

Addis Ababa
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**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**DEPARTMENT OF PUBLIC ADMINISTRATION AND
DEVELOPMENT MANAGEMENT**

**THE ROLE OF COMMERCIAL BANK OF ETHIOPIA IN THE
MOBILIZATION OF FOREIGN CURRENCY TO SUPPORT
FERTILIZER IMPORTS**

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JANUARY 2016

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BY: ANTENEH GIRMA BEZABIH

**A Thesis Submitted to the School of Graduate Studies of Addis Ababa
University in Partial Fulfillment of the Requirements for the Degree of
Masters of Art in Public Management and Policy (MPMP) Specialized in
Development Management in the Department of PADM**

Advisor: JEMAL ABAGISSA (PhD)

FEBRUARY 2016

Addis Ababa
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Addis Ababa University
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**Department of Public Administration and Development
management**

This is to certify that the thesis prepared by Anteneh Girma Bezabih Entitled The Role of Commercial Bank of Ethiopia in the Mobilization of Foreign Currency to Support Fertilizer Import, which is submitted in partial fulfillment of the requirements for the Degree of master in Public management and Policy (MPMP), complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Declaration

I, the undersigned, declare that this thesis entitled “The Roll of Commercial Bank of Ethiopia in the mobilization of foreign currency to Support Fertilizer Imports”, is my original work and has not been presented for a degree in any other university or organization, and that all sources of materials used for the thesis have been duly acknowledged.

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Acknowledgments

I would like to extend my gratitude to the many people who helped to bring this research project to fruition. First, I would like to thank Dr. Jemal Abagissa for his help, professionalism, valuable guidance and support throughout this project and through my entire program of study that I do not have enough words to express my deep and sincere appreciation.

Special thanks and appreciation goes to Ato Michael Tamyalew, a brother and best friend, who was always giving me comments and critically checked this thesis. My special gratitude goes to Ato Mulaw Berihun and Ato Masresha Mulat for their encouragement and support in all the way.

I would like to thank all the lecturers who taught me in the Public Management and Policy program of PADM Department of the College of Business and Economics. I'm also indebted to my friend W/t Temnet Belayneh who helped me in distributing and collection of questionnaires. My deepest appreciation also goes to Ato Luel Tsehay for his affirmation and continuous update on the current status of the subject matter for the betterment of this paper.

My deep and special thanks to Commercial Bank of Ethiopia staffs, especially trade services and credit departments not to mention the bank's librarians, I have no words to express your welcoming faces and hospitality.

Finally, I must express my very profound gratitude to my parents and colleagues for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis. This accomplishment would not have been possible without them.

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Acronyms and Abbreviations

GoE	Government of Ethiopia
CBE	Commercial Bank Ethiopia
GDP	Gross Domestic Products
MoFED	Ministry of Finance and economy development
NBE	National Bank of Ethiopia
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization
ICC	International Chamber of Commerce
GTP	Growth and Transformation Plan
IMF	International Monetary Fund
ADB	African Development Bank
LC	Letter of Credit
CAD	Cash against document
ESLSE	Ethiopian Shipping Lines Share Company
QSAE	Quality and Standards Authority of Ethiopia
DACA	Drug Administration and Control Authority
ATA	Agricultural Transformation Agency
AISE	Agricultural Input Supplies Enterprise
ADLI	Agricultural Development Led Industrialization
EEFCRP	Ethiopia Emergency Food Crisis Response Program
FSP	Fertilizer Support Project
CSA	Central Statistical Agency
PADETES	Participatory Demonstration and Training Extension System

Abstract

Foreign currency deposit mobilization strategy of CBE is part of the corporate strategy formulated on June 2015 to be in effect for the coming consecutive five years. The strategy aims to maximize the foreign currency earning of the bank to meet the import needs of the country especially fertilizer. Several sources are identified by the bank's corporate strategy as major sources of foreign currency. Some of them are remittances, export and cash purchase (service receipt). This paper assesses and examines the overall efforts of the CBE in mobilizing foreign currency to finance major import items like fertilizer. The study was conducted in a descriptive way of qualitative research approach. The unit of analysis for this study is the CBE's foreign currency deposit mobilization strategy to support fertilizer import in which the bank implemented as part of corporate plan. Data were collected through questionnaire exporters of the bank and interview of key informants located on CBE, NBE and AISE and critically reviewing documents as well as reports. The sample for the interviews is purposive sampling as most of the information can be found from few individuals that are nearer to this activity. Based on the analysis of the study, the findings are that fertilizer is among the critical items of import by the bank on each budget year. Despite the challenges of mal-practices by some private banks on the collection of foreign currency, CBE manages to identify and collect foreign currency to support the import of inorganic fertilizer. Credit, Fund management and Trade Service departments of the bank are involved on the fertilizer import process in coordination with section of the Ministry of agriculture AISE. The country wide low performance of the export sector is also the other challenge the bank faces during mobilization of foreign currency. Furthermore, the study also identified that the bank has priority sectors while allocating the collected foreign currency similar to the GoE growth and developmental direction. Hence, the bank's strategy to mobilize foreign currency has positive country wide implication in alleviating the scarcity of foreign currency especially supporting critical import items like chemical fertilizer. And the bank has to make sure that across department process integration is mandatory for the efficient and smooth mobilization of foreign currency. In addition for the successful execution the strategic plan, critical assessment of progress at the end of each quarter is also necessary by the top management.

Chapter One

Introduction

1.1. Background of the study

Commercial bank of Ethiopia (CBE) is a state owned and the leading bank in Ethiopia which was established in 1942. According to the company's profile, the bank pioneer to introduce modern banking to the country, amid its several operations international banking is one of them. The bank's annual report 2014/15 shows that the bank has continued to earn significant amount of income and profit from its international banking operations as a result of its healthy and long lasting business relationship with many foreign banks around the world (CBE, 2014). The bank has taken the responsibility of supporting the economy through finance as well as facilitating the major import processes of the country which require the availability of sufficient foreign currency.

According to the oxford business dictionary, foreign currency is simply explained as the currency (i.e. money) of another country. Foreign currency reserve is crucial in an import dependent country like Ethiopia hence, mobilization of foreign currency for developmental purposes begins from identification of relevant and sustainable sources. For instance Egypt needs to boosts its foreign currency reserves to overcome the ongoing suspension of the businesses of some multinational firms due to shortage of US dollar (Xinhua, 2016). In a similar manner, according to the Ethiopian observatory, the shortage of foreign currency reserve in Ethiopia in the past several months has already forced many businesses to slow their activities in the different sectors where production depends on imported materials.

Both state and private banks in Ethiopia do not have enough foreign currency deposit to meet the rising demand for imports. Private Banks used to purchase hard currency through auctions from the National Bank of Ethiopia (NBE), but the practice has been suspended by the central bank due to country wide scarcity of foreign currency reserve and the liquidity risk of private banks. Therefore all banks have to compete to gain foreign currency from the existing limited market sources. Sources of foreign currency are areas in which economic and financial transactions between countries affect exchange rate level (Nicholas, 2014). Major sources of foreign currency can differ from country to country, but the common ones are: Export, foreign direct investment,

tourism and remittances. According to Central banks guidelines (www.centralbanksguide.com), export and foreign investments are categorized among the main motors of a country's economy. The rationale underlying international trade also suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced indigenously (Coutts and Godley, 1992). As the definition of foreign currency implies, mobilization of foreign currency can only be effected as a result of trade interaction between nations which is called international trade operation.

International trade issues in general terms also pose three types of questions for economists. The first is based on explanations of trade flows between at least two nations. The second refers to the nature and extent of gains or losses to an economy. Finally, the third issue concerns the effects of trade policies on an economy (McCombie, 1992). Most theories of international trade are dedicated to the first question, and attention will now turn to theoretical responses to such an issue

The Ethiopian economy is highly dependent on the import of goods which shall be backed up by fare generation of foreign currency by the country's own means. Periodic foreign exchange shortages due to weak export performance and high demand for foreign currency continued to present significant market challenges (Marin, 1992). Therefore, CBE as part of the strategic management objectives implemented foreign currency mobilization strategy to improve the bank's foreign currency reserve to support the import of fertilizer. The international trade operation division of the bank is also anticipated to play the major role in identification of sources of foreign currency as well as collection.

CBE is the only state bank which facilitates and finances the import process of inorganic fertilizers to meet the annual need of the agricultural sector. Improving the productivity of the agricultural sector is the fundamental theme of the Ethiopian government to accomplish the food security program (FAO, 2005). Enhancing agricultural productivity is also one of the central challenges to achieving food security and poverty reduction in sub-Saharan Africa (SSA). The Ethiopian economy is mainly supported by its agricultural sector, which is also a fundamental instrument for poverty alleviation, food security and economic growth.

Inorganic fertilizer is one of a handful of agricultural technologies that have immense potential for raising the productivity of poor smallholders, enabling them to increase income, accumulate assets and set themselves economically on a pathway out of poverty (Todd Benson, 2012). The government of Ethiopia (GoE), as part of the annual budget approval, allocates fund for fertilizer subsidies on each fiscal year. Various organs of the ministry of agriculture in collaboration with CBE undertake the proper management and utilization of the fund. CBE has also responsibility of availing hard currency for the import process of inorganic fertilizers.

Therefore, the main purpose of this study is to examine CBE's foreign currency deposit mobilization strategy to finance one of the major import items like chemical fertilizer. In doing so, the study identifies the major sources of foreign currency of the bank to overcome shortage during the import process. Most studies under the subject matter failed to show the direct link between the scarcity of foreign currency with the import process of chemical fertilizers. The concept of foreign currency shortage and the respective need for mobilization is more of import dependent developing countries occurrence, hence, most studies shows mainly the necessity of foreign currency reserve for a country. Consequently, this study further elaborates the processes as well as challenges faced by the bank while mobilizing foreign currency.

1.2. Statement of the problem

The country's foreign currency generation capacity is significantly lower than its foreign currency spending to finance the consumption need of the country (NBE, 2013). Nowadays the productivity of the agricultural sector is highly dependent on inorganic fertilizers and the bank's foreign currency generation capacity is expected to finance the import of this item despite the scarcity. Furthermore, the import processes of other critical items like petroleum and raw material for manufacturing industries, not to mention the provision of consumables to various private companies and budgetary government offices, are also at stake due to scarcity of foreign currency. According to summarized staff compilation report of the NBE and Mofed for the year 2013, the overall balance of payment in 2013/14 registered a deficit of USD 263.5 Million vis-à-vis USD85.2 Million in the preceding year. This entails the effort of foreign currency deposit mobilization by CBE to meet the ever increasing demand of foreign currency by the economy is undeniably crucial and shall be backed up by identification of sustainable sources.

The bank's 2013/14 annual report shows that export is one of the sources of foreign currency for CBE. The export items of the country are highly dependent on agricultural products which lead to seasonal earning of foreign currency from the sector. This makes the foreign currency earning of the bank sluggish and eventually hinders the momentum of the economic development. On the other hand, inward remittances are also among the sources of foreign currency count of the bank. And since there are various uncontrollable factors like competition of other private banks to gain the market share, it is difficult to rely on remittances as a major foreign currency generation strategy to help finance imports. Planning the bank's international trade through the earnings of remittances is a very challenging aspect.

The other scenario which aggravates the scarcity of foreign currency is the launching of various projects as component of the development strategy by GoE. The projects are highly capital intensive and the government went through huge foreign loan contracts to finance these projects which threaten the country's future paying capability given that most of the projects do not help generate foreign currency. As developmental partner, the bank is expected to cover future project costs out of its international trade operation which becomes the other cause for shortage of foreign currency.

In general, the problem of foreign currency scarcity is a more recent popular phenomenon in view of the fact that the country is highly dependent on imported goods. Several economists ascertain that the probable consequence of foreign currency reserve shortage is a major economic crisis (YEWONDWSEN, 2013). For instance, most manufacturing plants in Ethiopia are highly dependent on imported raw materials. Hence lack of foreign currency has a direct interruption on the manufacturing processes which further result in sacking employees and aggravating the problem of unemployment. In the agricultural sector, lack of foreign currency has also a direct impact on the productivity of the sector since dependencies on imported chemical fertilizers are very high in recent years.

1.3. Research questions

During the research study the following questions are raised and responses are provided.

- What are the institutional and organizational capabilities that are fostering CBE in its foreign currency mobilization to support inorganic fertilizer imports?
- What are the effects of foreign currency shortages on CBE's reputation during the import process of chemical fertilizer?
- What are the challenges that CBE faced in foreign currency deposit mobilization in line with importing fertilizers?
- How does CBE overcome the foreign currency scarcity in financing fertilizer imports?

1.4. Objective of the Study

1.4.1. General objective

The principal objective of this study is to explain the basic roles of Commercial Bank of Ethiopia's (CBE's) international trade operation to the development of the Ethiopian economy in terms of mobilizing foreign currency to finance fertilizer imports.

1.4.2. Specific Objectives

The study has the following specific goals:

- To examine the institutional and organizational capabilities fostering CBE in its foreign currency mobilization to support inorganic fertilizer imports.
- To examine the effects of foreign currency shortages on CBE's reputation during the import process of chemical fertilizer.
- To explore the challenges of foreign currency deposit mobilization strategy of Commercial Bank of Ethiopia.
- To investigate the bank's major sources of foreign currency are reliable enough to finance the economy as well as secure the government confidence of the bank.

1.5. Significance of the study

This research provide analysis and recommendations on how the international banking operations of CBE mobilize foreign currency, which is a powerful tool on the provision of products like fertilizer, for the achievement of economic development programs of a country.

In general, the beneficiaries of the outcome of this research are:

- The policy makers and stakeholders: So that they can better understand the challenges as well as advantages of CBE's foreign currency deposit mobilization efforts and become developmental partners towards the achievement the country's economic goals. Policy makers can also benefit on their decision making towards efficient and proper utilization of the scarce foreign currency.
- The other financial institutions who enroll in similar foreign currency deposit mobilization efforts as a learning ground for future decision making.
- The researchers who can access this research paper as a reference for further study on this sector.

1.6. Scope of the study

Steep increases in international prices for key imports, such as fertilizers, further increased the strains on the Ethiopian economy and pushed foreign exchange reserves to critically low levels (IMF, 2009). Even though the responsibility of improving foreign currency reserve of the country is mainly under the sole jurisdiction of the National bank of Ethiopia, the actual effort is left to the commercial banks (both private & government). Hence, this study is limited to CBE's foreign currency deposit mobilization strategy in improving the foreign currency reserve of the bank and the precise role on the chemical fertilizer import endeavor.

1.7. Limitation of the study

In Ethiopia, there are a couple of private and state owned banks and Commercial Bank of Ethiopia (CBE) is among them. To undertake a study on the economic value of each individual bank's operation of the country may call for huge financial resource and ample time.

As the instruments of the data collections are in-depth interviews, questionnaire and critically reviewing documents and reports, it was really very difficult to approach and interview some of the informants because of either their involuntary to disclose any information or time constraint due to being tied-up under their personal cases. The other limitation was that the poor documentation system of the data, and the challenge I encountered during the data collection was that the absence of any organized data on the subject matter and most of documentations are not critically researched rather periodical and newsletters which can be categorized as opinion and thoughts of individuals. In other words, as foreign currency shortage in Ethiopia is relatively recent phenomenon, very few literatures are written in relation to the effects of foreign currency scarcity and the processes of mobilization.

1.8. Organization of the study

This study is consisting of five chapters. The first chapter is engaged in the background of the study, statement of the problem associated with research, objective, significance, scope, limitation of the study and organization of the study. The second chapter consists of literature review of related empirical and theoretical components. The third chapter includes research design and methodology and the fourth section cover data analysis and interpretation. The last chapter contains the conclusions, and recommendations.

Chapter Two

Literature review

2.1. Theoretical Review

2.1.1. International trade and economic theory

One of the broadest indicators of a nation's economic strength can be measured from its gross domestic product (GDP), as this measure is an estimate of the value of goods and services produced by an economy in a given period (Tayeb, 1992). The notion that international trade can influence GDP has been explored by several economic theorists (Marin, 1992 : Meier, 1984) and culminated in the export (Marin, 1992). Export activities may use these influences because exposure to international markets demands improved efficiency and supports product and process innovation activities, while increases in specialization encourage profitable exploitation of economies of scale (Temple, 1994) Thus, the export-led growth theory predicts export growth will cause economy-wide productivity gains in the form of enhanced levels of GDP. Another mechanism through which exports are connected with sustainable rates of economic growth is the balance of payments.

The challenges of balances of payment exist when the economic growth creates a variety of demands which cannot be satisfied solely by domestic output. Therefore, beyond a certain level, the faster the rate of domestic demand, the more accelerated the growth of imports (Abdel-Malek, 1969). However, any excess of imports over and above exports requires the trade deficit to be financed by either government borrowing from overseas or drawing on the economy's stock of assets. If this situation is sustained, it becomes vital for the home government to address the issue of such a trade imbalance (Jonquieres, 1994).

There have been lots of discussions regarding Ethiopia's problem of foreign exchange shortages. It has become so serious that Sufian Ahmed, minister of Finance and Economic Development (MoFED), was quoted by the reporter newspaper, in April 2013, as saying, "*Our weakest link is the foreign exchange . . . So we need external assistance in the form of foreign currencies*".

In reviewing the matter further, the most important factor behind the shortage is a huge gap between what the country earns from its exports and what it pays for its imports (Asrat, 2013). In

fact, Ethiopia imported merchandise worth 5.95b dollars but earned goods worth slightly over a billion dollars during the first three quarters of the last Ethiopian fiscal year, according to a report published by the National Bank of Ethiopia (NBE). As a result, Ethiopia's trade deficit with the world economies has reached 4.7b dollars during this period.

One of the policy measures taken to narrow the gap is a significant devaluation of the Birr so that imports become expensive and exports become cheaper in the international market. However, the overall policy direction that has been proposed and is consistently being pursued by the administration is export promotion where devaluation is just one of a set of measures to this end. The idea behind this policy prescription is that, if Ethiopia could increase its export of traditional products such as coffee and 'non-traditional' primary products such as flowers, it can address the trade deficit problem, hence the foreign exchange shortage (Fetsum, 2014).

2.1.2. What necessitates International Trade?

International trade enables traders to acquire goods that is not easily available or produced cheaply in home country. The trade also allows the traders to export what is available or produced cheaply in home country.

According to (Seyoum, 2009) international trade allows manufacturers and distributors to seek out products, services, and components produced in foreign countries. Companies acquire them because of cost advantages or in order to learn about advanced technical methods used abroad; for example, methods that help reduce the cost of production lower prices and in turn, induce more consumption thus producing increased profit. Seyoum further argues that trade also enables firms to acquire resources that are not available at home. Besides providing consumers with a variety of goods and services, international trade increases incomes and employment.

The following could be stated as reason for entering to international trade (WTO, 2011):

1. **The principle of comparative advantage:** countries will benefit by concentrating on the production of those goods in which they have a relative advantage. For instance, France has the climate and the expertise to produce better wine than Brazil. Brazil is better able to produce coffee than France. Each country benefits by specializing in the good it is most suited to making. France then creates a surplus of wine which it can trade for surplus Brazilian coffee.

As cited by (Reuvid, 2008) the law of comparative advantage was first articulated by the 19th century economist David Ricardo who concluded that there is an economic benefit for a nation to specialize in producing those goods for which it had a relative advantage, and exchanging them for the products of the nations which had advantages in other kinds of product. They added the theory of comparative advantage can be extended on a macro-economic scale. Not only will trade take place to satisfy conditions of comparative advantage; in principle, the overall wealth of the world will increase if each country specializes in what it does best.

As cited by (W.PUSTAY, 2002) the theory of comparative advantages begs a broader question: what determines the products for which a country will have a comparative advantage? To answer this question, two Swedish economists, Eli Heckscher and Bertil Ohlin, developed the theory of relative factor endowments, now often referred to as the Heckscher Ohlin theory. These economists made two basic observations:

1. Factor endowments (or types of resources) vary among countries. For example, Argentina has much fertile land, Saudi Arabia has large crude oil reserves, and China has a large pool of unskilled labor.
2. Goods differ according to the types of factors that are used to produce them. For example, wheat requires fertile land, oil production requires crude oil reserves, and clothing requires unskilled labor.

From these observations Heckscher and Ohlin developed their theory: A country will have a comparative advantage in producing products that intensively use resources (factors of production) it has in abundance. Thus Argentina has a comparative advantage in wheat growing because of its abundance of fertile land; Saudi Arabia has a comparative advantage of in oil production because of its abundance of crude oil reserves; and china has a comparative advantage in clothing manufacturing because of its abundance of unskilled labor.

A country has a comparative advantage in producing a good if the opportunity cost for producing the good is lower at home than in other country. Portugal has the lower opportunity cost in producing wine, while England has the lower opportunity cost in producing cloth. Thus, Portugal has a comparative advantage in producing wine and England has a comparative advantage in the production of cloth (S.SHIVARAMU, 2004).

2. Uneven distribution of natural resources: Natural resources are unevenly distributed, While some countries are naturally blessed, others have little or no natural resources. This necessitates international trade.

3. Differences in climatic condition (especially when Agricultural goods are concerned): The climatic condition of the earth varies from one region to another. This variation gives rise to growth of different crops, hence the need for exchange.

If a foreign country can supply us with a commodity cheaper than we can make, better buy it of them with some part of the produce of our own industry. Thus, to take some simple examples, if countries with tropical climates can produce bananas or pineapples more cheaply than countries with temperate climates, the latter should purchase these products from the former. Conversely, if countries with industrialized economies can produce hydro-electric generators or telephone systems more cheaply and of better quality than those that could be produced by countries that enjoy a cost advantage in producing tropical produce, the latter should buy these products from the former (Howse, 2005).

4. Difference in prices is the basic cause of trade and reflects international differences in costs. But why should costs differ from country to country? How can a country produce cameras, sewing machines, and cotton shirts more cheaply than other country? Many people reply that a country has lower costs because it has lower wages and wages are important costs (S.SHIVARAMU, 2004).

Success in international trade is determined by the range of products offered, prices of the products, and by the efficiency of processing payment transactions. The terms and conditions that involve in the flow of goods from seller to buyer in accordance with the contract of sale and the consequential flow of payment from buyer to seller are also essential. That is why banks play a part in financing the delivery of goods and guaranteeing payment obligations by offering a wide range of instruments designed to meet the differing needs of buyers and sellers. Trade service and trade finance have, therefore, become a strong bargaining point in the conduct of international trade.

Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. For providing, regulating and creating necessary environment for its

orderly growth, several Acts have been put in place. The foreign trade of a country consists of inward and outward movement of goods and services, which results into outflow and inflow of foreign exchange (Gobal, 2008).

2.1.3. International Trade and Sustainable Development

International trade, when well regulated within coherent policy frameworks, can make an important contribution to sustainable development (ICTSD, 2014). Every economy in the world is involved, to a greater or lesser extent, in international trade. Trade, and the competitive pressures it creates, can help improve the productivity of natural and human resources, particularly land and labor, and the efficiency of local production, generating employment and income. According to the United Nations Conference on Trade and Development (UNCTAD), “trade remains the most reliable and productive way of integrating into the global economy and of supporting the efforts of poorer countries to become less aid dependent.

International Trade is also an essential mechanism that can enable social progress and environmental protection (WTO, 2011). Fighting communicable and non-communicable diseases requires medicines and medical devices to be traded across borders. The world Trade organization does also believe that, trade can help improve food and nutrition security by making food available and accessible in places where it would otherwise be scarce. Without trade, environmental goods and services that reduce greenhouse gas emissions, treat waste water, and reduce fishing by catch would be available only in the countries where they were produced (WTO, 2011).

Trade is essential in making environmental goods both available and accessible to consumers and producers in countries at all levels of development. As UNCTAD explains:

“It is essential that the rules of the trading system enhance the diffusion of goods, services and technologies to help address these threats as well as supporting the spread of sustainable and socially equitable production methods among countries.”

2.1.4. The role of banks in international trade

International trade exposes exporters and importers to substantial risks, especially when the trading partner is far away or in a country where contracts are hard to enforce. Firms can mitigate these risks through specialized trade finance products offered by financial intermediaries or Banks. (Ahn, 2011). When an exporter and an importer transact, they have to decide on how to settle the payment. Tim Schmidt argues that there are some options to effect payments,

1. The exporter produces the good and the importer pays upon receipt (open account).
2. The importer pays before the exporter produces the good (cash-in-advance).

In each case, one of the trading partners bears substantial risks with an open account, for instance the exporter may never receive payment since the buyer may fail to execute his/her duty. Under cash-in advance, the importer may never obtain the goods since the seller may fail to perform his/her duty as well (Tim, 2014). Besides non-delivery and non-payment, there could also be a timing problem. Eventually, the exporter may deliver and the importer may pay, but a long delay would generate significant costs for the other party. To reduce the risk of the transaction for either party, firms can turn to banks, which can act as **intermediaries/facilitator** and thereby gratify enforcement problems. The two most common trade finance instruments provided by banks are letters of credit (which is also called the most secured payment method for both importer and exporter) and documentary collections.

- **Letter of credit** : The international chamber of commerce (ICC) under its 2007 publication of UCP600 defines letter of credit as “A documentary credit means any arrangement, however named or described, that is **irrevocably** and thereby constitutes a definite undertaking of the issuing bank to ***honor complying presentation***”. Letter of credits can also be defined as, a **written undertaking** of a bank on behalf of its **customer (the applicant)** in favor of a named beneficiary in which the bank obligates itself to pay up to a certain sum of money before a certain date upon the beneficiary presenting documents as requested in the credit.
- **Documentary collections**: The ICC publications under URC522 define documentary collection as the handling of documents (financial and/or commercial) by banks in accordance with instructions received from the instructing bank (seller’s bank).

In addition to facilitating payments, banks provide professional advice to their customers before and after signing contracts with their counter parts. Financing the import and export process is also among responsibility of banks to overcome the need for working capital.

2.2. Empirical Literature

2.2.1. Determinants of Foreign Reserves management

According to IMF (2009), Foreign exchange reserves are foreign currency deposits of central banks or other monetary authorities. They are assets of central banks held in different reserves currencies such as the dollar, pound sterling, euro, yen etc. These reserves currencies are used to back central bank's liabilities, such as the local currency issued, the reserves deposits of various deposit money banks (DMBs), government or other financial institutions.

Foreign reserves are used to support monetary and foreign exchange policies, in order to meet the objectives of safeguarding currency stability and the normal functions of domestic and external payment systems. From the onset, foreign reserves were held in gold, but with the advent of the Bretton Wood system, the US dollar was pegged to gold and the gold standard was abandoned. Hence, the dollar, appearing as good as gold, became the fiat and most significant reserves currency.

In today's world, a large foreign reserve partly symbolizes the country's strength, as it indicates the strong backing the currency of the country has. Hence, it attracts confidence of the international community in the country, while low a foreign reserve signals the opposite. The central bank has the statutory responsibility of managing a country's foreign reserves. This responsibility is either enshrined in the country's constitution or an act of law (ECB, 2006a). In Nigeria for example, the CBN Act of 2007 constituted the legal framework within which the CBN carries out its mandate of, among others, the responsibility to manage the country's foreign reserves.

Approaches to the management of reserves vary from country to country depending on the objectives at hand. In the context of fixed or managed exchange rate regimes, the traditional objectives have mostly been formulated with respect to monetary policy and exchange rate management (Carlos et al, 2004). In this case, foreign reserves acts as a buffer against capital

outflows in excess of the trade balance. This makes foreign reserves management secondary to macroeconomic objectives, as liquidity is always the target. This also enables the monetary authority intervene in the foreign exchange market at any given time. Holding foreign reserves under both fixed and floating exchange rate regimes also acts as a “shock absorber” in terms of fluctuations in international transactions, such as variations in imports resulting from trade shocks, or in the capital account due to financial shocks. According to ECB (2006b), the holding of foreign reserves as self-insurance against currency crisis is especially important if a currency is overvalued. Mexico, Korea and Russia, for example, all share relatively recent experiences with destabilizing runs on their currency during a financial crisis. The study, however, argued that this is less relevant to undervalued currencies such as those in most Asian countries. To corroborate the argument of ECB (2006a), Lawrence (2006), noted that the prominent reason that have been put forward for the on-going rapid accumulation of external reserves, particularly in the Emerging Market Economies (EMEs) of Asia, is to insure against currency crisis by allowing relevant authorities to support their own currency. This is in order to avoid the reoccurrence of the currency crisis of the late 1990s. According to him, other reasons for holding foreign reserves do not necessarily require large amounts. He further argued that, foreign reserves may serve an immediate purpose of either fighting inflation or deflation, but large foreign reserves accumulation serves little purpose other than precautionary and that even the precautionary motives of foreign reserves holding is not significant in advanced economies due to flexible exchange rate and strong macroeconomic policies. He, therefore, posited that foreign reserves accumulation is not necessary as it is practiced. Others, however, argued that stockpiling of foreign reserves is critical in this era of open capital markets as a means of safeguarding against capital account crisis. In this regard, Fischer (2001) noted that: “Reserves matter because they are the key determinant of a country’s ability to avoid economic and financial crisis. This is true of all countries, but especially the emerging markets that are open to volatile international capital flows. The availability of capital flow to offset current account shocks reduce the amount of reserves a country needs. But access to private capital is often uncertain, and inflows are subject to rapid reversals, as we have seen in recent years. We have also seen in the financial crisis of the late 1990s and the recent global financial crisis that, countries with robust foreign reserves, by and large, did better in withstanding the contagion than those with smaller foreign reserves” (Fischer, 2001).

Traditionally speaking, as observed earlier, most countries hold foreign reserves in support of the exchange rate policy. This is to ensure foreign exchange stability. In most cases reserves are used to intervene in the foreign exchange market to influence the exchange rate. Since exchange rate regime is bi-polar in nature. A country either practices floating exchange rate, with its inherent exchange rate volatility or fixed exchange rate with its attendant difficulties in absorbing changes in equilibrium real exchange rate. Although, between these two extremes are variety of mixed regimes, but whichever method a country adopts, of course, has its inherent consequences (Michael et al 2006). Therefore, there is need for intervention to smooth exchange rate fluctuations.

2.2.2. Export Proceeds as a source of foreign currency

According to a report from National Bank of Ethiopia, export decreased to 271.5 million USD in February 2013 from 282.8 million USD in January 2013. It is about 4.1 percent decline compared with the previous month of January 2013. It also decreased by 9.12 percent when compared with same month of the previous year. There are various reasons for the decrease on export proceeds.

- ***Price decrease on international market:*** the international monthly average price of coffee (one of the major export item of Ethiopia) fell to 131.35 us cents/lb in February 2013, 0.5 percent lower than January 2013 and about 28 percent lower than February 2012. (CBE, Annual report, 2012/13) Furthermore, total export by Brazil during 2013 was lower than the previous year, suggesting a build-up of stocks in Brazil. Sluggish demand in traditional coffee-consuming markets, which are growing at around 1 percent per year, is also contributing to the general bearish market sentiments (ICO, 2013). Eventually the decline in price of coffee market may reduce the foreign exchange earning of the country.
- ***Lack of export item diversification:*** Among the reasons for the poor performance of the export sector in Ethiopia is lack of diversification of export items. High dependency on agricultural products may result in seasonal earning of foreign currency as well as facing all the risks of rain fed agriculture.

The decline of export has a negative impact on the nation's foreign exchange earnings and so as the CBE's market share of foreign exchange. (CBE R. , 2013)

2.2.3. Export proceeds from manufacturing sector

The Ethiopia manufacturing sector supposes to contribute to the foreign currency generation effort of the country. Among the developed countries, the manufacturing and service sector took the lion share of exportable items as a source of revenue. Melkamsew (2015) argues that the manufacturing industries sector of Ethiopia is not doing as expected, lagging far behind in terms of competitiveness in the international market. This manifests itself in the reality that foreign currency generation from the manufacturing sector is trending down on pars of planned export targets.

Though the first phase of the growth and transformation plan (GTP) already over, export plans increased by an average of 50.6pct while performance remain at 19pct. Even export – oriented industries like leather, textile and garment have been registering low export performance in comparison of the industry plan. What factors are contributing to such restrains in the export of manufacturing items? Melkamsew, lead researcher at Food, Beverages and pharmaceutical industry, further argues that poor planning may be to blame. But most outstandingly, the following phenomena are to blame:

- ***Lack of infrastructure:*** Experts in the developmental state narrative argue that for an intact industry sector to exist, infrastructure development should precede almost everything. Prior to the manufacturing process, roads must be built to connect critical market points within a country and the neighboring regions, power shortages must be sorted out especially to export items manufacturing industries. (Abate, 2015). Though encouraging improvements are reported in road, air transport and telecommunication services, about 70pct of the exporting firms report such infrastructure as well as telephone and communication deterioration as major problems. (Alemayehu, 2014)
 - ***Access to finance:*** The Ethiopian financial sector is not manufacturing – friendly. The corporate nature of banks is infertile to manufacturing investments. The financial industry should be restructured in such a manner that banks should be flexible enough to lend money to manufacturers, since manufacturing is not a quick profit –making enterprise. (Abate, 2015). Alemayehu (2014) has also explains that lack of access to finance is constraining firms from operating at full capacity. Exporting firms exhibiting considerable level of inefficiency with

average capacity utilization rate of around 55pct. These show that Ethiopia's balance of payment is more of structural than financial. (Alemayehu, 2014)

2.2.4. Incentive schemes to promote Export trade

Ethiopia has given greater attention to external trade policies than any other prevailing economic policy. Accordingly, a number of incentives have been put in place. Moges (2008) explains that duties on all exports are now removed; a financial credit support system (Export Guarantee Credit Scheme) to the export sector for pre and post shipments is structured, an export trade duty incentive scheme, duty draw back scheme, voucher scheme, and bonded manufacturing warehouse scheme are made operational; and the foreign credit scheme allows foreign suppliers to extend trade credit to Ethiopian partners (Moges, 2008).

As part of the export incentive schemes, the World Bank, in the Ethiopian economic update entitled "*Strengthening Export Performance through Improved Competitiveness*" has advised the Ethiopian government to devalue its currency to speed up the growth of exports. Empirical evidence presented in the report suggests that a 10pct devaluation rate could increase export growth in Ethiopia by more than five percent per year and increase economic growth by more than two percent.

Alemayehu (2015) argue against the World Bank policy proposition and supporting the current government policy strategy towards the currency exchange rate by stating the following reasons:

1. **Ethiopia imports strategic items:** 70pct are capital & intermediate goods and fuel which are not amenable for reduction because they will be expensive in local currency after the advised devaluation. If imports are expensive in local currency, it will lead to inflation which the GoE has tried its level best to abate it in the last two decades.
2. **Its inflationary effect:** According to Alemayehu and his former students empirical research and forecast on Ethiopian inflation, 20pct devaluation in Ethiopia will have an effect of about 40pct increase in price to consumers which will have a detrimental impact on the welfare of the population, especially the poor.

2.2.5. International Remittances (Private Transfers)

Remittances are among the foreign currency sources of commercial bank of Ethiopia. It has become a rising sources of foreign exchange and hold immense potential as drivers of economic growth and development (ADB, 2015). It can have positive impact to the receiving countries by reducing the poverty level and lead to higher education and health expenditures at household level. Remittances are also a significant contributor to the Ethiopian economy and can help accelerate the country's development. IMF data suggest that remittances and official transfers represent more than 4 percent of Ethiopian gross domestic product, with estimates of remittance values ranging from \$387 million to \$3 billion. This range partly reflects the difficulty in measuring these flows due to the significant use of informal remittance channels as a result of an underdeveloped banking industry and, likely, the tight foreign exchange control regime that the country imposes. (Andersson, 2012)

NBE data indicate that imports surged 87 percent between 2010/2011 and 2013/2014, with half of the required funding for these imports coming from "Private Transfers," including remittances, whereas less than 20 percent was covered by export earnings (Dorosh, 2014). Thus, although these remittances have an important personal value to the recipients, they play a critical role in Ethiopian development.

Several studies have identified means of promoting the use of remittances for developmental purposes, including:

- Promoting competition among money transfer firms to reduce transaction costs.
- Encouraging remitters to shift their business from purely money transfer operators towards broader-based financial institutions that can provide bank account and credit services to recipients.
- Creating innovative financial products that encourage recipients to save part of remittance flows.
- Enhancing the institutional capacity of credit unions and microfinance institutions in remittance receiving countries.
- Promoting Home Town Associations as a means of channeling part of remittances towards community projects.

- Establishing diaspora business networks to mobilize or facilitate investment in home countries.
- Offering bonds to diaspora workers to raise money for investment in their home countries.
- Encouraging the diaspora to make their intellectual capital available to their home countries through visits, consultancies or internet contacts.

Except for the last item, none of these mechanisms is new, and each of them can already show some “success stories”. But both implementation and awareness are very patchy. Latin America, with its large flow of remittances from the United States, has the best developed transfer systems. (UN, 1975)

2.2.6. Foreign Currency Control by National Bank of Ethiopia

The National Bank of Ethiopia (NBE) the regulatory body of financial institutions, has taken over the allocation of foreign currency to importers applying through letter of credit (LC) or other transfer requests made to their banks in view of allocating the limited amount of international currencies (Yewondwossen, 2015).

The practice that has been put in operation recently with regards to all commercial banks, both private and state owned is said to be a move to ensure proper allocation of the much needed currency. Ethiopia has recently been facing hard currency shortage that has become a serious hindrance for business (U.S. Foreign CommercialService, 2014). Due to the shortage, importers have to wait for months to get approval for their foreign exchange application. Meanwhile, bank employees and officials were allegedly accused of abusing foreign exchange applicants requesting to open an LC for their imports. According to sources, due to the shortage and the alleged misdemeanors accusations, NBE took over the role of giving the final approval to foreign currency applications presented to the commercial banks, a new procedure which was not applicable previously.

Furthermore, Ethiopia’s foreign exchange reserves have suffered as a result of the National Bank of Ethiopia’s (NBE) strategy of using the sale of foreign reserves to withdraw excess liquidity from the domestic market. It would generally seem more appropriate to achieve this goal via the

issuance of government securities rather than deplete an important resource for managing the country's foreign exchange rate in support of economic growth.

In relation to the shortage of hard currency, the black market exchange rate shot up in the past few years, which was almost similar with banks' rate before the scarcity occurred. Such control by the central bank existed during the Derg regime but has been suspended for the last two decades, since the advent of private banks, according to sector experts (Yewondwossen, 2015). The hard currency shortage which some relate to the economic growth the country is registering as remained a severe problem especially for the industry sector whose operation is based on imported parts or raw materials. Even though the business community complained about the dire shortage of foreign currency, Prime Minister Hailemariam Desalgn refuted the reports stating that the country has enough reserve of hard currency during his recent deliberation at the Parliament responding to questions raised by MPs. In the past fiscal year the amount of export, particularly coffee has shrunk than the targeted amount. Experts said that the decline in export in some way contributed for the shortage of the hard currency.

2.2.7. Import & Export trade to and from Ethiopia

Import trade in Ethiopia, except a few items, is exclusively reserved for domestic investors. Engaging in an export business in Ethiopia is a good business venture; export from the country is growing and the government also encourages the sector. Ethiopia's main export product is coffee; the country is credited to be the birth place of coffee and it has long been its major export product (Demeke, 1998). Not only that, coffee plays a central role in the Ethiopian social fabric. According to the ministry of trade, Ethiopia imports a wide range of goods: from heavy machinery and steel to chewing gum. A large number of Ethiopian businesses are engaged in import activities. Even though the growing manufacturing industries will provide substitutes for some goods, Ethiopia will very likely continue to import most of the goods it's importing now. Participating in the import trade in Ethiopia may be a good idea for a domestic trader; a foreign exporter also can make use of the growing import to Ethiopia and sell its goods to Ethiopian Importers. Construction machinery and vehicles, steel, chemicals fertilizers and petroleum are some of goods that are imported to Ethiopia in huge quantities.

2.2.8. Import and Export Regulations in Ethiopia

The import export trade has been growing steadily in Ethiopia. However, for successive years the import trade has outweighed the export trade. According to Trade regulations No. 270/2012 or 270/2005 EC, Import trade (excluding LPG, bitumen, and raw materials imported by foreign investors who are in the manufacturing industry) in Ethiopia is exclusively reserved for domestic investors. A businessperson who wants to engage in import trade in Ethiopia must be registered with the Ministry of Trade, which regulates imports, and obtain a trading license. Obtaining a trading license is easy and takes a much lesser time than it used to some years ago.

Importers should get licenses to secure the necessary foreign currency (CBE, 2012). Any purchase worth more than USD.5000 should be processed either through letter of credit (LC) or Cash against Document (CAD).

2.2.9. Export Regulations

According to Regulations No. 270/2012 or 270/2005 EC, export trade of raw coffee, chat, oil seeds, pulses, hides and skins bought from the market and live sheep, goats and cattle not raised or fattened by the investor is exclusively reserved for domestic investors. Foreign investors cannot be involved in export trade of these items from Ethiopia. Businesses that wish to export from Ethiopia should know the export procedures needed to obtain export permit by commercial banks; should prepare application for Quality Testing and Certification to obtain Export Authorization Certificate from the Quality and Standards Authority of Ethiopia; should fill the Customs declaration.

2.2.10. Export permit by Commercial Banks

The National bank of Ethiopia allowed all commercial banks to provide export permits to their customers upon presentation of relevant documents to their banks counter except for china export and coffee.

Documents required for Export Permit Approval:

1. Duly signed contract by seller & buyer undertaking letter of our customer that consignment will be settled within a maximum of 90 days from date of the Foreign Exchange Permit for Cash Against Document (CAD) mode of payment and Authenticated message of L/C opened

for Letter Credit mode of Payment.

2. Seller's invoice / Commercial invoice
3. Export License Valid for the year
4. Tax registration certificate (TIN certificate)
5. Export permit application form duly filled, signed & stamped (as appropriate) by the customer.
6. NBE (National Bank of Ethiopia) issues delinquent list of exporters periodically. Customer's name should not appear in the delinquent exporters list of NBE for the period. If the name appears, there should be subsequent list indicating the given customer has cleared all outstanding items at NBE.

In regards to payment, the exporters have the responsibility of knowing thoroughly the foreign counterpart's (buyer's) financial soundness, reliability, integrity, full address, etc. Sales or Purchase contract should exist between the two parties (importer and exporter). In the case of letter of credit mode of payment, the exporter is expected to go through the text of L/C opened in his/her favor and make sure that compliance can be met Without doubt. Otherwise, amendments need to be requested from opener as soon as L/C has been received or at the earliest - long before shipment of consignments. (CAD Mode of Payment) Follow up the payment, as nonpayment or even delay of remittance above 90 days will put name of exporter in delinquent list freezing further exports until proceeds are received (Ethiopian Chamber of Commerce, 1986).

2.2.11. Evolution of Fertilizer Markets and Policies in Ethiopia

Fertilizer was first introduced to Ethiopia under the Freedom from Hunger program of the FAO in the late 1960s. Despite successful field demonstrations and several deliberate policy attempts to increase fertilizer use in the late 1970s and early 1980s, fertilizer application levels remained very low. At the national level, total imports of fertilizer increased from about 3,500 tons in the early 1970s to 50,000 tons in 2007/08(CSA, 2009). With the introduction of the Peasant Agricultural Development Program (PADEP) in 1986, increasing numbers of farmers started using fertilizer and total imports reached about 145,000 tons by the time the central planning regime of the Derg collapsed in 1991. But since 1992, there have been a number of policy shifts that have shaped and re-shaped fertilizer supply in the country. According to Agricultural transformation agency (ATA), these policy shifts can be grouped into five phases:

- (i) Complete government control (1967-1992),
- (ii) Partial liberalization, with private sector entry and elimination of subsidies (1992-1996)
- (iii) Competition among public, private, and regional holding companies (1997-2000),
- (iv) Exit of private companies (2001-2006), and
- (v) Since 2007, the exit of regional holding companies and the entry of farmers' cooperatives as the distribution channel, with AISE as the sole fertilizer importer since 2008 (ATA, 2012).

From the earliest days of field-level fertilizer demonstration plots to the collapse of central planning in 1991, fertilizer markets in Ethiopia were controlled by the government through its parastatal input marketing agency, called Agricultural Inputs Supply Corporation (AISCO), which was re-named as Agricultural Inputs Supply Enterprise (AISE) in 1992. The AISCO had its own marketing network throughout the country, which included marketing centers and service cooperatives for distributing fertilizers to the farmers. As in many other African countries, AISCO controlled marketing was inefficient and expensive, involving government subsidies to cover its large administrative costs.

According to International food policy research institute the new marketing system, introduced in 1992 as part of its overall market liberalization policies, the transitional government of Ethiopia articulated its desire to end government monopolies. However, private sector entry into the fertilizer sub-sector in Ethiopia was slow in the early years of liberalization. Only one private company, Ethiopian Amalgamated Limited, actively participated in fertilizer imports and distribution until 1996.

2.2.12. Policy implications

Policies to promote improved seed and fertilizer through national and regional, state-run input supply and extension systems initially generated some positive impacts in Ethiopia over the last two decades (IFPRI, 2012). But experience to date suggests that an increasing role of the state will not provide the intended growth stimulus to the agricultural sector. Accordingly the current approach reduces the quality of input services to smallholders, incurs many hidden costs to the government, and generates significant risks to both smallholders and the government.

Due to lack of sufficient infrastructure, public sector involvement in Ethiopia's agricultural sector will remain critical where smallholders have poor access to markets, weak purchasing power, and irregular access to market information. According to International Food Policy Research Institute, public leadership in encouraging private investment in market-based systems remains necessary in Ethiopia where modern market institutions are still under development. Specifically, more consideration should be given to long-term policies designed to build a dynamic private sector to promote fertilizer, seed, credit, and market information systems. The institution further argues that a greater degree of flexibility in how inputs and services are provided and a greater degree of choice for smallholders can open up new market and technological opportunities in the agricultural sector.

Several measures would facilitate the development of an efficient input marketing and rural financial system:

- (1) Policies to open the market (and pricing) for hybrid maize seed—this transition would have to be gradual;
- (2) Policies to liberalize the fertilizer market—this includes liberalizing collateral requirements for fertilizer imports, reducing the credit guarantee to 50 percent and gradually lowering it further until an eventual phase-out, opening the credit guarantee to other certified financial institutions, and liberalizing interest rates;
- (3) Deep reforms in the extension system—these need to extricate the system away from top-down, package approaches to a more dynamic, responsive, and competitive service provision;
- (4) Innovative programs should be continually explored—including price risk mitigation based on a combination of market and non-market management tools, scaling up weather insurance schemes, developing a comprehensive market information system to support the commodity exchange, and liberalization of the telecommunications sector to improve rural access to information and communications technologies; and
- (5) More resources should be invested in regular and methodical assessments of the impact of the extension and input supply system which will make it possible to evaluate where the disincentives, bottlenecks, and structural issues are in the system, and how they can be remedied.

Of course, these recommendations also recognize the necessity of continued public engagement in input markets and extension services. What is needed is a strategic and well sequenced effort over the medium term to carve out new space for private investment in providing goods and services for smallholders.

2.2.13. Agricultural Development Led Industrialization (ADLI) & Food Security strategy in Ethiopia

ADLI is seen as a long-term strategy to achieve faster growth and economic development by making use of technologies that are labour intensive, but land augmenting, such as fertilizer and improved seeds and other cultural practices. During the first stage of ADLI, agriculture is to play a leading role in the growth of the economy. But the extremely small ratio of urbanization of the country threatens to make inadequacy of domestic demand a critical constraint. This implies that agriculture has to be made internationally competitive, and that part of its production has to be oriented towards exports.

For agriculture to continue serving as an engine of growth in the coming years, through the domestic economy and international trade, there has to be progress in terms of commercialization, with more intensive farming, increasing proportion of marketable output and correspondingly decreasing ratio of production for own consumption. A side from deepening technological progress, it will mean greater market interaction on the part of the farmer. Extension of credit to the small farmer will gain importance with commercialization of agriculture, and give impetus to the establishment of rural banks. Cooperatives play important roles in facilitating input and output marketing as well as in promoting the provision of rural finance. The problem of food security and agricultural growth in pastoral areas is being conceived in terms of the development of the pastoral economy in its entirety. Unless industry (secondary-modern goods producing sectors) and services (tertiary-distributive and other services) grow in conjunction with agriculture (primary –agriculture and allied activities), it is not possible to ensure accelerated growth and sustainable development (Demeke, 1998). In an agrarian economy such as Ethiopia, the resources for the development of the industrial sector need to be generated via primarily creating strong bondages between agriculture and industry and subsequently exploiting these linkages via the concerted efforts of non-state actors, particularly the **non-peasant private sector**.

In this regard, the government has already recognized the key role that the non-peasant private sector is expected to play in directly taking part in agricultural production, agricultural marketing and processing agricultural products (Aaditya Mattoo, 2008). The government will make every effort to enhance and buttress the contribution private sector (domestic and foreign) will make to agricultural development endeavors. The federal government, in collaboration with regions, will work hard to allocate land for commercial farming, make sure that there are adequate infrastructure facilities, and streamline and make efficient land lease procedures for entrepreneurs who wish to set up large – scale commercial farms. For those who want to rent land from farmers and take part in agricultural activities, the federal government, again in collaboration with the regions, will work out an efficient arrangement, which will safe guard the interests of all parties concerned (Marin, 1992).

2.2.14. Fertilizer vs. Ethiopian Agriculture

Among the modern inputs emphasized by the Government to promote agricultural intensification, fertilizer has received priority attention. Ethiopia depends entirely on imports to meet its annual chemical fertilizer demand (World Bank, 2010). In 2008, with foreign exchange reserves in the country at an extreme low and international price of fertilizers at an extreme high, the Government requested the World Bank under the Global Food Crisis Response Program (GFRP) for support to import fertilizers, and FSP came into being as a part of the Ethiopia Emergency Food Crisis Response Program (EEFCRP). EEFCRP had two parts. Part A was additional financing for Bank support to the Productive Safety Net APL II project and Part B was Fertilizer Support Project (FSP).

With an appraisal amount of US\$250 million, FSP's development objective was to contribute to the Government's efforts to ensure an aggregate availability of supply of chemical fertilizers for the 2013-2014 production season, adequate to meet smallholder farmers' priority demands. The program goal was to increase the likelihood that crop production in 2014-2015 would remain on or near the growth trends of recent years. Taking advantage of the flexibility in its procedures under the Operational Policy/Best Practice and the newly approved GFRP, the Bank responded with quickly to the emergency situation in the country. According to the World Bank report the project helped the Ethiopian government import 510,370 MTs of fertilizers. Including imports financed by other donors and left-over stocks from the previous year, a total of 727,637 MTs of

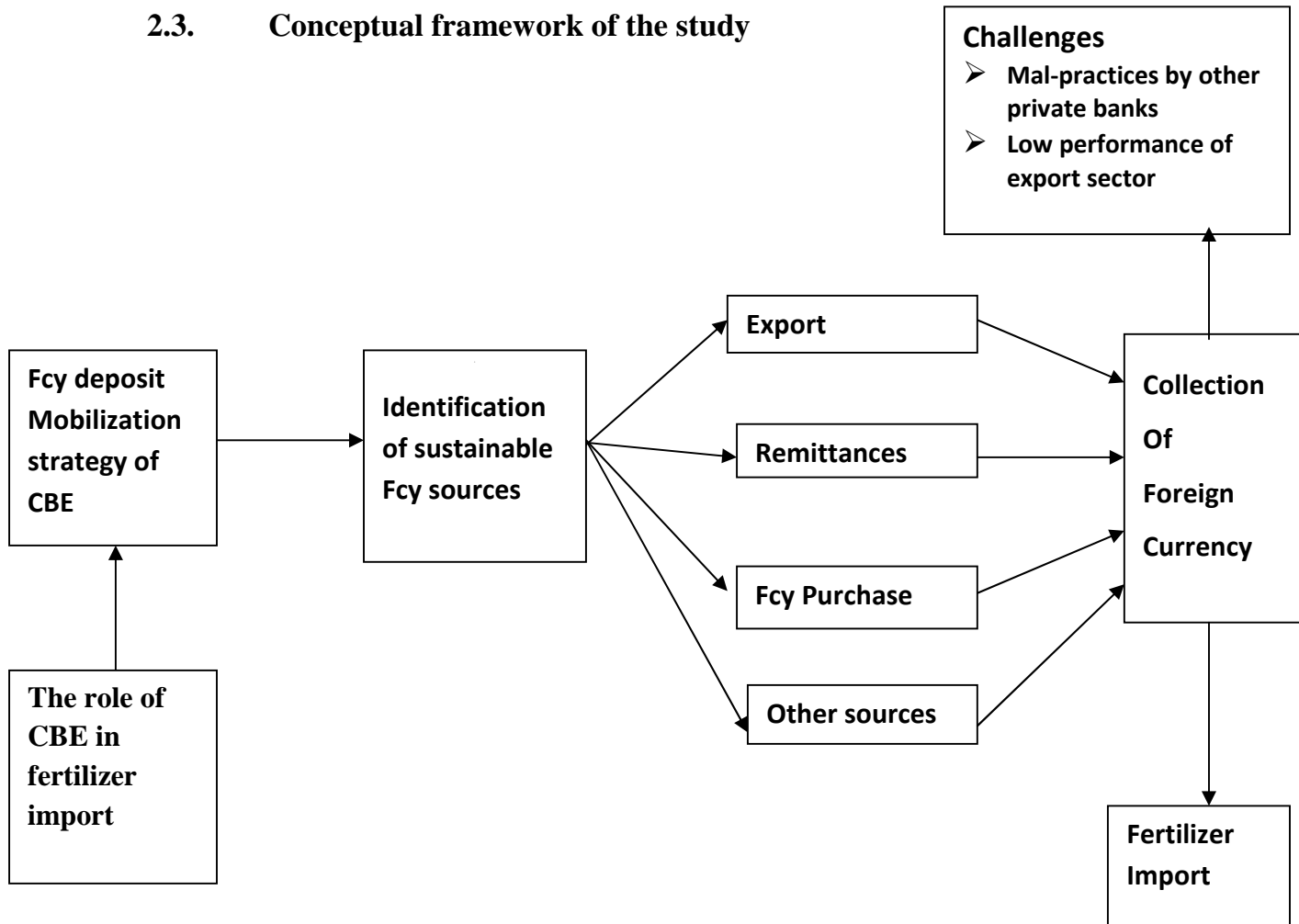
fertilizer was available in the country against an actual demand of about 427,000 MTs for the 2014-2015 production seasons.

The logistical and capacity constraints of importing both large quantities of fertilizers and food aid, through the Djibouti port were overlooked during preparation and appraisal. Consequently, congestion at the Djibouti port led to delays and higher costs of the World Food Program's (WFP's) response to the humanitarian crisis, arising from the poor rains in the same year.

According to Ethiopian development research institute, imported fertilizer use in Ethiopia has increased from 250,000 tons in 1995 to 400,000 tons in 2008 when measured in terms of quantity, a growth more rapid than the average for Sub-Saharan Africa over the same period. A significant portion of smallholders use fertilizer: 39 percent according to CSA and 32 percent according to the 2005 ERSS survey. Teff, wheat, and maize cultivation account for the majority of fertilizer use. However, smallholder usage of fertilizer and seed-fertilizer technology packages tend to vary dramatically between seasons, while data on application rates (kg/ha) often tell a variable and confusing story. For example, a study conducted by EEA/EEPRI (2006) notes that up to a third of the farmers covered by the Participatory Demonstration and Training Extension System (PADETES) dis-adopted the seed-fertilizer technology packages over time, likely due to the high cost of inputs, insufficient credit and credit rationing, lack of varieties appropriate to farmers' needs and other factors.

Various researches show that the return to fertilizer use has been generally positive in recent years with a Value Cost Ratio around the threshold of 2, suggesting that fertilizer prices in Ethiopia are competitive. Nonetheless, the ability to provide the right type of input of good quality to farmers in a timely manner is equally important. The distribution system in Ethiopia is inflexible, providing only DAP and urea in 50 kg bags and often delivering fertilizer well past the time needed to optimize its use. Moreover, fertilizer distribution is closely tied to the state-run credit system which, while addressing the credit constraints facing many smallholders, also limits the space available for the emergence of private sector retailers.

2.3. Conceptual framework of the study



- As a developmental partner of the GoE , CBE has several roles on the economy among which supporting the import process of chemical fertilizer is one of them.
- To maximize the foreign currency earning the bank devised a foreign currency mobilization strategy as part of the corporate strategic plan.
- The foreign currency mobilization strategic plan identified sustainable foreign currency sources and allocates responsibility to various sections / departments with the respective proper action plan.
- The main foreign currency sources which calls the bank’s efforts for mobilization are export, remittances and Fcy purchases
- During the collection process of foreign currency, the bank faced stiff challenges with respect mal-practices by some private banks.
- Despite the un-natural competition, the bank manages to facilitate the import process of inorganic fertilizer on annual basis.

Chapter Three

Research design and methodology

3.1. Research design

Research design defines the systematic and scientific procedures used to arrive at the results and findings for a study against which claims for knowledge are evaluated (Kotler P., 2002). To achieve the objectives stated under section I, descriptive type of research design is adopted. The overall design of the research is qualitative since it allows the collection of data through questionnaires as well as interviews on the bases of sample. The strategy employed is used to further investigate the relationship between two or more scenarios. It also helps in describing the challenges affecting different operational organs of the bank during the effort of mobilizing foreign currency.

3.2. Data Sources

The main data source under this study is collection from both primary and secondary data sources.

3.2.1. Primary Sources of Data

Semi - structured interview questions are designed and conducted to key informants located in CBE, NBE and AISE. This study considers two major scenarios, namely foreign currency deposit mobilization strategy of CBE and the CBE role in the import process of chemical fertilizers by government of Ethiopian. Therefore, the research further describes the relationship between the two variables but focusing mainly on the former.

3.2.2. Secondary sources of data

To supplement the primary data, the researcher also collects secondary data from different sources such as CBE trade service policies and procedures, the bank's various year annual reports and publications, books, periodicals. The secondary data are also collected from other published and unpublished reports, articles and websites.

In order to achieve the objectives of the study, key informants are selected from CBE as follows:

1. **Director Trade service central processing center:** To understand the process of the international trade practices of the bank, especially the import process flow of chemical fertilizer.
2. **Director Fund Management:** To gain brief understanding on how CBE entertain the wide foreign currency request for imports taking in mind the limited availability of foreign currency.
3. **Director corporate Credit and three relationship managers (RM) who are signed for each regions loan disbursement including AISE (Oromia, Amhara& SNNP):** The bank's 2013/14 annual report shows that the bank has additional responsibility of granting loans for each region while procuring the fertilizer process. The researcher undertakes an interview to investigate the loan granting process and the respective link with the fertilizer import procedure. This is due to the end to end process of fertilizer import incorporates the bank's trade service and credit departments.

Interview conducted to NBE head of foreign currency exchange monitoring and evaluation department. As a state owned and regulatory organ, the researcher believes that the NBE has similar developmental responsibility like CBE to support imports of chemical fertilizer. Therefore to comprehend this cooperation between NBE and CBE, especially on availing foreign currency, the researcher incorporated NBE official as part of the study.

In Addition, interview also conducted to the directorate director of the agricultural input supply enterprise (AISE). The enterprise is the sole importer and distributor of chemical fertilizer being an organ under the Ministry of Agriculture. The principal aim of this interview is to understand the process flow of fertilizer focusing on CBE's roles on facilitating the import process and effect of challenges during the import process.

Since increasing the earnings of export proceeds are among CBE's strategy to earn foreign currency, questionnaires are used to investigate the bank's foreign currency mobilization strategy through exports is actually supported by the exporters' dedication to work with the bank. Therefore, in order to explore the exporter's perception towards the CBE foreign currency mobilization strategy; questionnaires are prepared based on the following population.

3.3. Population

The target populations of this study are exporters who use to or currently working with commercial bank of Ethiopia. It is impossible to clearly define the number of exporters of the bank due to competition with other private banks. Hence these customers will appear in some period of time when it is convenient for them to deal with CBE and disappear when they feel better to work with other banks. However, the study includes the number of population actively working with the bank in Trade Service Special Outlet. The researcher purposively takes population from this special outlet since almost all CBE's TS customer appears in this outlet for on-6e or another reason. For instance the government of Ethiopia forbids private banks to process permits for exports to china. Therefore, all shipments to china are processed only through CBE's Trade Service Special Outlet. The number of exporters' population actively working with this special outlet is approximately about 640 which make the total target population for this investigation.

3.4. Sample and Sampling Techniques

Sampling is the process by which a relatively small number of individuals are selected and analyzed in order to find out something about the population (VanderStoep, 2009). So the method of sampling employed for this research is purposive type of non-probability sampling by which the researcher contacted only most relevant respondents for the interview. The purposive sampling technique is also chosen to take sample from exporters because it is actually impossible to carry on a probability sampling because there is no point in time during which all the exporters are around and also difficult to access the selected customers to their address.

The researcher used the following sample size determination formula to determine the sample size of the population. The formula was developed by (Taro, 1967). It is calculated as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where n= is the sample size,

N = is the population size, and

e = is the level of precision or sampling error = (0.10). The precision taken for the exporters has widened to 10 pct since the sample is taken on the availability of exporters and on the convenience of getting their response.

To determine sample from total population 640

$$n = \frac{640}{1 + 640 (0.1)^2}$$
$$=86$$

3.5. Data Analysis techniques

Based on the type of the data collected through questionnaires the following procedures and statistical tools were employed. Data was checked for consistency and completeness and then coded, checked, and entered to computer. Then, it was processed and analyzed by Statistical Package for Social Sciences (SPSS) version 20. To analyze the data, different kinds of statistical methods including descriptive statistics are used. Furthermore, descriptions were made based on the results of the tables and figures using mean value, percentage, rank order and standard deviation. The data collected through open ended questions and interviews were analyzed qualitatively by descriptive statements.

3.6. Reliability test

Test for reliability of constructs is indirectly achieved by testing the reliability of the scale measurement used in data collection. Scale reliability test methods available to researches include test-retest, equivalent form, and internal consistency. This reliability test is conducted for the questionnaires distributed to exporters. Out the 64 exporter respondents, 15 were selected for the reliability test of Cronbach Alpha.

Table : 3.1. Reliability test

**CBE export customers Case
Processing Summary**

	N	%
Valid	15	100.0
Cases Excluded ^a	0	.0
Total	15	100.0

To comprehend the exporters' attitude towards working with CBE the questionnaire distributed has 100% response achievement with none exclusion.

Reliability Statistics

Cronbach's Alpha	N of Items
.835	52

Reliability is fundamentally concerned with issues of consistency of measures (Bell.E, 2003). According to (Hair, 2006) , if α is greater than 0.7, it means that it has high reliability and if α is smaller than 0.3, then it implies that there is low reliability.

3.7. Validity, Reliability and Triangulation

How do we know that what the participant is telling us is true? And if it is true for this participant, is it true for anyone else? And if another person were doing the interview, would we get a different meaning? Or if we were to do the interview at a different time of year, would the participant reconstruct his or her experience differently? Or if we had picked different participants to interview, would we get an entirely dissimilar and perhaps contradictory sense of the issue at hand? These are some of the questions underlying the issues of validity, reliability, and generalizability that researchers confront (Seidman, 2006).

Validity

The validity of findings or data is traditionally understood to refer to the 'correctness' or 'precision' of a research reading (Ritchie and Lewis, 2003:273). Although the validity of 'measurement' is seen as a primary concern of quantitative research, and of positivist research more broadly, it is widely recognized that it is an equally significant issue for qualitative research. But the questions posed are different ones and relate more to the validity of representation, understanding and interpretation. In order to meet validity criterion, this research has used different combinations of data gathering tools.

Reliability

Reliability is generally understood to concern the replicability of research findings and whether or not they would be repeated if another study, using the same or similar methods, was undertaken (Ritchie and Lewis, 2003:270). The possibility of another researcher in the future obtaining similar findings could slightly be different as it depends more on the type of issues, time, purpose, changes and processes used. Similar or repeated findings or results arrived at by another researchers will be an argument because problems like the change of respondents' opinion on issues, the time lap between the researchers, new regulations of the local government, the response given by the government or other stakeholders to solve or bridge the problems or gaps found in the study may have influence on the result arrived at by other researchers.

Triangulation

Triangulation may take several forms, but commonly refers to the employment of multiple data sources, data collection methods, or investigators. In general, the purpose of this would be reduce the disadvantages inherent in the use of any single source, method or investigator (Long and Johnson, 2000:34). Triangulation may involve the use of different methods, especially observation, focus groups and individual interviews, which form the major data collection strategies for much qualitative research (Shenton, 2004:65). So based on the above justification the researcher for this paper has used different types of data collection instruments such as interviews and questionnaire in order to triangulate the research results.

Triangulation is more a direct check on the validity of observations by crosschecking them with other sources of data. If a researcher's conclusion is supported by data from other sources, then we can be more confident of its validity. Triangulation can involve comparing data on the same behavior from different researchers (as in reliability checks in more-structured observation) who possibly adopt different roles in the field (Sapsford and Jupp, 2006:89).

3.8. Ethical Consideration

Before the research was conducted, the researcher informed the participants of the study 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.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter deals with data presentation, interpretation and analysis of the study. The data that have been described in Chapter 3 are also analyzed and discussed in this chapter thematically. The chapter has two major themes. The themes were selected basically from the research questions and of course from the responses in the interview and questionnaire. The data collected through interview contains information on the several aspects of the foreign currency deposit mobilization effort of the bank which makes the first part of the analysis. But the researcher got very selective and focused only on few common themes and analyzed them under four major sub topics. They include: Institutional capabilities of the bank in mobilization foreign currency, Challenges of foreign currency deposit mobilization strategy of CBE, the impact of shortage of foreign currency shortage in the procurement of chemical fertilizer and major sources of foreign currency for CBE. The analysis made on the interview responses are consolidated under each sub-topic since the issue of foreign currency scarcity and mobilization is not the responsibility of one department or bank, rather several government and non government offices can also be considered as stakeholders. Therefore, researcher consolidated similar responses to make the analysis more readable.

4.2. Institutional capabilities of the bank in mobilization foreign currency

The CBE corporate strategy was set for the second time in 2015, for the upcoming consecutive five years, in line with the Growth and Transformation Plan (GTP II) take off by the Ethiopian government. As a developmental partner the bank has devised various strategies among which foreign currency deposit mobilization is one of them. It is understandable that the Ethiopian economy is highly dependent on imported goods to stabilize the smooth operation of the economy. CBE is the only importer of critical import items like chemical fertilizer for the agricultural sector, petroleum, medicines, raw materials and consumables. To pay for the import of these items sustainable foreign currency sources are mandatory. As stated in the literature (table 2) to meet the strategy of the foreign currency earning the bank formulated an action plan and allocates responsibility to various sections of the bank. Trade services department takes the

lead of the foreign currency collection through export and remittance. As the data collected through various instruments indicates trade services department has additional responsibility to make sure that the requests for services by exporters are fulfilled in efficient and effective manner. In doing so the service excellence target of the bank shall be met in order to maximize customers' satisfaction which keeps coming for export business with the bank. The main point here is, since exporters have several banks to choose to do their export business, the bank believes excellent service is the main tool to make CBE among the exporters choice.

Moreover, the data from interview with key informants indicates that trade services department has target foreign currency generation action plan through remittance and export proceeds. Therefore, with regard to remittances, the section makes critical effort beginning from identifying specific duties to actually put the plan on the ground and follow the progress at the end of each quarter. The section has also a success story for the past few years in collecting foreign currency through remittances.

The mechanisms that the bank employed to boost the earnings of foreign currency through remittances are various. For instance working with Ethiopian embassies all over the world in collaboration with ministry of foreign affairs to enable Diasporas to open foreign currency account with CBE right from where they live through the respective Ethiopian embassy. The process helps the bank to generate foreign currency deposit through remittance to these accounts. Another instrument employed is working with as much remitting agents as possible. The bank is currently working with more than hundred remitting agents like Western Union, Atlanta, Ria etc. So that CBE will be the chosen bank from which customers receive their money sent from worldwide. On the other hand to promote the foreign currency earning through purchase of cash notes, this is called service receipt, the bank rewards its customers with mobile prepaid credit card and other incentives. The bank has also put in place several similar mechanisms to increase the foreign currency earnings through remittance including providing the service free of charge.

4.3. Foreign currency earning action plan initiatives

The following are some of the action plans formulated by the bank to achieve the foreign currency earning strategic objectives of the bank. To avoid repetition, only selected action plans are explained further.

Remittance

- **Enhancement of service quality:** Among the conditions stipulated to boost the foreign currency earning through remittance is maintaining high quality service. The competition to gain the bigger foreign currency market share among private banks also incorporate service quality, therefore the bank is determined to alleviate its service quality at its level best to attract individuals to use CBE for their remittance needs.
- **Undertaking Aggressive Promotion & Awareness Creation:** Promotion and awareness creation programs are mandatory to enable the bank gain the expected foreign currency through remittances. Since larger part of the society is unbanked and chooses informal way to receive money worldwide, promoting CBE's remittance services as one of the fastest in the market and more proximate to the society is necessary.
- **Strengthening Relationship Marketing:** Creating and retaining strong relationship with customers is basically the main tool to encourage the customers to works with CBE.
- **Enhancing System Efficiency:** System interruptions shall be avoided by working closely with the concerned government offices.
- **Enhancing Accessibility:** Accessibility of services through branch expansion is part of the bigger strategy of the banks expansion plan.
- **Working with Development Partners:** work collaboration with developmental partner is also part of CBE's strategic action plan. CBE is supporting the economy as per the direction given by the government therefore the bank operation should coincide with the various developmental partners to achieve the common objective.

Export

- **Enhancement of service quality:** Improving service quality on export processes is formulated as part of the mechanism to attract export businesses to the bank.
- **Enhancing Service Efficiency:** Provision of export services with minimal cost is also among the bank's action plan. The bank only gain foreign currency by processing export transactions since to promote the sector any charge in connection with exports are waived. Therefore the bank plans to provide the service efficiently.
- **Enhancing Integration between Processes:** More than one department processes involve on a single export transaction. Therefore CBE's top management believes integration between processes to maximize customers' satisfaction and avoid imminent delays.
- **Expanding Product Channels:** Assessment of new product channels is underway by the bank to introduce additional service products under export businesses. For instance interest free banking in export services can be mentioned.
- **Enhancing System Efficiency**
- **Strengthening Relationship Marketing**

FCY Purchase

- **Enhancement of service quality**
- **Undertaking Aggressive Promotion & Awareness Creation**
- **Establishing Sustainable linkage with selected development partners:** CBE is working with concerned government organs to minimize or even avoid the illegal foreign currency flow in the market. For instance, CBE work with federal police to avoid the foreign currency sale and purchase in black market which result in contraband transactions.
- **Carry out financial literacy programs:** According the bank's corporate strategy, the bank also took the responsibility of creating awareness on the foreign currency usage polices of the National bank of Ethiopia.

➤ **Strengthening Relationship Marketing:**

4.4. Challenges of foreign currency deposit mobilization strategy

All banks in Ethiopia work towards boosting their foreign currency earning but CBE focuses on utilization of the gained foreign currency on developmental aspect as per the direction set by the government. Therefore the competition with other private banks towards maximizing the foreign currency earning market share is very stiff and according to the information gathered, some private banks even went through illegal operations to gain and utilize the currency.

Even though the bank owns survey records show the export market share of the bank is promising as compared to other individual private banks, exporters are currently under pressure to work with other private banks. According to the available data from the interview conducted, international market price fluctuations of export items pushes exporters bankrupt since most exporters are unable to pay the huge pre-shipment loans taken from the bank. This threatens not only CBE but has country wide negative implication. Now the foreign currency earning process through export is minimal in general terms in comparison to remittance.

CBE's foreign currency earning through export proceeds is at its ground level in recent years. This is due to among other causes and as per the bank's officials, mal-practices observed by some private banks. Most exporters have other import business in addition to their export process. Therefore in order to utilize the foreign currency they generated through export to their import side business, most exporters choose to use private banks. CBE strictly follows NBE's rules which refrain exporters not to use their foreign currency gained from export proceeds for their import needs unless the imported items directly help their export business. For example any coffee exporter can only use the foreign currency gained from export to import trucks for the purpose of transporting the export goods to ports. In a similar manner an exporter can import coffee milling and packaging machinery to install new, expand or maintain the existing factory/plant. But the NBE directive strictly forbids importing reinforcing still bars for resale to the booming construction or any other commodity for resale using the foreign currency earned from export of coffee, sesame seed or any exportable items.

According to the respondents of the interview, the other major incident of mal-practices by some private banks, in which still under investigation by NBE, is selling of export proceeds in black

market price. This is done out of the normal banking channel that the exporters sell their export proceeds to other random importers. For instance if one exports \$100,000.00 then the exporter receive two to three birr for each dollar from any random importer/s and instructs the exporting bank to give the foreign currency earned from the export to these importers. Eventually, most export business owners are attracted to this kind of malpractices. This kind of un-natural competition by some private banks makes it challenging for CBE in bringing the foreign currency from exports to more sensitive developmental aspects.

On the other hand, despite the Ethiopian government high desires to make the manufacturing sector as a major contributor to the export sector, the manufacturing sector still show very little progress during GTP I. Even though the sluggish progress of the manufacturing sector has a country wide impact on the developmental effort of the country, the bank as developmental partner and major supporter of the manufacturing sector, challenged to gain foreign currency form the sector as stated on the literature review.

4.5. The role of the bank in the import process of chemical fertilizer

The bank's deposit mobilization strategy (both local & foreign currency) has several objectives besides just generating foreign currency to the respective stake holder. The main motive of the strategy can be seen from different angles such as teaching and promoting saving to the general population as well as being strong developmental partner of the government. The foreign currency deposit mobilization strategy particularly helps in facilitating the importation of major / critical items like petroleum, fertilizer, raw materials for manufacturing plants etc. CBE is the only commercial bank that processes the Ethiopian government import needs (in general terms) despite facing the foreign currency shortage.

The banks foreign currency deposit mobilization effort has a direct spillover benefit to the agricultural sector. CBE supports the developmental process of the agricultural sector by facilitating the import needs of fertilizer on a yearly basis. According to the respondent from AISE, the process of procurement of chemical fertilizer begins from assessment of fertilizer needs by each region during the budget year. After the total metric ton of fertilizer required by each regions are identified, the ministry of agriculture through its section called Agricultural Input Supplies Enterprise announce international bid. Before the actual import process, the

Ministry of finance (MoFED) notifies CBE's credit section the total amount in birr allocated for procurement of chemical fertilizer during the budget year. The CBE credit department in return allocates fund in local currency for each regions based on the approved budget by MoFED and in accordance with the assessed need. Trade service central processing center will then take the responsibility of opening letter of credit upon fulfillment of the following conditions.

- Foreign currency approval certificate from the bank's fund management section
- Bid award certificate from AISE
- Properly filled LC application form
- Insurance certificate and
- Proforma invoice

Once letter of credit is issued and routed to the supplies' bank, CBE is fully responsible to pay suppliers of the fertilizer up on arrival of shipping documents at the bank's counter according to the rule set by international chamber of commerce (ICC) publication, UCP600. Therefore, in order to avoid such complication, in case of shortage of foreign currency, the bank devised the requirement of presentation of foreign currency approval certificate from fund management department before issuance of any letter of credit.

As the data collected from fund management reveals the responsibility of the department is crucial for the smooth operation of import letter of credit processes of the bank's international trade. The fund management always engaged in checking the availability of sufficient foreign currency in offshore CBE accounts (nostro account) before the bank gone through import commitments. The department also deals with foreign currency buying and selling i.e. cross currency dealings as well as buying of foreign currency from the NBE reserve in case critical need arise.

The involvement of the bank's credit department in the procurement of chemical fertilizer is subsequent to shipments are effected and as the time of settlement of the letter of credit. As stated above loan account on half of each region is created according to MoFED letter of guarantee and fund is disbursed from the bank's own account with an interest rate of 7.25% per annum (less than the market price) for the payment of fertilizer in local currency. The credit department then claims the amount with interest from MoFED before the end of the budget year.

In general terms, the responsibility of the bank is crucial in the import process of chemical fertilizers and can be categorized in three.

- Facilitating the import process (Issuance of import letter of credit)
- Granting of loans for each region for purchase of fertilizer in local currency
- Availing foreign currency by the bank's own means which calls for the banks foreign currency deposit mobilization strategy.

Under normal circumstance availing foreign currency comes before facilitating the import process. Hence CBE works hard towards generating sustainable foreign currency to accomplish the bank's responsibility to the society.

4.6. How the bank prioritize and allocate the scarce foreign currency

The bank's prioritization of foreign currency is in accordance with the developmental direction of the country and as a developmental partner the bank supports the growth direction of the country. Therefore, as per the data collected from CBE's fund management department, the first priority item is petroleum i.e. any available foreign currency is channeled towards the import of petroleum whenever a need arise. But as an area of prioritization export, manufacturing and agricultural sectors can be mentioned. The second priority item for granting foreign currency by the bank is medicine. Lack of availability of sufficient medicine compromises the well being of the society hence the item is also given top priority for import by the bank. All other import goods fall below the two items. The category of medicine includes all those who are engaged in the manufacturing as well as distribution of the item.

On the other hand manufacturing as a sector is divided into two parts during allocation of foreign currency

- Those who manufacture for local consumption and
- Those who manufacture for export purpose

Even though the bank grants foreign currency for all manufacturing industries, those who engaged in the manufacturing of export products and import substitution is given special consideration.

The case of agricultural products also there are different criteria of categorization while granting foreign currency

- Those agricultural products which are produced for local consumption
- Those agricultural products which are used as raw material for the manufacturing industries or agro-processing manufacturing industries
- Those agricultural products which are used for export such as coffee , sesame seeds, spices etc

Therefore, the bank specifically focuses on the agricultural sector because the major exportable items are generated from agriculture and the sector also needs to be supported to become the major contributor of raw material for the manufacturing industries. Therefore the bank's foreign currency prioritization aims at meeting the common goal of the interlinked developmental strategy of the government.

The bank entertain the foreign currency needs of export, manufacturing and agriculture sectors as a top priority areas since they go hand in hand and support each other. For instance there is export in the industry sector and also there is export in the agricultural sector therefore promoting these sectors can mean promoting export which further helps in the generation of foreign currency and vice versa. A typical example can be granting foreign currency to leather industries for the purchase of raw materials or chemicals can mean on the other hand the bank is supporting the export of leather and leather products to the international market.

4.7. Major sources of foreign currency at the time of scarcity to pay for imports

Among the sources of foreign currency stated in the CBE strategy, remittance and export takes the lion share. According to the bank's key informants, CBE has additional option to raise foreign currency through short term foreign loans from its correspondent banks. The loan is payable, with interest, in most of the cases within 180 days as per agreed upon interest rate. This has become beneficial to CBE at the time of accumulation of payment commitments which may result in black listing the bank as a major defaulter to effect payment on time in the international banking industry. The other mechanism the bank use, at the time of shortage of foreign currency to pay for imports of government purchases, is by requesting NBE for intervention fund. Intervention fund is a process of transferring foreign currency from NBE foreign currency

reserve account to CBE nostro accounts maintained offshore for settlement of commitments. According to key informant from NBE, intervention fund requested by CBE in two scenarios:

- Buying foreign currency against CBE's local currency account: when the CBE liquidity (capital) is in a better position and only if NBE has enough foreign currency reserve.
- Government purchases: when CBE imports on behalf some government agency and the agency maintains foreign currency account with NBE. The bank requests NBE to transfer the foreign currency from the agency to pay for the import.

The main point to be noted here is all commercial banks have the responsibility of generating their own foreign currency. CBE has also designed a strategy to maximize its foreign currency earning capacity, since NBE acts as the only regulatory body and does not have additional responsibility to assist banks in the case of shortage of foreign currency. But if the need arise for foreign currency, any commercial bank including CBE can buy from National bank to process imports keeping in mind that NBE may refuse the foreign currency request for various reasons.

4.8. Foreign currency deposit mobilization strategies of CBE

Banks in Ethiopia strive to make sound financial reserve both in local and foreign currencies in order to sustain their operation towards making profits. Foreign currency mobilization is one crucial components of the overall resource mobilization strategy the CBE has devised. The bank's annual report for the budget year 2012/13 explains that the total foreign currency inflow excluding purchase and intervention fund from NBE had reached USD 4.8 billion.

Table 4.1. CBE foreign currency receipts in millions of USD

Description	2012/13	2011/12	Percent change
Export	1071.0	1274.0	-16
Remittance	3,740.9	3627.4	3.0
FCY Purchases	318.1	462.9	-31.3
Service receipts	1323.2	1364.5	-3.02
Private transfers	1600.1	1183.4	35.2
Official transfers	499.5	616.6	-19.0
Total inflows	4811.9	4901.4	-1.8

(Source: CBE annual report 2012/13)

Accordingly, the total foreign currency earned by the bank from private transfer has substantially exceeded the previous year same period by 35.2 percent. This is due to the bank undertook major branch network expansion and parallel launching of Western union, Money Gram and Xpress Money transfer services to more branches of the bank during the period. (CBE, Muday Niway, 2014)

As explain in section one, fare generation of foreign currency by the bank's own means is compulsory to support the country's need of foreign currency to import crucial items like fertilizer. Among the sources of foreign currency exports and inward remittance takes the major share.

4.9. The CBE Corporate Strategy (2015/16-2019/20)

In the development of the CBE strategy for the upcoming five years, nine steps of balanced scorecard are devised. And the strategy is further divided in to two main steps:

Strategy Formulation steps:

- Step 1: Environmental assessment
- Step 2: Strategy development
- Step 3: Strategic objectives
- Step 4: Strategy mapping

Step 5: Performance measures and targets

Step 6: Strategic initiatives

Strategy Implementation steps:

Step 7: Automation

Step 8: Cascading

Step 9: Monitoring and evaluation

The strategic formulation step number 5 further subdivided into various corporate targets. Among which foreign currency earnings targets and foreign currency payments are incorporated.

Table 4.2. Foreign Currency earning target of CBE 2015 -2020

In millions of USD

	June 2015	Jun-16	June 2017	June 2018	June 2019	June 2020	Total
Export	972.8	1,648.90	2,061.10	2,576.40	3,220.50	4,025.60	13,532.50
Service Receipt	1,716.60	2,096.50	2,409.20	2,768.50	3,181.50	3,656	14,111.70
Private Transfer	2,030.30	2,696.30	3,270.60	3,967.20	4,812.20	5,837.20	20,583.50
Official Transfer	881.2	1,075.80	1,210.30	1,361.60	1,531.80	1,723.30	6,902.80
Total	5,600.90	7,517.50	8,951.20	10,673.70	12,745.90	15,242	55,130.30
Export Growth rate		69.50%	25%	25%	25%	25%	
Growth Rate		34.20%	19.10%	19.2	19.40%	19.60%	

(Source: CBE Corporate strategy, 2015)

As shown on the table 2 above the major foreign currency earnings target includes export, private transfer (remittance) and service receipt (foreign currency purchase). According to CBE corporate strategy export and remittance alone comprises about 86% of the total foreign currency earning expected during the strategic period. The export growth rate is also expected to be about 70% in 2016 which require a huge effort by the bank to maximize the earnings from export

sector during the beginning of the strategic period. And for the upcoming consecutive four years same 25% growth rate will be expected.

Table 4.3. Foreign payments of CBE 2015 -2020

In millions of USD							
	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020	Total
FCY Payment	7,18 1	7,440.80	8,798	10,451.80	12,475.20	14,960.30	54,126.10
Private import share	19.60%	22%	24%	26%	29%	31%	

(Source: CBE Corporate strategy, 2015)

During the strategy period out of the total foreign currency earning target 98% of it will be paid to various import needs of the country. Even though the biggest share of the bank's foreign currency utilization is still under the government's disposal, the private import share is expected to increase on the average 3% each year.

4.10. CBE export proceeds and its level of contribution towards the foreign currency earning strategy

Under this section analysis and interpretation is made on the responses of questionnaire distributed to exporters.

Table 4.4. Business experience with CBE and respective export foreign currency generation

Number of years of business r/ship with CBE	Annual foreign currency contribution through Export in million USD			Total	%
	1 to 2	2 to 5	above 5		
1 to 5	14	10	0	24	46
6 to 10	0	8	12	20	38
11 to 15	2	0	0	2	4
16 to 20	0	6	0	6	12
Above 20	0	0	0	0	0
Total	16	24	12	52	100

(Source: Own Survey, 2015)

As stated on the table above 24 (46%) of the total respondents has below five years business experience with CBE. But out of which 14 exporters contribute 1 to 2 million dollars annually and the rest 10 exporters generate 2 to 5 million dollars from export business with CBE. On the other hand 12 (38%) of the respondents are contributing more than 5 million USD annually and has 5 to 10 years of business experience with CBE. In the same taken, 2 (4%) exporters have business relationship with CBE for 11 to 15 years and they are contributing 1 to 2 million US dollars annually to CBE's foreign currency count. The table also illustrates that 6 (12%) of the total respondents have 16 to 20 years of business experience with the bank and respective export proceeds contribution of 2 to 5 million USD every year. This implies that relatively new exporters are currently dominating CBE's export services. As the bank is now 75 years in the banking industry, long standing corporate export customers were expected to work with CBE. But the table shows that among the respondents, no exporter above 20 years in the export business experience has continuous business relationship with the bank.

Table 4.5. Export commodities and their foreign currency contribution to CBE

Major export commodities	Annual foreign currency contribution through Export in million USD			Total	%
	1 to 2	2 to 5	above 5		
coffee	16	8	10	34	65
sesame	0	12	0	12	23
leather	0	4	0	4	8
Spices	0	0	2	2	4
other	-	-	-	-	-
Total	16	24	12	52	100

(Source: Own Survey, 2015)

Among the 52 respondents, table 4.5. shows that 34 (65%) of the them export coffee which take the lion share amongst other commodities. 16 of the coffee exporters generate 1 to 2 million USD annually, 8 of them have export proceeds of 2 to 5 million USD from this commodity and the rest 10 respondents contribute above 5 million on a yearly basis. The above table also entails that 12 (23%) of the respondents are sesame seed exporters with respective contribution of

foreign currency 2 to 5 million USD every year. The remaining 4(8%) and 2(4%) export leather and spices with annual export proceeds of 2 to 5 million USD and above 5 million USD respectively. Coffee is the country's major export item for decades. In the same manner CBE's biggest foreign currency gain from export is this item. Sesame seed leather, leather products and other export commodities takes the other share.

Table 4.6. Frequency of doing export business with CBE and the respective annual contribution

Annual foreign currency contribution through Export in million USD	Frequency of export with CBE					Total	%
	monthly	every three month	At least twice a year	only china export	once a year		
1 to 2	0	0	0	12	4	16	31
2 to 5	12	7	3	2	0	24	46
above 5	10	0	2	0	0	12	23
Total	22	7	5	14	4	52	100

(Source: Own Survey, 2015)

As presented in table 4.6. above 12(31%) of the exporters generate 1 to 2 million USD annually, of which 12 of them visits CBE only for China export since the Ethiopian government restricts any private bank to give export permit for shipments to china. 4 respondents among the group generating 1 to 2 million USD, does export business with CBE once in a year. This does not necessarily mean that these exporters do not do business the whole year.

Nevertheless, according to the above table the group of exporters generating 2 to 5 million USD every year is 24 (46%). These exporters comprises of 12; who do export on a monthly basis with CBE, 7 exporters do their business with the bank per quarter, 3 at least twice year export with CBE and 2 of the respondents visit the bank for china export only. Eventually, those exporters generating more than 5 million USD per annum are 12 (23% of the total respondents). With regard to the frequency of export, 10 respondents bring their export business to the bank monthly and 2 of them exports with the bank twice a year. It is understandable that the more frequent exporters use CBE to do their business is the better for the bank to generate more foreign currency from the sector. But the amount/ value of export, despite the frequency, has also an

impact on the total amount of foreign currency generation since multiple small amount exports might not be equivalent to less frequent rather huge amount of exports.

Table 4.7. CBE’s incentive for exporters as compared to other private banks

	Frequency	Percent	Valid Percent	Cumulative Percent
CBE has attractive incentives than private banks	22	42.3	42.3	42.3
-Private banks have better -- incentives for export	24	46.2	46.2	88.5
-CBE has no incentives at all	4	7.7	7.7	96.2
-Similar to private banks	2	3.8	3.8	100.0
Total	52	100.0	100.0	

(Source: Own Survey, 2015)

The above table 4.7. Elaborates that 22 (42.3%) of exporters believes that CBE has attractive incentives for exports than other private banks whereas 24(46.2%) of the respondents rather consider private bank offer better incentive for export. On the other hand 4 exporters out of the total respondents believe that CBE does not have any incentive for export at all and 2 respondents do not differentiate CBE with other private banks with regard to provision of incentives for exports. The competitions among banks to attract exporters are through offering incentives. The greater portion of respondents stated CBE is less attractive to work export business as compared to other private banks.

Table 4.8. Assessment on status of Export’s opinion market share of CBE

			Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Do you think CBE is in a better position to take the lion share of Export businesses on the banking sector in Ethiopia?	N			12	18	22
		%			23.1	34.6	42.3
2	CBE’s strategy to mobilize foreign currency targeting export as part of the main source will succeed.	N			31	21	
		%			59.61	40.39	
3	Export earnings are deteriorating not only on CBE but country wide.	N			18	34	
		%			34.6	65.4	
4	CBE is not playing an important role in export promotion	N			40	12	
		%			76.9	23.1	
5	You as an exporter are committed to work with CBE in addition to export to china.	N		14	12	22	4
		%		26.9	23.1	42.3	7.7
6	CBE plays an important role for those involved in the manufacturing of import substitutions items.	N		12	14	26	
		%		23.1	26.9	50.0	
7	Among the reason that exporters choose other bank instead of CBE is due to CBE does not allow exporters to use their own foreign currency as required.	N	12		14	2	24
		%	23.1		26.9	3.8	46.2
8	CBE is generating sustainable foreign currency from export as a result of its implementation of a better policy with the changing external environment.	N		14	26	10	
		%		26.9	50.0	19.2	
9	CBE will lose all its market share if the bank does not design a new strategy to promote exporters	N	4	24	10	14	
		%	8	46	19	27	

(Source: Own Survey, 2015)

The data under table 4.8.above illustrates that 12(23.1%) does not have any idea or neutral on whether CBE is in a better position to take the lion share of export businesses in Ethiopia. However, 18(34.6%) responded as agree and 22 (42.3%) strongly agree on CBE’s position to assume better market share in export business. The potential of CBE to attract the export market

is confirmed by more by more than 76 % of the respondents. As described on table 4.4. CBE has less attractive incentive as compared to other private banks but has much better potential to take the lion share.

As stated on the literature review, the CBE foreign currency deposit mobilization strategy incorporate export as part of the major source of foreign currency. 31 (59.61%) of the exporters responded as neutral which can mean these exporters do not have the awareness on the strategy. Others, i.e. 21 (40.39%) agrees the CBE's success on achieving the expected foreign currency from the export sector. The foreign currency earnings from export sector is deteriorating nevertheless 18(34.6%) still does not have the awareness of the situation since they responded as neutral but 34 (65.4%) of the exporters agree on the foreign currency earnings from export deteriorating not only CBE but country wide.

Despite the bank's key informants response on the interview conducted under this study regarding the bank's involvement in the promotion of the export sector, 40 (76.9%) of the respondents does not have the awareness of CBE's export promotional efforts. Only 12 (23.1%) agrees of CBE's enrolment on promoting the export sector. To improve the earnings of foreign currency and meet the CBE foreign currency deposit mobilization targets through exports, the exporter's commitment to work with CBE is mandatory. But according to the above table 4.5, 14(26.9%) disagree to work with the bank in addition to china export and 12(23.1%) responded as neutral towards doing their export business with CBE. This could be due to various reason which calls for other researchers to take up the issue further. On the other hand, 22 (42.3%) and 4 (7.7%) agree and strongly agree respectively to work with CBE in addition to their export to china. Even though less than half of the respondents choose to work with CBE, it can be promising indication for CBE in achieving the foreign currency earning strategy.

Most exporters want to use the foreign currency earned from their export to their import needs because of the currency scarcity. According to the responses gathered and consolidated under the above table4.5, 24 (46.2%) exporters strongly agree and 2 (3.8%) of the respondents agree that they choose other private banks instead of CBE due to the bank does not allow exporters to use their own foreign currency. In the same taken, 12 (23 .1%) respondents strongly disagree that they work with private bank for reasons other than foreign currency. The remaining 14 (26.9%) of the exporters choose to be neutral to respond on this issue. It is the researcher believes that it

is due to respondents found it inconvenient to disclose any information which are strictly forbidden by central bank.

The CBE corporate strategy includes the formulation of action plans towards achieving the foreign currency earning through export. This further implicates the adjustment of the CBE policy to accommodate the changing external environment. On this issue 10 (19.2%) of the exporters agrees that CBE is generating sustainable foreign currency from export as a result of its implementation of a better policy with the changing external environment. However, 14(26.9%) of the respondents disagree that the policy change cannot bring sustainable foreign currency from this sector. Whereas the largest respondents or 26 (50%) replied neutral as most of the exporters do not understand the effect of updated policies in supporting the sector.

The above table 4.5 also shows that 4 (8%) strongly disagree and 24(46%) disagree that CBE loses its entire market share if the bank does not design a new strategy to promote exporters. 10 (19%) responded as neutral whereas 14 (27%) agree on CBE losing its market share if not redesign its strategy. But CBE has already redesigned its strategy on 2015 and even according to the bank’s key informants; the new strategy is still open for change in accordance with the changing environment to maximize the customers’ satisfaction

Table 4.9. Challenges of export processes in the bank

			Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	CBE’s export document negotiation process is in compliance with both international and local rules.	N			2	28	22
		%			4	54	42
2	CBE’s personnel, esp. those working on export have capacity problems in discharging their responsibility against international standard.	N		43	9		
		%		83	17		
3	CBE have good relationship with foreign banks which helps the export process.	N		14		24	14
		%		26.9		46.2	26.9
4	Export process in CBE is very bureaucratic and lengthy which result in delay	N			38	14	
		%			73.1	26.9	
5	CBE has a good internal follow-up procedure to repatriate foreign currency after exports are performed	N			26	12	14
		%			50.0	23.1	26.9
	The bank’s Pre Shipment loan for	N				26	26

6	export is beneficial to the export sector	%				50	50
7	CBE gives priority to export processes above all other operations.	N				38	14
		%				73.1	26.9
8	Most exporters choose CBE over other banks due to the bank's reliability	N		12	26	14	
		%		23.1	50.0	26.9	
9	The quitting of those experienced staffs is harming the export process at CBE.	N		10	16	26	
		%		19	31	50	
10	In order to retain exporters the bank should give foreign currency back to exporters for any imports that they may have on a continuous manner.	N		28		24	
		%		53.8		46.2	
11	CBE's complain is correct on the malpractices observed by some private banks on the use of foreign currency earned from export.	N		29	10	13	
		%		56	19	25	
12	CBE's commitment on the execution of the foreign currency earning strategy is different from what is actually on the paper.	N		12	26	14	
		%		23.1	50	26.9	
13	If not for china exports CBE may not have any foreign currency proceeds from the export sector.	N	31		9	12	
		%	59.7		17.3	23	
14	CBE support only specified export commodities due to feasibility.	N	28			12	12
		%	53.8			23.1	23.1

(Source: Own Survey, 2015)

Among the challenges observed under the banks export process is document negotiation. The international export document negotiation standard is expected to be adopted by the bank to attract exporters. As presented under **table4.9.** above, 28 (54%) agree the CBE document negotiation is in accordance with the international practice and incompliance with local laws. In a similar manner, 22 (42%) of the respondents strongly agrees that CBE's export document negotiation practice is as per the international standard. This is a good indication that the bank's trade service operation in an acceptable standard by exporters. The above table also elaborates the responses of exporters' challenges on CBE's personnel, especially those working on export, having capacity problems in discharging their responsibility against international standard. 43 (83%) disagree having problem on CBE staffs working on exports and 9 (17%) responded as neutral because of having less export business with the bank.

CBE has long standing relationship with a lot of foreign banks which is expected to benefit the bank and respective customers. Does this help or become a challenge for exporters during working with the bank? In response to this question, 14 (26.9%) of exporters disagrees that the CBE having a relationship with foreign banks does not have any positive impact on their business. Whereas 14(26.9%) strongly agree and 24 (46.2%) agree that CBE having good relationship with foreign banks helps their export process. In principle, the better the relationship the bank has with offshore banks, the smooth the export process would be. Unfortunately as stated above, about 27% of the respondents do not understand the benefit behind CBE's good relationship with foreign banks.

To repatriate the foreign currency earned from export after goods are shipped, CBE perform follow-up on unpaid exports. According to referred document on the bank's customer complain areas are lack of internal follow-up on unpaid export items. Subsequently, respondent are assessed on this issue as shown on *table 4.6*. Therefore, 26 (50%) of the exporters are neutral or not aware of the bank's internal follow-up effort to repatriate the foreign currency from buyers. The remaining 12 (23.1%) and 14 (26.9%) respectively agree and strongly agree of the issue under discussion. Therefore half of the exporters believe that CBE is working in their favor to avoid delay upon payment of export proceeds by performing internal follow-up.

Among the incentive CBE offers is provision of pre shipment loan for exporters. Hence as shown in the table above, all respondents believes that the bank grants loan for exporters which is beneficial to the export sector at large. This demonstrates the bank's commitment of being developmental partner to the government in the country's growth and transformation strategy. In the same scenario, part of the bank incentive for export is giving priority of service above all other services of the bank. The reason behind is to avoid delay and become first class bank to be chosen for doing export businesses. 38(73.1%) agrees and 14(26.9%) strongly agree that their export transaction with the bank has priority over other processes such as import. This means any export request has priority over any other transaction by the bank hence this can clearly show the bank's dedication to generate sustainable foreign currency from this sector.

Table 4.6also further elaborates that 12 (23.1%) disagree on the assumption most exporters choose CBE over other banks due to the bank's reliability and 26 (50%) responded as neutral which is the implication of holding most their business with other private banks and/or lack of

awareness of the issue under scrutiny. However, 14 (26.9) of the respondents confirm the reliability of the bank to their export business.

As noted under the responses of the interview with key informants of the bank, the CBE management is planning to reward exporters from the total foreign currency earning of the bank to their import needs. Even though the foreign currency grant back to the exporters are under proposal level, the researcher learned that the process will be based the total amount each exporter contribution toward the foreign currency effort of the bank. In the same scenario, 28 (53.8%) of respondents strongly agree and 24 (46.2%) agree on the point that the bank should give foreign currency back to exporters for any imports that they may have on a continuous manner. It is a 100% agreement of all exporters to get foreign currency for their import needs hence the bank has already understood the criticality of the issue and, as I mentioned earlier, CBE is under process of doing same.

Another critical challenge regarding CBE foreign currency deposit mobilization in collecting foreign currency from the export sector, according key informant interview, is the malpractices observed by some private banks on the use of foreign currency earned from export. As per responses gathered from exporters, 29 (56%) disagree the existence of such malpractices in private banks, whereas 10 (19%) responded as neutral being an indication of ignorant of the issue and/or due to inconveniency of disclosing such information. But 13 (25%) agreed on the reality such malpractices observed by some private banks.

The other point under scrutiny is CBE's commitment on the execution of the foreign currency earning strategy in comparison of what is actually on the paper especially on export. According to **table 4.6** 26 (50%) of the exporters responded as neutral hence this is a clear indication that more half of the exporters are unaware of the existence of such strategy. Eventually, 12 (23.1%) disagree the lack of commitment by CBE to execute the strategy as planned. On the other hand 14 (26.9%) agrees CBE's commitment on the execution of the foreign currency earning strategy is different from what is actually on the paper. Planning seems to be simple process in much organization but the actual execution requires serious commitment by the executive organ to bring the desired outcome. Similar problem is observed in CBE by more than one third of the respondents.

Because of various reasons beyond the scope of this study, the government of Ethiopia restricts all china exports to be processed only in CBE. Therefore those exporters working with CBE

only for china export have their major export business with other private banks. Under this context 31 (59.7%) strongly disagree on the assumption that CBE may not have any foreign currency proceeds from the export sector but only china shipments. 12 (23%) rather agree on most exports are done by private banks and the majority exporters visits CBE only for china exports. In this case CBE may lose its market share and will be challenged to achieve the foreign currency earning target through export. And 9 (17.3%) of the respondents choose neutral which is the exact expression of lack of awareness.

As a state owned bank and developmental partner, CBE expected to support all types export commodities without differentiation. Table 4.6 explains further that 28 (53.8%) of the exporters believes CBE support only those export commodities which are feasible in the international market. If so, the development of the sector will be questionable and the export promotion program of the Ethiopian government will be at stake.

4.11. Bottlenecks that affects CBE in achieving the foreign currency earnings targets through export

Most respondents have similar opinion on the existence of bottlenecks that affect CBE in achieving the foreign currency target through export. Among the reasons stated are most exporters use private bank due to the easiness of getting pre-shipment loan. In addition private banks makes exporters feel secure since some confidential information on their export process will be kept secured.

The country's export policy has also been considered as bottleneck and even mentioned as impractical by any other country. National bank of Ethiopia and Ministry of trade formulate laws for export businesses and any challenge towards export business in the country can only be resolved by these two organizations.

In general the points raised by most respondents on the challenges affecting CBE's foreign currency earning are all similar and repetitive of what has been explained above.

4.12. Procedural difference between CBE export processes and other private banks

Some procedural differences mentioned by respondents are in connection with flexibility in decision making. Private Banks usually makes flexible decision in which identical problems may take several bureaucratic procedures in CBE. It is understandable that the motive behind private bank operation is profit consequently any decision can be made to ascertain their process

provides benefit. On the other hand CBE has additional responsibility of strictly respecting the rule of law and becoming a model the banking industry at large. Therefore, some decisions requiring the violation of the existing procedure is avoided by the bank.

As stated on the responses of key informant of CBE (Annex -1) the export process of the bank is in accordance with the international standard. And the bank's vision of being world class bank is enabling the bank to place itself on the level of western banks. The export processes among CBE and private banks are almost similar; the only difference is on the treatment of the foreign currency earned from the process. Most respondents expect CBE to act in a similar manner like other private banks and allow exporters to use their own foreign currency for their import needs. Exporters are attracted to work with private banks in need of using the scare foreign currency generated from the export process. But the right competition for export market share between CBE and private bank should have been on provision of best service.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with the summary of the findings and conclusions driven from the discussions and analysis of the study. It also ends up with the recommendations on the basis of the findings of the study.

5.1. Summary of the Findings

CBE foreign currency deposit mobilization strategy is designed to support the major import items like chemical fertilizer needs of the country. The data collected shows that various departments of the bank are involved in the collection of the foreign currency from different sources. According to the CBE corporate strategy the bank formulated action plan and three different major sources are identified as a major sources of foreign currency

- **Remittance:** several mechanisms are employed to collect foreign currency through remittance. Such as opening foreign currency account to Diasporas, working with remitting agents like western union etc.
- **Export:** to increase the earning of foreign currency through export the bank promotes the sector by granting pre-shipment loans and providing priority of service
- **Service receipt:** Rewarding customers with prizes while exchanging cash notes

Based on the finding the challenges identified on the execution of the foreign currency earning strategy through export is the mal-practices observed by some private banks on the utilization of the foreign currency earned from export which attracted most exporters to work with private banks. The import process of chemical fertilizer is also done by CBE by the request of the government organ AISE.

The CBE responsibility in the import process of chemical fertilizer is:

1. Avail foreign currency (which calls for foreign currency deposit mobilization of the bank)
2. Issuance of letter of credit and
3. Granting of loans for each region for the purchase of chemical fertilizer

Due to the scarcity of foreign currency the bank prioritized items while granting foreign currency to various importers. The area of prioritization is export, manufacturing and agricultural sectors can be mentioned and prioritized items are petroleum, medicine etc. The bank's foreign currency prioritization aims at meeting the common goal of the interlinked developmental strategy of the government.

The findings also state the bank's other sources of foreign currency while matured commitments are on hand. Some of the additional option that the bank has:

1. Requesting foreign loans from its correspondent banks
2. Intervention fund from NBE

Among the sources of foreign currency export is one of them. This study discovered that the bank lacks to provide sufficient and attractive incentives for exporters so that CBE can be chosen against private banks. The issue of granting foreign currency for the import need of the exporters is also raised as an area of concern. And the bank is under process of formulating a procedure to give foreign currency back to exporters in accordance to each exporter's contribution during the budget year.

5.2. Conclusion

Commercial bank of Ethiopia as a state owned bank has several responsibility in the financial economic stabilization aspect of the country. To accomplish this responsibility the bank designed a corporate strategy on various critical aspect of the bank process which include the foreign currency deposit mobilization is one of them. As the economy develop more demand on foreign currency both by private institution as well as government raises. This ends up shortage of foreign currency which urges CBE to devise the strategy as mentioned earlier.

The demand for foreign currency is very high since most of the country's items are imported including raw material for manufacturing industries and consumables as stated on the literature review. To generate the scarce foreign currency the bank has to face a stiff competition with private banks.

In the case of remittance as source of foreign currency, the bank has implemented a mechanism which can be said broader and costly if not done in collaboration with the Ethiopian government.

Enabling Diasporas to open foreign currency account with CBE so that foreign currency could be remitted to these accounts. Similar other workable mechanisms are also used by the bank to improve the earnings of foreign currency. Service receipt is the other major sources of foreign currency strategically formulated by the bank. According to the corporate strategy of the bank the total service receipt expected to be generated during the strategic period is greater than the earnings of export.

Among the challenges envisaged during the collection process of foreign currency through export is unnatural competition by private banks on attracting exporters. The major point to be noted here is the total earning of foreign currency through export is beneficial to the country in general despite the exports are processed by private or state owned bank. The main difference is CBE utilizes the foreign currency to more sensitive and developmental aspect instead of private bank since the private banks motive is to maximize profit.

Most exporters involved on this study believe that CBE has the potential to increase its foreign currency earning through export by working hard towards improving its market share. In order to increase the market share the bank has to update its policies and strategies in accordance with the changing environment. Granting of pre-shipment loans with less bureaucracy and allocation of foreign currency to exporters for their side import business is mentioned by the respondents of the study as the main incentives demanded from the bank.

What can be concluded from the findings and analysis of the data regarding the foreign currency deposit mobilization strategy of the bank is that, the strategy is very ideal and well designed from the perspectives of planning. Therefore any strategy to be effectively executed the commitment of top management of the bank with the respective stakeholders are mandatory. As the strategy has country wide positive implication in supporting critical economic motors of the country, it has to be open for change to accommodate the turbulent external environment.

5.3. Recommendations

Taking into consideration all the findings, the analysis and the conclusion drawn, the following points were made as recommendations:-

- The CBE strategy should be thoroughly communicated to all concerned organs including staffs of the concerned departments responsible to mobilize foreign currency so that the implementation process will be smoother. Staffs awareness creation and/or training program should be provided on the banks corporate strategy
- The top management, all line managers and supervisors at all levels should be committed to work hard by creating smooth and open communication channels toward the achievement of the strategy with close follow-up and monitoring.
- The bank has to focus on process integration of different departments for the achievement of common goal. According to the research finding the foreign currency earning action plan is distributed to various departments of the bank, integration is required to make the earning process smooth and efficient.
- Closely work with NBE in exposing mal-practices by some private banks so that the unnatural competition can be avoided and the bank gains more foreign currency.
- The banks strategic action plan shows the total earning of foreign currency during the strategic period is about USD 55.13 billion and the expected foreign currency payment during same period is USD 54.126 billion. This means that from the total earned foreign currency during the strategic period more than 98 percent will be paid to various import needs. Keeping this in mind the bank should reserve some amount for urgent needs in case of the shortage of foreign currency persists.
- The private import share or foreign payments allocated to the private sector of CBE during the strategic period ranges from 19.60% to 31% from the total foreign currency earned by the bank. It is the researcher belief that the provision of foreign currency to the private sector is very minimal as compared to government or public sectors. The private sector should be strong enough to provide to the economy and the larger support in the form of foreign currency should be given to the private. As the current strategy allocates

more than 70% of the CBE foreign currency to be channeled to the government import needs.

- Chemical fertilizer is among the critical items imported on each budget year. The only way to retain the foreign currency spending on this item is constructing fertilizer manufacturing industries. The bank, as part of import substitution strategy and in collaboration with the current initiation by government of Ethiopia, should support the construction of these industries. The millions of dollars of foreign currency can be reallocated to some other critical import item which can alleviate the economic growth further.
- Most exporters involved under this study suggested the bank to provide proper incentive to attract export businesses like other private bank. Therefore CBE should make a research on the needs of exporters and update its policies to accommodate and even exceed the incentives provided by private banks excluding mal-practices.
- To make the export sector a sustainable foreign currency source the GoE has to devise diversified exportable items from the manufacturing sector despite highly depend on the agricultural sector to provide for export. The sluggish foreign currency earnings from the export processes are also due to backward and rein fed production of exportable items.

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