stakeholders on how Private Banks are operating in challenging conditions. In this respect, the study would be of some help to the following bodies.

Firstly, the study gave a clue towards the challenges of Private Banks FCY utilization due to NBE Directives.

Second, the result showed direction for Policy makers, the Boards of Directors or higher Officials and the concerned Government bodies who have hands on and direct relations with these Banks.

Finally, the study can serve as an initial point or a juncture for both academicians and other researchers who would like to make their further study in this and or similar area afterwards.

1.6. Scope of the Study

1.6.1. Area delimitation

This study focused on Private Commercial Banks in the Country. Professionals of those Banks who are mostly working as International Banking Managers/Heads and Officers were target respondents. The study was limited to professionals' perceptions and officially disclosed financial data of Banks.

1.6.2. Subject delimitation

This study discussed, assessed and investigated issues about FCY utilization of Private Commercial Banks in Ethiopia.

1.7. Organization of the Study

The paper is organized into five chapters. The first chapter deals with the introduction part which consists of background of the study, statement of the problem, research questions, objectives of the study, significance of the study, and scope of the study. The Second chapter contains a review of the related literatures on both theoretical, empirical studies and summary and gap in the existing literatures. Chapter three contains the research methodology. The research results are presented in Chapter four. The final one is chapter five which deals with summary of findings, conclusions and recommendations that are forwarded based on the result obtained.

CHAPTER TWO

REVIEW OF RELATED LITERATURES

2.1. Introduction

In this part information about aspect of previous works which are related to the study were assessed and discussed.

2.2. Theoretical Literature Review

Export Business

Export as an essential economic activity of firms and a means of economic development of a nation has broadly been acknowledged. However, many firms do not export even though it regarded as inevitable in the increasingly integrated world markets (Pinho & Martins, 2010). This is even more so for developing Countries like Ethiopia. Studies conducted in Sub-Saharan Africa indicated that there are only few firms that export and sell outputs in the foreign markets (Van Biesebroeck, 2005; Rankin, Soderbom & Teal, 2006; Milner & Tandrayen, 2007). According to Tesfom and Lutz (2006), the reason behind low export involvements in developing Countries' firms is because they encounter multitude barriers when they attempt to expand export activities.

Export Strategy

Exporting has become an important internationalization strategy for the companies and the development of national economies in the global markets (Koksal, 2006). Ural (2009) posited that global liberalization, assimilation and competition in the world's economies have been contributing for the growing commitment of firms in exporting operations. In the growing of world economies, exporting activities of Small and Medium Enterprises is more important for the continued survival, growth and long-term prospect of a business (Ramdane & Khalil, 2009). Exporting is usually a less "resource-laden" operation relative to other foreign market entry and expansion modes because it requires minimum business risk, needs low commitment of resources and presents high flexibility of movements (Neupert et al., 2006 & Korez-Vider, 2007). According to Tesfom and Lutz (2006) explanation, international trade is especially important for developing Countries because it produces employment opportunity and provides foreign exchange with imports.

In developing Countries, export strategy is recognized as an important means for growth and improving profitability for Small and Medium Enterprises (Kazem & Van Der Heijden, 2006). Ahmed et al. (2004) clarified that a common objective in less developed Countries is to discover ways to boost exports. At macro level, involvement of more firms in exporting activities is believed to be an effective way of managing trade deficit problems plus a technique to improve the accumulation of foreign exchange, generating spillover effects such as societal prosperity and support for local industries to increase productivity, and driving economic growth (Morgan & Katsikeas, 1997). While at the micro level, exporting can offer individual businesses with opportunities to grow, boost profits, stabilize demand, improve the utilization of production capacities, develop superior management capabilities, enhance innovation in product and process and strengthen financial performance (Lages & Montgomery, 2004).

Since exporting activities can make such attractive advantages in international businesses and because of their growing significance in industrialized Countries, an understanding of the exporting barriers has become mainly a significant concern in today's business environment (Kuada, 2006 & Pinho & Martins, 2010). According to Pinho & Martins (2010) and Leonidou (2004) explanation, the effectual way of inspiring local Small and Medium Enterprises to go into foreign markets is to make out the major barriers that are faced by Small and Medium Enterprises in going and operating effectively in an international markets.

Rocha et al. (2009) mentioned that understanding barriers to exporting can help implement the government policies to inspire domestic firms to export and reduces the major impediments. This objective can be accomplished either by motivating exporting firms to export a large number or by encouraging non-exporters to begin exporting.

The role of Government Policy in promoting Export

International trade has played a crucial role in the historical development of the third world. In the second half of the 20th century, the tremendous economic performance of the "four tigers"- South Korea, Taiwan, Hong Kong and Singapore has been largely attributed to the performance of the external sector where the export sector was given a greater emphasis. Strong political commitment towards export promotion and the application of appropriate policies together with efficient institutional mechanisms helped these Countries to attain a higher growth rate of exports and hence of the overall economy.

Over the past two decades, developing Countries have progressively increased their share in global trade from just less than one quarter to about one third. Asia and particularly China account for most of the change, which has been facilitated by diversification of exports. While developing Asia's share in total world exports increased from 11.7% in 1985 to 21.5% in 2005, Africa's share decreased from 4.3% to 2.9% over the same period (Bacchetta, 2007).

Export incentives as Export promotion instruments

Returns from trade sector depend up on accelerating growth of exports. According to the orthodox classical economists as well as the modern liberal economists the trade is equivalent to engine of economic growth. Export promotion strategy is often in accordance with the principles of comparative advantage, when a country specializes in a product, which it can produce competitively. The goods become available to the community of the world at cheaper prices. In outer layer, putting more emphasis on the promotion of exports would permit the optimal allocation of Country's resources. (Krueger (1997).

Export performance and promotion Policies in Ethiopia

Like other African Countries, Ethiopia has faced deep rooted structural problems, weak policy frameworks and institutions, protection at domestic level and abroad for a long time. For instance, in 1983, the Provisional Government of Socialist Ethiopia noted that the basic constraints for Ethiopian exports include the low volume of exportable products, the limited degree of diversification of exports mainly due to unprocessed primary products, frequent economic crisis which substantially reduce the demand for and prices of primary products, artificial trade barriers by trading partners etc. (Abay and Zewdu, 1999).

Owing to this policy shift some improvements in export performance have been registered. Trade statistics show that export earnings have increased during the post reform period. According to the Ministry of Trade and Industry (MOTI), the real value of export earnings increased from ETB 5 Billion during the first six year period of the Derg regime (1973-1978) to ETB 39.7 Billion in the last six years of the EPRDF regime (2000/1-2006/7) (Abay and Zewdu, 1999).

Regarding the composition of exports, until the 1990s the Ethiopian export sector could be characterized as a 'three-commodity sector' consisting of coffee, hides and skins, and oilseeds and pulses. Between 1966 and 1996, on average 59% of the country's export earnings came solely from coffee (Abay and Zewdu, 1999).

However, Ethiopia's share in total world exports is still very low, amounting to 0.01% in 2006 (WTO, 2007). In this regard, Alemayehu (1999) and Abay and Zewdu (1999) argue that Ethiopia's external trade has major problems both on the supply side due to its dependency on few primary products characterized by large fluctuations in volume; and a very high degree of concentration of exports on few commodities. On the demand side, low income elasticity for the type of commodities that Ethiopia exports, declining prices for its exports, and limited destinations for Ethiopian exports. Both supply and demand side problems are typical African problems: For example, more than 50% of African Countries' export earnings are derived from only three principal commodities such as coffee, tropical beverages and cocoa (Alemayehu, 1999).

Trade Policy reforms and Export promotion measures in Ethiopia

In 1991 the transitional government of Ethiopia (TGE) together with the IMF and the World Bank has undertaken liberalization and structural adjustment program to address the internal and external imbalances of the economy. In particular trade policy reform was undertaken which aimed at promoting exports through diversifying the country's commodity exports.

According to Joosten (2007) and Weissleder (2009), some of the major implemented export promotion policies and regulations in favor of FDI (Foreign Direct Investment) are the following: Devaluation of the Ethiopian Currency by more than 140 percent in terms of US dollar to make exports competitive and promote export trade. The tariff regime was continuously revised and was reduced from a maximum of 230 percent to currently 35 percent, the import and export licensing system were simplified, a duty draw back scheme was introduced where by exporters are re-funded the tax and duty they paid on the inputs and raw materials used in export production, State exporting enterprises were provided a managerial autonomy but deprived of a monopoly power, the Ethiopian Export Promotion Agency is established, and various Foreign Direct Investment policies were Introduced.

2.3. Empirical Literatures Review

Eden (2014) conducted a research entitled The Impact of National Bank Regulation on Banks Performance: Evidence from the Private Banks of Ethiopia. The aim of the study was to examine the impact of regulatory actions taken by the National Bank of Ethiopia on the Private Commercial Banks performance by reviewing various journals, research papers and diagnostic

study reports and newspaper articles. The study evaluated the effect of setting up of reserve requirement on Bank profitability, assesses the effect of Credit cap on Bank profitability and evaluated the impact of Bill purchases on Bank profitability. The researcher concluded that NBE-Bill purchase has negative and significant effect on Banks performance measured through both Returns on Asset and Net Interest Margin and investment in NBE Bills results a negative impact due to the lesser amount of interest rate compared to the amount of interest rate if the amount invested on the Bill was invested on other investments. The researcher also concluded that Credit cap has a negative impact on Banks performance and this is due to since there was Credit ceiling any Bank cannot give the amount of loan above that ceiling so the interest income generated from loans decreased but the Bank paid an interest expense for the depositors no matter what amount the Banks get an interest income from the loan.

Rahel and Maru (2015) have examined the Determinants of the Financial Performance of a Private Commercial Banks in Ethiopia. The paper investigated the influence of liquidity status, operational efficiency, and loan production of Banks on its financial performance; identified the causal linkage between Loan to Deposit ratio, deposit amount, and capital adequacy of Bank and its financial performance; examined the causal linkage between export proceed and income diversification and its financial performance. The study was basically based on the secondary data gathered from related literature published in the journals, newspaper, books, statements, reports. The nature of study was qualitative, descriptive and analytical. Finally the paper concluded that capital adequacy, income diversification, export, loan production and deposit mobilization have significant impact on ROA with a positive relationship; which means any increase/decrease on the value of these variables will lead to an increase/decrease on the financial performance of commercial Banks. Liquidity and operating efficiency were found to have no significant impact on ROA, which means any increase/decrease on the value of these variables.

Lelissa T.and Kuhul A. (2018) in a study regarding the impact of selected regulatory variables on performances applying a panel regression on commercial Banks in Ethiopia for the period 1999-2015. The paper dealt with variables used in the model is directly derived from the extant regulatory approach used by the National Bank of Ethiopia to regulate the Banking business. In their study they revealed that most regulations are enacted in other Countries with few exceptions and mainly related to Bill purchase requirements.

The model constructed, therefore, has established and found a statistically significant relationship in some of the regulatory variables with performance measures. Finally the study concluded that there is a negative impact of some of the recent policy directions from the regulator on performances. For instance, branch growth and Bill purchases have a statistically significant negative relationship with Bank performances. This should be one of the areas requiring policy flexing from the regulatory side in the future. Nevertheless, other policy direction such as capital growth requirement remains a positive contributor to performances. More specifically, the study found that exchange rate has a positive and statistically significant relationship with the profit models. Despite the benefit of a depreciating local currency and a stable foreign currency type to shield them from currency fluctuation, it allowed Banks to earn a 'policy profit'. The depreciation of Birr permitted Banks to enjoy a profit from their foreign currency holdings in the form of daily asset revaluations. Nevertheless, many of the variables (prudential regulatory variables) used in this study (interest rate, reserve rate, number of new entrant Banks, and level of entry capital) are not statistically significant to influence on Bank performances.

Shimelis Y. (2016) attempted to study the impact of National Bank of Ethiopia directives on the profitability and liquidity of Private commercial Banks in Ethiopia: The case of NBE Bill purchase requirement. The study focused on to investigate the impact of purchasing NBE Bill on the profitability of Private commercial Banks in Ethiopia and to examine the impact of purchasing NBE Bill on the liquidity of Private commercial Banks in Ethiopia. The study used the panel data for the sample of eight Commercial Banks in Ethiopia from 2007 to 2014 with a total of 64 observations. Finally the study suggested that the purchasing NBE Bill has had a negative and significant impact on the profitability of Private Commercial Banks because they have been offered very low interest rate. Habtamu B. (2013) conducted a research entitled Financial Performance of the Ethiopian Banking Sector. The aim of the paper was to evaluate the impact of the major financial liberalization measures taken by the government of Ethiopia on the financial performance of the Commercial Banks and to identify areas that need further liberalization or financial reform measures so as to enhance the performance of the Banking sector.

The data for the survey was collected from the annual reports of the individual Banks and also the Central Bank of Ethiopia quarterly and annual reports from 2004/05 to 2009/10 fiscal years. The result of the study revealed that the concerned regulatory body to think of on the heavy and very large excess liquidity of the Banks, by providing varieties of investment opportunities, as currently started government bonds. Besides, the liberalization process must train the Banks to be ready to face competition with foreign Banks than always giving a shadow to them by protecting the entrance of foreign Banks. For this, the regulatory body must work with the endogenous Banks and encourage them to start varieties of other new financial products and advance their skill of taking and managing risk.

Barth et al (2002) conducted a study entitled Bank regulation and supervision: what works best? By taking the data of 107 Countries the paper tried to show the regulatory and supervisory practice and Banking sector development. By taking specific regulatory practice like regulation on capital, restriction on Bank activity, restriction on Bank entry, the paper tried to see the implication they have on development of banking sector. Based these findings they raised a cautionary flag regarding reform strategies that place excessive reliance on Countries adhering to an extensive checklist of regulatory and supervisory on Banks. Instead, this paper's findings suggest that regulatory and supervisory practice that 1) force accurate information disclosure 2) empower Private-sector corporate control of Banks and 3) foster incentives for Private agents to exert corporate control work best to promote Bank performance and stability. The paper didn't oppose the idea that there is a need for regulation instead states that Private-sector monitoring of Banks tends to be associated with greater banking- system success than strategies that place excessive emphasis on direct official government oversight and restrictions on Banks stability. In contrast, they provided evidence indicating that encouraging and facilitating private monitoring can boost Bank performance.

Yodit (2012) assessed the implication of NBE Bill purchase on the performance of Private Commercial Banks in Ethiopia using qualitative research method and she concluded that the performances of Private Banks are affected because of the requirement of NBE Bill purchase.

Tesfaye (2014) has taken a study on the impact of policy measure (requirement of government Bill purchase) on Ethiopian Private Banks performance. He has used panel data from 2007-2013 of eight middle size Private Banks with a total of 56 observed variables.

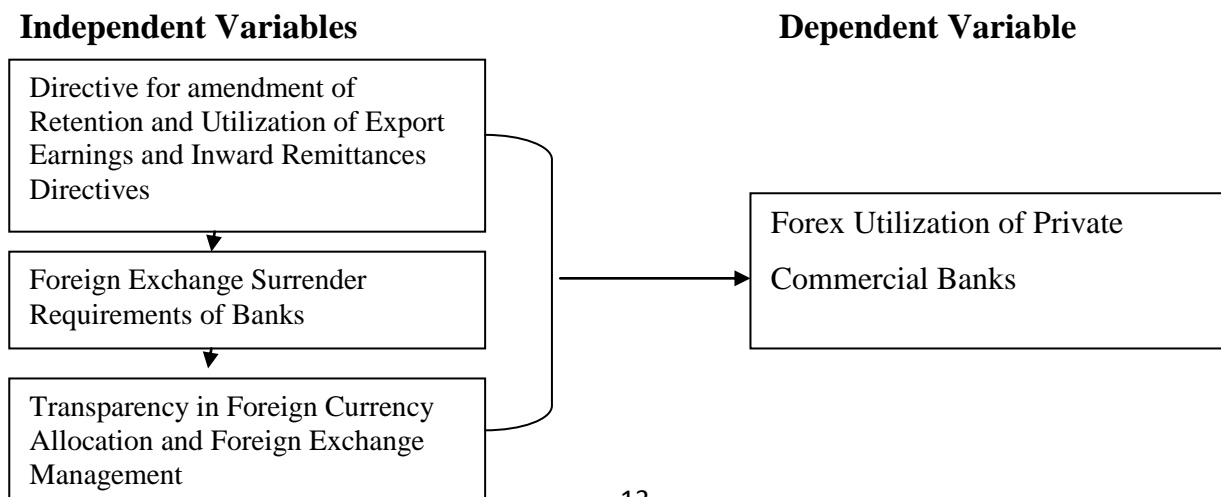
The study found that exposure to government Bills has negative and significant relationship with performance. Nevertheless, the magnitude is not severe. Even the pre and post Policy periods comparison revealed a relatively better profitability record for Private Banks during times of policy restrictions.

2.4. Summary and Gap in the Existing Literatures

As the Banking industry is an important sector in an economy and contributes a lot for the growth of a country, it is important to identify the factors that have impact on its development and successful growth. So, its wellbeing and successful operation attracts the interest of Policymakers, researchers and practitioners. In Ethiopia there are studies conducted on the determinants of profitability of Commercial Banks. Most literatures focused on NBE Bills requirement and its impact. However, the studies missed challenging factors such as NBE's Directives on Forex utilization which hinders Private Banks potential which is an important factor in determining the performance of Private Commercial Banks. No researcher has studied on the challenges of NBE Directive on Forex utilization of private Banks. This is therefore my study clarified and showed how the NBE Directives challenges Private Banks Forex utilization.

Therefore, due to omission of important factors that may have significant influence on the performance of the Banks, it is important to do this research. Considering the current situation of the Banking industry in relation to FCY demands of importers, it is essential to study the challenges of NBE Directives on Forex utilization of Private Commercial Banks in Ethiopia. Hence, this study wanted to fill in the existing knowledge gap by including all vital points that were not included in the previous studies.

2.5. Conceptual Framework



CHAPTER THREE

METHODOLOGY

3.1. Introduction

In this chapter the methodology employed in carrying out this study is described. The research design, types and source of data, target population of the study, sample size and sampling techniques, instruments of data collection and methods of data analysis and interpretation are the main points.

3.2. Research Design

The study employed both quantitative and qualitative research methods and conducted through a mixture of exploratory and descriptive research design. It adapted a survey approach with the use of questionnaires designed to elicit opinions about the real challenges of NBE Directives on Forex utilization of Private Banks from International Banking Managers/Heads and Officers point of view.

3.3. Types and Source of Data

Both primary and secondary source of data have been used. The instruments used in gathering the primary data were questionnaire and interview where as the secondary information were published documents like Directives, Journals, Articles and Books and annual Reports of the Banks and previous studies conducted by different researchers have been used.

3.4. Target Population of the Study

Nowadays, there are 16 Private Banks and two Governments owned Banks in Ethiopia in the Fiscal Year of 2018/19. The Private Commercial Banks currently operating in Ethiopia with the year of establishment are: Awash Bank (1994), Dashen Bank (1995), Bank of Abyssiniya (1996), Wegagen Bank (1997), United Bank (1998), Nib International Bank (1999), Cooperative Bank of Oromiya (2004), Lion International Bank (2006), Oromia International Bank (2008), Zemen Bank (2008), Birhan International Bank (2009), Bunna International Bank (2009), Abay Bank (2010), Addis International Bank (2011), Debub Global Bank (2012), and Enat Bank (2012), (NBE, 2017).

This study focused on the first six pioneer Private Banks' Branches as target population. Namely Awash, Dashen, Abyssinia, Wegagen, United, and NIB Banks found in Addis Ababa. This is because most of the transactions are carried out in Addis Ababa than outlying Branches. The target population of this study selected randomly from the total employees working in Branches as International Banking Managers/Heads and Officers and the representative samples to the population of groups were those who have professional and practical knowledge of Forex Business.

In order to draw the representative sample of respondents in the study, stratified proportionate random sampling design was used. By doing so, those members of the target population had equal chance of being selected and included in the study. The target sample respondents were International Banking Managers/Heads and Officers.

Table 3.1 Distribution of Population who were working as IB Managers/Heads and Officers

S/N	Research Area	IB Manager	Division Heads	IB Officers	Total
1	AB	1	2	35	38
2	DB	1	2	30	33
3	BOA	1	2	5	8
4	WGB	1	2	10	13
5	UB	1	2	5	8
6	NIB	1	2	35	38
	TOTAL	6	12	120	138

Source: Compiled by the researcher-June 2019

3.5. Sample Size

There are several approaches to determine the sample size. This includes a census for small population, imitating a sample size of similar studies, using published tables, cut off point in terms of percentage and applying formulas to calculate a sample size. To determine the required sample size from the target population for this study, Yamane's formula (1967) was used. The researcher employed the following formula to determine the sample size:

$$n = \frac{N}{1 + Ne^2}, \text{ where } n = \text{Sample Size}$$

$$N = \text{Target Population Size}$$

$$e = \text{The Level of Precision} = \pm 5\% (0.05) \text{ Significance Level}$$

There are 138 International Banking Managers/Heads and Officers in the selected Six Banks. Therefore, the total number of target Population was 138 and then the sample size determined as follows:

$$n=N/(1+Ne^2)$$

$$n=138/(1+138*0.05^2)$$

$$n=138/(1+138*0.0025)$$

$$n=138/(1+0.345)$$

$$n=138/(1.345)$$

$$n=102.6$$

$$n=103 \text{ @ } 95\% \text{ Confidence Interval}$$

3.6. Sampling Techniques

Two different sampling techniques- Stratified and simple random sampling have been used in this study. Proportionate stratified sampling technique used in dividing the population into strata (groups); International Banking Managers/Heads and Officers. Simple random sampling was then used to draw sample from each stratum in order to guide against bias (to ensure fair representation of population elements).

Table 3.2 Distribution of Sample

S/No.	Research Area	IB Manager	Division Heads	IB Officers	Total	Sample from IB Managers	Sample from Division Heads	Sample from Officers	Total Samples
1	AB	1	2	35	38	1	1	27	29
2	DB	1	2	30	33	0	1	21	22
3	BOA	1	2	5	8	1	1	5	7
4	WGB	1	2	10	13	1	2	8	10
5	UB	1	2	5	8	0	1	5	7
6	NIB	1	2	35	38	0	1	27	28
	TOTAL	6	12	120	138	3	7	93	103

Source: Compiled by the researcher-June 2019

3.7. Instruments of Data Collection

This study used both primary and secondary data. Primary sources of data include interview and questionnaire, whereas secondary information generated through a review of relevant documents.

3.7.1. Questionnaire

Questionnaires were distributed to randomly selected International Banking Managers/Heads and Officers who have sufficient experiences and educational qualification. Their response helped us to understand the real challenges of Private Banks regarding export business in the case of Private commercial Banks in Ethiopia. Both close-ended and open-ended Questionnaires have been used to gather the research evidence.

3.7.2. Interviews

The researcher employed an interview as one of data collecting instrument in order to assess some supplementary information that could not be accessed using the questionnaire. To access information, semi-structured interview questions were designed by changing the research questions and research objective in to interview questions.

3.7.3. Document Review

The review of documents helped the researcher to understand the key facts of the topic. Annual reports, directives, journals, articles and other documents related to the topic were reviewed to triangulate the data to be collected by the questionnaires and interviews.

3.8. Methods of Data Analysis and Interpretation

To analyze the quantitative data, descriptive statistics were used. Data collected from the interview and reviews of documents interpreted qualitatively. In analyzing the data from interviews, narrative approaches have been used.

The parameters employed to describe the variables being studied were measured by five point likert scale. The scale consists of the level of the agreements or disagreements of the respondents ranging from strongly disagree to strongly agree. The levels are comprised ordinal values as follows: 1=Strongly Disagree on the statement (SD), 2=Disagree on the statement (D), 3=undecided / neutral (UD), 4= agreed on the statement (A), 5=Strongly Agreed on the statement (SA).

3.9. The Instrument and Its Validation Process

Both the questionnaire and the interview had been evaluated by the selected IB Division Heads for further comments and the researcher included the comments provided by them hence finally distributed to all respondents.

3.10. Data Collection Procedure

First the researcher obtained a support from the respondents and distributed questionnaire and interviewed for primary data collection and received annual reports from Head Office organs for secondary data collection. Finally the researcher obtained good response from all organs.

3.10.1. Quantitative

The quantitative research method had been undertaken by delivering questionnaires to the whole population. The types of primary data employed in this research involved both open-ended and close-ended questionnaire that were delivered to IB Managers, Division Heads and Officers.

3.10.2. Qualitative

The type of qualitative research technique applied through interview. Semi-structured interview provided to IB Managers/Heads and Officers.

3.11. Method of Analysis

The data analyzed in descriptive method of analysis using tabulation and percentages. Descriptive method of analysis used as it has advantages that provides a multifaceted approach and illustrative how people experienced in the mater. It also analyzed in a form that makes it easy to understand and interpret so as to recommend and conclude the findings.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Introduction

The study was intended to assess and describe the challenges of NBE Directives on Forex utilization of Private Commercial Banks. This section presented those data gathered from both primary and secondary sources. The gathered data have been analyzed presented and interpreted using different descriptive data analyzing tools.

Table 4.1: Questionnaire Response Rate

Questionnaire	Questionnaire in Number	Questionnaire in Percentage
Distributed	103	100%
Collected	87	84%
Uncollected	13	16%
Net used	87	84%

Source: Computed from Primary Data Source- 2019

The above table shows the number of questionnaires distributed, collected, uncollected, discarded and net used that have been filled correctly by the respondents. 103 questionnaires were distributed to IB Managers/Heads and Officers who are working in International Banking areas which include import and export.

Out of 103 employees to whom the questionnaires were distributed, 87 (84%) of them successfully completed the questionnaire and returned, 13 (16 %) were not responded. The return rate is believed to be sufficient to arrive at conclusions from the collected data. The data obtained through the questionnaire, interview, and document analysis were organized, in tables, analyzed and interpreted in order to get meaningful result.

4.2. Analysis and Interpretation of Primary Data

This section dealt with analysis and interpretation of the primary data collected through questionnaire and interview. After the completion of relevant data collection, descriptive analytical tools such as percentages, tables and ratios, ranking of the variables as means of measuring.

4.2.1 Analysis of Employees response

In this part of analysis the Socio-demographic Characteristics of the Respondents are presented.

4.2.1.1 Profile of Respondents

In this section, data collected through questionnaire from IB Managers/Heads and Officers gender, educational level, job position, and work experience of the sample respondents is analyzed. The data and analysis are put consecutively as follows:

Table 4.2. Gender

Gender	No. of Respondents	Percentage
Male	69	79
Female	18	21
Total	87	100

Source: Respondents' Questionnaire-2019

As can be seen from the above table 4.3, the majority 69 (79%) of the respondents are male whereas the remaining 18 (21%) are female.

Table 4.3. Educational Level

Educational Level	No. of Respondents	Percentage
BA	75	86
MA	12	14
PhD	-	-
Total	87	100

Source: Respondents' Questionnaire-2019

As shown in table 4.4 above, regarding educational level is concerned; the respondents were predominantly degree holders 75 (86%) and MA 12 (14%). There were no respondent who has PhD level. This implies that the respondents had the required educational levels.

Table 4.4. Work Experience in the Bank

Work Experience in the Bank	No. of Respondents	Percentage
< 5 Years	3	4
5-10 Years	49	56
Above 10 Years	35	40
Total	87	100

Source: Respondents' Questionnaire-2019

As shown in table 4.5 above the lion's share 49 (56%) of the member of employees in the Bank has working experience between 5-10 years. The others have worked above 10 years that accounted for 35 (40%) of the total respondents. Only 3 (4%) of the sample employees have experience of less than or equal to 5 years.

Table 4.5. Job Position in the Bank

Job Position in the Bank	No. of Respondents	Percentage
Managers	1	1
Division Heads	4	5
Officers	82	94
Total	87	100

Source: Respondents' Questionnaire-2019

When we look at the Job positions of respondents in the above table 4.6, out of the total respondents only One Manager responded the questionnaire which constitutes 1% of the total respondent. And 5% of the respondents were Division Heads. The majority respondents were Officers which holds 94% of the total respondents.

Table 4.6. Job Experience in the Bank

Job Experience in the Bank	No. of Respondents	Percentage
1-5 Years	3	4
6-10 Years	49	56
11-15 Years	30	34
Above 15 Years	5	6
Total	87	100

Source: Respondents' Questionnaire-2019

The above Table 4.7 depicts the Job experience in the Banks. 4% of the respondents have working experience of less than 5 years, 56% of them have 6 to 10 years of working experience, 34% of them have 11 to 15 years of working experience, the remaining 6% of them have over 15 years of working experience.

The overall results shown in the above tables indicate that the respondents were more experienced and knowledgeable and had an understanding of their working area which is an input to forward relevant recommendation.

This is, therefore, the researcher believed that the collected data is holistic and its recommendation for the findings will work for all Private Commercial Banks operating in Ethiopia.

4.3 Analysis of challenges faced by Private Banks due to NBE Directives Number FXD/48/2017 Directive for amendment of Retention and Utilization of Export Earnings and Inward Remittances Directives No. FXD/11/1998 Amendment

The NBE has issued Directive Number FXD/48/2017 Directive for amendment of Retention and Utilization of Export Earnings and Inward Remittances Directives No. FXD/11/1998

Amendment which entered into force as of October 03, 2017. Due to this directive, Private Banks have shown their concern regarding the directives. The following tables show the findings about the impact of the directives on export performance of Private Banks.

Table 4.7 Directives increase the Bank's Export earnings

Level of Agreement	Frequency	Percent	Cumulative Percent
Strongly Disagree	41	47	47
Disagree	40	46	93
Neutral	5	6	99
Agree	1	1	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, majority of the respondents 81 (93%) of them have disagreed or strongly disagreed that the directives issued increases the Banks' export earnings. Only 1 (1%) of the respondent was agreed and 5 (6%) of the respondents were neutral. Therefore, the directives issued do not increase the Banks' export earnings.

Table 4.8 Percentage of the retention accounts A and B for 30% and 70% is fair

Level of Agreement	Frequency	Percent	Cumulative Percent
Strongly Disagree	17	20	20
Disagree	33	38	58
Neutral	27	31	89
Agree	7	8	97
Strongly Agree	3	3	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, out of the total respondents 50 (78%) have disagreed or strongly disagreed that the proportion of retention accounts is fair and 7 (8%) of the respondents were agree, 3 (3%) of the respondents were strongly agree, 27 (31%) of the respondents were neutral.

Table 4.9 Restriction on retention accounts creates sustainable foreign exchange reserves

Level of Agreement	Frequency	Percent	Cumulative Percent
Strongly Disagree	23	26	26
Disagree	41	47	73
Neutral	15	17	90
Agree	5	6	96
Strongly Agree	3	4	100
Total	87	100	

Source: Respondents' Questionnaire-2019

The restriction imposed on retention accounts not to use the balance other than the related export business is another challenge of Private Banks export performance. This is because 64 (73%) of them strongly disagreed and disagreed while 17 (17%) were neither agree nor disagree. But 5 (6%) of the respondents were agreed. This shows that there is no sustainable foreign exchange reserves obtained due to the restrictions imposed on retention accounts.

Table 4.10 Impact of the Directives on Banks profit

Level of Agreement	Frequency	Percent	Cumulative Percent
Neutral	9	10	10
Agree	41	47	57
Strongly Agree	37	43	100
Total	87	100	

Source: Respondents' Questionnaire-2019

Respondents were asked whether the Directive has an impact on the Bank's profit or not. Accordingly, 78 (90%) of the respondents agreed or strongly agreed at different level of agreement as it has an impact on Banks profit. The remaining 9 (10%) of the respondents neither disagree nor agree. One can generalize from the above analysis that the directive has an impact on the Banks' profit.

Table 4.11 Directives limit the potential of exporters not to invest in other sectors

Level of Agreement	Frequency	Percent	Cumulative Percent
Strongly Disagree	8	9	9
Disagree	11	13	22
Agree	45	52	74
Strongly Agree	23	26	100
Total	87	100	

Source: Respondents' Questionnaire-2019

With regard to the directive which limits exporters to use their earnings for export related business only, 68 (78%) respondents agreed or strongly agreed as it is a challenge for exporters. On the other hand 19 (22%) respondents disagree or strongly disagree that it is not a challenge. Thus we can conclude that the directive limits exporters' potential.

Table 4.12 Exporters transfer their earnings to third parties

Level of Agreement	Frequency	Percent	Cumulative Percent
Strongly Disagree	20	23	23
Disagree	57	66	89
Agree	7	8	97
Strongly Agree	3	3	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, 77 (89%) of the respondents have disagreed or strongly disagreed that exporters are able to transfer their earnings to third parties and 3 (3%) of the respondents were strongly agree, 7 (8%) of the respondents were agreed. One can generalize from the above analysis that the directives strictly prohibit exporters not to use their earnings for other parties.

Table 4.13 Lack of uniformity in implementing the Directives

Level of Agreement	Frequency	Percent	Cumulative Percent
Neutral	9	10	10
Agree	53	61	71
Strongly Agree	25	29	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, 78 (90%) of the respondents have agreed or strongly agreed with the lack of uniformity in implementing the directives challenges Banks performance and 9 (10%) of the respondents were neutral and we can conclude that lack of uniformity is a challenge for Banks.

Therefore, from the above data, the researcher can concluded that, Private Commercial Banks in Ethiopia are challenged by NBE Directives.

4.4 Analysis of challenges faced by Private Banks due to NBE Foreign Exchange Surrender Requirements of Banks (As Amended) Directives No.FXD/54/2018

The NBE has also issued Foreign Exchange Surrender Requirements of Banks (As Amended) Directives No.FXD/54/2018, which forces Private Banks to surrender 30% of their foreign exchange inflow to NBE every month. The directive entered into force as of August 29, 2018. This directive challenges Private Banks not to provide foreign exchange to importers. The following tables show the findings about the impact of the directives on performance of Private Banks.

Table 4.14 Foreign Exchange surrender requirement affects Private Banks

Level of Agreement	Frequency	Percent	Cumulative Percent
Neutral	5	6	6
Agree	28	32	38
Strongly Agree	54	62	100
Total	87	100	

Source: Respondents' Questionnaire-2019

The above table depicts that majority of the respondents 82 (94%) have agreed or strongly agreed that foreign exchange surrender requirement affects Private Banks, 5 (6%) of the respondents were neither agree nor disagree. We can conclude from the above data that NBE Directive highly affects Private Banks.

Table 4.15 Exporters 30% percent contribution is insignificant

Level of Agreement	Frequency	Percent	Cumulative Percent
Agree	49	56	56
Strongly Agree	38	44	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, 87 (100%) of the respondents have agreed or strongly agreed with the directive which forces to surrender 30% FCY of exporters affects them. Therefore, from the above data, the researcher can conclude that, the directive challenges exporters' potential in their business.

Table 4.16 Directive challenges the FCY reserve of Private Banks

Level of Agreement	Frequency	Percent	Cumulative Percent
Agree	58	67	67
Strongly Agree	29	33	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, 87 (100%) of the respondents have agreed or strongly agreed with the directive is challenging the FCY reserve of Private Banks. Therefore, from the above data, the researcher can conclude that, the directive challenges Private Banks FCY reserve.

Table 4.17 Directive discourages Export Business

Level of Agreement	Frequency	Percent	Cumulative Percent
Neutral	9	10	10
Agree	47	54	64
Strongly Agree	31	36	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, 78 (90%) of the respondents have agreed or strongly agreed with the directive discourages export business and 9 (10%) of the respondents were neutral and we can conclude that the directive discourages exporters not to expand their business.

Table 4.18 Directives affect the Import Business

Level of Agreement	Frequency	Percent	Cumulative Percent
Disagree	13	15	15
Neutral	13	15	30
Agree	39	45	75
Strongly Agree	22	25	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, majority of the respondents 61 (70%) of them have agreed or strongly agreed that the directives affects the import business. 13 (15%) of the respondents were disagreed and equivalently 13 (15%) respondents neither agree nor disagree. Therefore, we can conclude that the directives also affect the import business.

Table 4.19 Retention Account Combination for indefinite period

Level of Agreement	Frequency	Percent	Cumulative Percent
Disagree	15	17	17
Neutral	19	22	39
Agree	37	43	82
Strongly Agree	16	18	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, majority of the respondents 53 (61%) of them have agreed or strongly agreed that the combination of retention accounts should be fifty-fifty for indefinite period of time to encourage exporters. 15 (17%) of the respondents were disagreed and 22 (19%) respondents neither agree nor disagree. This shows how the current retention accounts combination and period challenges Private Banks.

In general, the above results have shown an implication that majority of the respondents have a view of NBE Foreign Exchange Surrender Requirements of Banks Directives challenges Private Banks performance.

4.5 Analysis of challenges faced by Private Banks due to NBE Transparency in Foreign Currency Allocation and Foreign Exchange Management (As Amended) Directives No. FXD/57/2018

Table 4.20 Allocation of FCY as per the registration benefits all

Level of Agreement	Frequency	Percent	Cumulative Percent
Strongly Disagree	13	15	15
Disagree	39	45	60
Neutral	5	6	66
Agree	5	6	72
Strongly Agree	25	28	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, 52 (60%) of the respondents have disagreed or strongly disagreed that allocation of FCY as per the registration and 25 (28%) of the respondents were strongly agree, 5 (6%) of the respondents were agreed and equivalently 5 (6%) of the respondents were neither agreed nor disagreed. Therefore we can generalize from the above analysis that the directives challenge the Banks not to allocate their FCY to potential customers.

Table 4.21 Priority should be given for Corporate Customers

Level of Agreement	Frequency	Percent	Cumulative Percent
Neutral	9	10	10
Agree	49	56	66
Strongly Agree	29	34	100
Total	87	100	

Source: Respondents' Questionnaire-2019

From the above Table 4.23 respondents are asked to reply their level of agreement on whether priority should be given for corporate customers or not, 78 (90%) of the respondents have agreed or strongly agreed and 9 (10%) of the respondents were neutral. Generally, we can conclude from the above analysis that priority should be given for corporate customers.

Table 4.22 Provision of FCY for exporter when they want to import goods could affect the level of your FCY generation.

Level of Agreement	Frequency	Percent	Cumulative Percent
Agree	51	59	59
Strongly Agree	36	41	100
Total	87	100	

Source: Respondents' Questionnaire-2019

As it can be seen from the above table, 87 (100%) of the respondents have agreed or strongly agreed that lack of provision of FCY for exporter when they want to import goods could affect the level foreign currency generation. Therefore, from the above data, the researcher can conclude that, the directive challenges Private Banks FCY generation.

Table 4.23 Exporters are encouraged if the Bank avail them FCY as per their request

Level of Agreement	Frequency	Percent	Cumulative Percent
Neutral	9	10	10
Agree	55	56	66
Strongly Agree	23	34	100
Total	87	100	

Source: Respondents' Questionnaire-2019

From the above Table 4.25 respondents are asked to reply their agreement level on whether Exporters are encouraged if the Bank avail them FCY as per their request or not, 78 (90%) of the respondents have agreed or strongly agreed and 9 (10%) of the respondents were neutral. Generally, we can conclude from the above analysis that Exporters are encouraged if the Bank avail them FCY as per their request.

4.6 Analysis of Open Ended Questionnaires

Questionnaires were distributed to IB Managers/Heads, and Officers who are working at Private Commercial Banks based on sample basis to understand the challenges of NBE Directives on Forex utilization of Private Banks. The research evidence was gathered by using open-ended questionnaires are analyzed and interpreted as depicted hereunder.

4.6.1 Analysis of challenges faced by Private Banks due to NBE Directives Number FXD/48/2017 Directive for amendment of Retention and Utilization of Export Earnings and Inward Remittances Directives No. FXD/11/1998 Amendment.

Some of the respondents have explained that there are drawbacks of the directives since exporters are not allowed to use their own FCY. This in turn discourages exporters and reflected on their import performance. They added that most exporters are working import business in line with their export. This is because they export with minimum price by taking the advantages of using their FCY for import which is relatively more profitable. Some also argued that exporters have a tendency to sell their proceeds to third parties which totally violates the directives. In addition to this, the respondents also argued that some Private Banks are working on it.

4.6.2 Foreign Exchange Surrender Requirements of Banks (As Amended) Directives No. FXD/54/2018

Among the respondents, Division Head and most Officers have explained their concern over the directives that the regulation to surrender 30% (nearly one-third) of their FCY earnings to the National Bank at buying rate has caused the decline of Private commercial Banks Forex dealing. Their performance is highly affected because if they allocate the FCY to their Customers, Banks would gain more income which is significant for the Banks profit.

4.6.3 Transparency in Foreign Currency Allocation and Foreign Exchange Management (As Amended) Directives No. FXD/57/2018

The Central Bank's direction, which compels all Banks to provide Forex for anyone who applies for FCY, has severely affected the Bank. Due to these Banks lost many Customers as they could not provide Customers with Forex while trying to allocate FCY to other applicants.

4.7 Analysis of Information collected by Interview

For the purpose of exploring the challenges of NBE Directives on Forex utilization of Private Commercial Banks, the researcher was conducted semi-structured interview with one IB Manager, One Division Head, and Ten Officers. The interview data were analyzed on the basis of narration.

All respondents argue that all directives issued without the common understanding of the stakeholders were not effective. More discussions and ideas would be gathered by Bank professionals and exporters. Regarding the support of NBE to Private Banks, most respondents argued that instead of supporting them, NBE usually showed its upper hand on Private Banks. Rather they advised NBE to adopt other Countries experience. The IB Manager and Officers believe that in order to come up with NBE's stringent directives, Private Banks should focus on alternative FCY generation mechanisms such as Remittance and FCY purchase activities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This Chapter presented summary of findings, conclusions and recommendations of the results.

5.2. Summary of the Findings

For the purpose of the study, both primary and secondary data has been collected using questionnaire, interview and document review. The collected data has been analyzed using descriptive method of analysis. Accordingly, the major findings of the research are:

- Directives are not implemented equally among Private Banks which in turn affects those Banks properly implemented the Directives.
- Export Business is not encouraging since their 30% FCY taken by NBE facing challenges to expand the business.
- Banks' FCY reserves decreasing due to lack of willingness to work actively on the sector. Rather they focused on import business which supposed to be profitable as they compare with the export proceeds.
- Banks' profits affected by the Directives since they are oblige to surrender 30% of their FCY earnings which would benefit both the Banks and importers if the earnings allocated to Customers.
- Due to the restrictions, exporters show the tendency of selling their FCY to third parties which highly affects the industry.

5.3. Conclusion

All the study outputs showed that NBE's Directives affect Private Banks Forex utilization performance. Export businesses are discouraged due to restrictions imposed on the proceeds. Banks profits generated from FCY is decreasing from time to time. One of the reasons was the Directives issued prior to exporters or stakeholders participation. Restrictions on Retention accounts which limits the period of time which exporters can use their proceeds also affect their performance. The directive prohibits Banks from allocating FCY collected from exporter for the import business of same outside of the proper procedures discouraged exporters not to expand their business. Private Banks are suffering by surrendering one-third of their FCY reserve to NBE which would able them to generate more income by allocating to many customers.

5.4. Recommendations

Based on the finding of the study the following recommendations are forwarded:

- The NBE Directives issued for FCY utilization need some revision.
- Private Banks need to develop their capacity to challenge NBE to revise Directives which deter their demand in utilizing FCY.
- a mechanism is needed for Private Commercial Banks to utilize their Proceeds for their consumption whether for Export or Import business.
- In order to encourage the utilization of FCY, the Retention Account combination need revision. Exporters should be encouraged to utilize their proceeds for indefinite period.
- Directives No. FXD/48/2017 Directive for amendment of Retention and Utilization of Export Earnings and Inward Remittances Directives No. FXD/11/1998 Amendment needs revision to encourage exporters. This is because encouraging exporters' means encouraging other business since most of the Countries businesses depend on import.

□ Foreign Exchange Surrender Requirements of Banks (As Amended) Directives No. FXD/54/2018 also needs revision which is one of the most stringent requirements and caused the decline of Private Commercial Banks Forex dealing.

□ Transparency in Foreign Currency Allocation and Foreign Exchange Management (As Amended) Directives No. FXD/57/2018 which compels all Banks to provide Forex for anyone who applies for foreign currencies, has severely affected the Bank. Due to these Banks lost many customers as they could not provide customers with Forex while trying to allocate foreign currency to other applicants. Banks must have the right to allocate their FCY as per their own guidelines without any party involvement.

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**Addis Ababa University College of Business and Economics
Department of Management
MSc in Management**

***Challenges of NBE Directives on Forex Utilization of Private
Commercial Banks***

May 2019



Dear Respondent

This Questionnaire is designed for conducting a research entitled “**Challenges of NBE Directives on Forex utilization of Private Commercial Banks**”. Assessing the challenges of NBE Directives on profitability of Private Banks is the purpose of the research. In order to address this purpose, obtaining comprehensive, accurate, consistent and value-adding information from each respondent is, thus, highly required. On aware of this, you are kindly requested to make your utmost care while putting your response to every question. Finally, we confirm you that the information that you share us will be kept confidential and only used for research purpose.

Thank you in advance!

In case you have queries, please feel free and contact me:

Dereje Shiferaw

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Part I: Personal Information

Please put **tick mark (✓)** on the space provided for each question.

1. Gender a) Male b) Female
2. Education Level a) B.A b) M.A. c) PhD
3. Years of experience in the Bank
a) Less than 5 years b) 5-10 years c) Above 10 years
4. Your Position in the Bank _____
5. Years of Service in your area a) 1-5 Years b) 5-10 Years c) 10-15 d) above 15 Years

Part 2: Detail Information about the challenging conditions that Private Banks face due to NBE Directives.

Instruction: In this section the researcher is seeking your perception towards the challenges of NBE Directives on the performance of your Bank. Please read each questions carefully and select your level of agreement for the following statement. And put **tick mark (✓)** under the appropriate number from 1 to 5. Each testimonial is measured by 5- point scale: **1= Strongly Disagree; 2=Disagree; 3=Neutral; 4= Agree; 5=Strongly Agree**

S.No.	1. Directives No. FXD/48/2017 Directive for amendment of Retention and Utilization of Export Earnings and Inward Remittances Directives No. FXD/11/1998 Amendment	Level of Agreement				
		1	2	3	4	5
1	The Directive increases the Bank's Export earnings					
2	The percentage of the retention accounts A and B for 30% and 70% is fair					
3	The restriction imposed to use retention accounts creates sustainable foreign exchange reserves					
4	The Directive has an impact on the Bank's profit					
5	The directives limits the potential of exporters not to invest in other sectors					
6	It gives the chance for exporters to use their earnings for third parties					
7	Lack of uniformity among banks for implementing the directive creates unfair competition in the industry					

What more challenges of exporters can you mention other than those stated above?

They have tendencies to import than export

In your opinion, What should be done by NBE to reduce the challenges what exporters are facing?

Which Directive Do you think should be amended? If yes, why?

S.No.	2. Foreign Exchange Surrender Requirements of Banks (As Amended) Directives No. FXD/54/2018	Level of Agreement				
		1	2	3	4	5
1	Foreign Exchange surrender requirement affects private banks					
2	Exporters lose 30% of their earnings which is significant for them					
3	The Directive challenges the FCY reserve of private banks					
4	The Directive discourages export business					
5	The unavailability of FCY for importers is created due to this Directive.					
6	The retention account combination at least should be 50 percent to encourage exporters and used for indefinite period of time					

What do you think of the alternative solution you propose to overcome this challenge?

S.No.	3. Transparency in Foreign Currency Allocation and Foreign Exchange Management (As Amended) Directives No. FXD/57/2018	Level of Agreement				
		1	2	3	4	5
1	Allocation of FCY as per the registration benefits all					
2	Priority should be given for corporate customers					
3	Lack of provision of FCY for exporter when they want to import goods could affect the level of your foreign currency generation.					
4	Exporters are encouraged if the bank avail them FCY as per their request					

What other factors challenge FCY generation?

Please mention other financial and non-financial incentives challenges resource mobilization?

Part 4: Interview Questions about the challenge of NBE Directives on the performance of Private Banks.

1. Please mention all potential stakeholders' contribution for NBE to get an input before Directives are issued?
2. How do you evaluate the NBE's support to private banks?
3. What best practices/strengths that can be adopted by NBE from other banks to support private banks?
4. What other (any) means or ways do you think that can enhance the FCY generation capacity of private banks?
5. What other new idea to support private Banks to overcome the challenges of NBE?