



**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF MANAGEMENT**

**PROGRAM OF INTERNATIONAL BUSINESS**

***The role of Commercial Banks in International Trade:  
Ethiopian Perspective***

**BY:**

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**ADVISOR: Habtamu Endris (PhD)**

**A Thesis Submitted to Addis Ababa University College of Business and Economics in Partial  
Fulfillment of the Requirements for the Master of International Business (M.Sc.).**

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# **THE ROLE OF COMMERCIAL BANKS IN INTERNATIONAL TRADE SERVICE PRACTICES IN ETHIOPIA**

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**May 2024**

## Statement of Declaration

I, **Hana Mulugeta**, have carried out independently a research work on “*The role of Commercial banks in international trade service practices in Ethiopia*” in partial fulfillment of the requirement of the Masters of International Business (M.Sc.) under the direction and assistance of the research advisor. This study is entirely original work of mine, unsubmitted to any degree or diploma program at this or any other institution, and properly cited in all of its reference materials.

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**Statement of certification**

This is to certify that the thesis entitled “*The role of Commercial banks in international trade service practices in Ethiopia*” was carried out by Hana Mulugeta under the supervision of Habtamu Endris (PhD), submitted in partial fulfillment of the requirements of the Masters of International Business (M.Sc.) complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

**Approved by: Habtamu Endris (PhD)**

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## **Abstract**

*Commercial banks play critical roles in facilitating international trade services. The main objective of the study is to examine the role of commercial banks in the international trade practice in Ethiopia. Specifically, the study focused on examining role of supporting government-led trade facilitation initiatives, provision of finance services, mitigating risks related to international trade transactions, and capacity-building efforts undertaken by commercial banks. The researcher used a mixed research approach and a descriptive research design to achieve these goals. For the study, both primary and secondary sources and data types were used. In order to gather primary data, self-administered survey questionnaires and semi-structured interviews were used. Secondary data was also gathered through document analysis. Version 27 of SPSS was used to evaluate the data that were gathered. The study's conclusions show that the state of international trade service practices as of right now in the country is found at unsatisfactory level where commercial banks' roles are paramount in improving the status. Commercial banks are playing decisive roles in mitigating risks related to international trade and facilitating international payments. However, the trade financing and capacity building role of commercial banks to their international trade customers and businesses are not found at the expected level to successfully support the international trade of the country. In addition, the role of supporting government-led trade facilitation initiatives is also at an inadequate level. Based on the findings, the study recommends that commercial banks and other concerned bodies shall improve the ineffective status of international trade service practice by working on foreign currency allocation problem and limitation in trade facilitation services, addressing challenges related to financing international trade in the way that they contribute to the growth and development of international trade, implementing effective capacity building measures that can contribute to the overall growth and development of the international trade in the country, and work in close collaboration with other government entities/organs in the way that support government-led trade facilitation initiatives.*

**Keywords:** *Commercial banks, Ethiopia, International trade, Role*

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## Table of Contents

Abstracts.....	I
Acknowledgements .....	II
List of tables .....	VI
List of Acronyms .....	VII
CHAPTER ONE :INTRODUCTION.....	1
1.1    Background of the study .....	1
1.2    Statement of the Problem.....	2
1.3    Research question .....	5
1.4    Objectives of the study .....	5
1.4.1    General Objectives.....	5
1.4.2    Specific objectives .....	5
1.5    Significance of the study.....	6
1.6    Scope of the study.....	6
1.7    Limitation of the study.....	8
1.8    Organization of the study.....	8
CHAPTER TWO: REVIEW OF RELATED LITERATURE.....	9
2.1    Introduction.....	9
2.2    Theoretical Review .....	9
2.2.1    Financial Intermediary theory .....	9
2.2.2    Payment theory .....	10
2.2.3    Trade Finance Theory .....	12
2.2.4    Transaction Cost Theory (TCT).....	14
2.3    Implications of theories and the identified roles .....	15
2.4    Empirical Review .....	15
2.4.1    International studies (Empirical Review from different countries).....	15
2.4.2    Empirical Review from Ethiopia .....	18
2.5    Chapter Summary and Research Gap .....	24
2.6    Conceptual Framework of the study .....	26
CHAPTER THREE: RESEARCH METHODOLOGY AND DESIGN .....	27

3.1	Introduction.....	27
3.2	Research Design .....	27
3.3	Research Approach.....	27
3.4	Sampling Design.....	29
3.4.1	Target Population.....	29
3.4.2	Sample Size and Sampling Determination.....	30
3.4.3	Sampling Technique .....	31
3.5	Source and Methods of Data Collection .....	32
3.5.1	Questionnaire .....	32
3.5.2	Interview .....	33
3.6	Methods of Data Analysis.....	33
3.7	Validity and Reliability.....	33
3.8	Ethical Considerations .....	34
CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS.....		35
4.1	Introduction.....	35
4.2	Response Rate.....	35
4.3	Profile of respondents .....	35
4.4	International Trade Service Practices.....	38
4.4	Roles of commercial banks in the international trade service practices.....	39
4.4.1	Trade Financing Role.....	39
4.4.2	Capacity Building Role.....	40
4.4.3	Risk Mitigation Role.....	41
4.4.4	Role of Supporting Government-Led Trade Facilitation Initiatives .....	42
4.4.5	Payment Role.....	43
4.4.6	Role of commercial banks in the international trade service practices(Open-ended Questions).....	45
4.4.7	Qualitative Data Results (results of Semi-structured interview).....	48
4.4.7.1	International trade service practices in Ethiopia .....	48
4.4.7.2	Trade financing role.....	50
4.4.7.3	Capacity Building Role.....	52
4.4.7.4	Risk Mitigation Role.....	53
4.4.7.5	Roles of supporting government-led trade facilitation initiatives .....	55
4.4.7.6	Payment Role.....	56

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION .....	59
5.1 CONCLUSION.....	59
5.2 Recommendation .....	60
References	
Annexes	

### List of figure

<b>Figure 2: Conceptual framework of the study .....</b>	<b>14</b>
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### Lists of Tables

<b>Table 3.1: Population and Sample Size of the Study .....</b>	<b>30</b>
<b>Table 4.1: profile of the respondents (Survey respondents) .....</b>	<b>35</b>
<b>Table 4.2: profile of the respondents (interviewees).....</b>	<b>37</b>
<b>Table 4.3: International trade service practices .....</b>	<b>38</b>
<b>Table 4.4: International trade service practices .....</b>	<b>39</b>
<b>Table 4.5: Capacity building role .....</b>	<b>40</b>
<b>Table 4.6: Risk Mitigation role.....</b>	<b>42</b>
<b>Table 4.7: Role of supporting government-led trade facilitation initiatives .....</b>	<b>42</b>
<b>Table 4.8: Payment role of commercial banks .....</b>	<b>44</b>
<b>Table 4.9: Summary of the role of commercial banks in the international trade service practices in terms of the Study Constructs .....</b>	<b>44</b>
<b>Table 4.10: Contributing factors for the existing challenging status of international trade service practices in Ethiopia (Open-ended Questions).....</b>	<b>45</b>
<b>Table 4.11: Major roles of commercial banks in the international trade service in Ethiopia (Open-ended Questions).....</b>	<b>46</b>
<b>Table 4.12: Measures to be taken by commercial banks or concerned bodies to enhance commercial banks' roles in international trade (Open-ended Questions).....</b>	<b>47</b>

## **List of Acronyms**

**FDI: foreign direct investment**

**ICC: International Chambers of Commerce**

**IMF: International Monetary Fund**

**LC: Letter of Credit**

**LG: Letter of guarantee**

**UCP: Uniform Custom and Practice**

**WB: World Bank**

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Making a living or earning money through business is a long-standing human activity. Trade is the foundation of all business activity in a variety of commercial formats. It promotes capital mobility, trade in commodities and services, and cross-cultural understanding between nations. It is a major force behind economic progress and the fight against poverty. The trade activities could be domestic or international.

International trade refers to the cross-border exchange of goods and services between a foreign buyer and a seller. According to the terms of the sale contract, items must flow from seller to buyer, and payment must then flow from buyer to seller (Zeidy, 2022). International cooperation and trade are essential for any nation to thrive economically, and they also serve as a precursor to industrialization. Nations are becoming more dependent on one another as a result of globalization and unequal resource distribution. As a result, trade between developed and developing countries takes place internationally (Gladson & Gideon, 2020). In this regard, commercial banks play the lion share of facilitating this international trade.

The importance of banks in a country's economy is significant. International trade encourages foreign direct investment by enabling participation in the global economy by many nations (Gladson & Gideon, 2020). By offering a wide range of trade service goods such letter of credits, documentary collections, consignment, advance payment, and supplier's credit, to mention a few, banks—commercial banks in particular—play a significant role in promoting international trade (Niepmann, 2014). The most common role among these that is indicated by various international trade literatures is trade financing. The literature uses the word "trade finance" to refer to a variety of financing arrangements, such as cash in advance, open account (also known as post-delivery payment), interfirm trade credit, and direct lending by banks to the exporter and/or the importer. In order for any of these mechanisms to work, at least one party must borrow money at interest (Patel, 2021). In addition to providing the operating capital required to enable international trade, local and global banks assist their clients in managing the risks associated with making overseas payments. Through the trade services they provide, Ethiopian commercial banks have also long

been actively involved in the nation's international trade. Typically, these services are provided in exchange for large compensation in the form of commissions and service fees.

On the other hand, these roles are challenged by different factors and trade finance has become fundamental problem in international trade for different countries. In fact, the roles of commercial banks in international trade facilitation have multiple features depending on the nature of monetary policy, political condition, banking infrastructure, and others of where they operate (Bekaert & Hodrick, 2017). However, the studies of roles of commercial banks in international trade service in Ethiopian context are few in numbers and the topic they cover. Most of the studies that have been conducted related to roles of commercial banks in international trade service in Ethiopian have emphasized on limited products and facilities that commercial banks provide for international traders.

Hence, there is a need for comprehensive research that examines the roles that commercial banks in Ethiopia play in promoting international trade, supporting government led trade facilitation initiatives, mitigating risks related to international trade transactions, capacity building efforts undertaken by commercial banks to enhance their trade finance expertise and support the growth of international trade, and others.

Thus, the aim of this study is to explore these roles of commercial banks in international trade services in Ethiopia. This will be helpful for the banks and Ethiopian businesspeople engaged in international trade that facilitates their daily business activities.

## **1.2 Statement of the Problem**

Business has historically been an economic activity, primarily concerned with the production and distribution of goods and services to meet consumer demand. In actuality, commerce has ingrained itself into modern society's way of life. However, the issue of commerce is always found to be at the core of any firm that operates. Businesses nowadays are compelled to trade both domestically and internationally, either to obtain raw materials for their products or to market their goods and/or services (Gladson & Gideon, 2020).

In fact, Tian et al. (2018) claimed that countries look for trade as a means of advancing their economies and that they compete for a piece of the global trade pie. Trade globalization has resulted in systemically linked worldwide economic integration, which is crucial for influencing ecological dynamics and sustainable economic development between countries. However, as

Niepmann (2014) points out, doing business internationally entails significant risks for both importers and exporters, particularly when dealing with distant partners or in nations where it is exceedingly difficult to enforce contracts. Businesses can reduce these risks by using the specialist trade financing solutions that commercial banks and other financial intermediaries offer.

However, banks and trade partners also face certain dangers and difficulties when using international trade service items like letters of credit. According to Haddis (2015), for example, several historical studies show that roughly 50% of the documents submitted under the documentary credit are rejected due to inconsistencies or apparent inconsistencies. Even if an issuing bank discovers that the item it has received is not the same as what the paperwork claim, it is still required by the terms of the letter of credit to pay the past-due vendor. This is due to the fact that the issuing bank's duty to uphold drafts and documents submitted under a documentary credit that seem to be in line with the terms and conditions exists independently of the underlying contract's execution. A financial impact on importers, exporters, banks, and other parties engaged in the process may result from the special constraints of other international trade service goods (Cherunilam, 2006). Another major worry is the noticeable rise in lawsuits involving these facilities (Niepmann, 2014).

Several jurisdictions have attempted to address the research of banks' responsibilities in international trade (developed and developing countries). Numerous studies carried out in various nations demonstrate the vital functions that banks—especially commercial banks—play in global trade. For example, Gladson and Gideon's (2020) study on the role played by commercial banks in Tanzanian international trade found that banks offer export and import credit schemes to dealers in the international trade and also adequately educate them on guarantee and credit support requirements.

By offering trade finance solutions that lower the risk of exporting, banks play a crucial role in international trade, according to a 2014 study by Niepmann and Schmidt-Eisenlohr on international trade, risk, and the role of banks. The subject of trade financing in Africa has not received much attention. Zeidy (2022) also revealed that banks finance foreign trades, acting as intermediaries for over a third of commercial activity throughout the African continent.

Furthermore, some addressed the roles of commercial banks beyond facilitating international trade services. They extended the roles of commercial banks to the overall economic development of a given nation (Horen et al.2017 and Abdullahi, 2020).

In Ethiopian context, however, the findings of studies conducted related to the topic of international trade and roles of commercial banks in the international trade bended to the roles of banks in international trade financing and practice and challenges of international banking service. For instance, Meseret Tadele (2015) studied assessment of Export Trade Financing Practices of Commercial Banks in Ethiopia; Haddis Said (2015) conducted study on International Trade Finance Practices of Selected Private Commercial Banks in Ethiopia, and Getnet Mekonnen (2017) and Sindu Abebe (2018) studied assessment of practice and challenges of international trade finance service. In fact, the effect of trade finance operation on financial performance of commercial bank of Ethiopia was also studied by Samrawit Alemu (2022).

On the other hand, Abeba Tadesse (2016), Zelalem Hailu (2017), Ermias Abraham (2017), Bete Birhane (2018), and Ousman Mohammed (2022) have conducted research on practice and challenges of international banking service. Mitku Malede (2014) has also done research on determinants of commercial bank lending in Ethiopia.

These previous studies, however, could not clearly show us the roles that commercial banks play in international trade services in a comprehensive way other than showing us the role of international trade financing, practice, and challenges of international banking service.

This study is different from these previous studies in the unit of analysis and the objectives it has achieved. In this study, the roles of commercial banks in the international trade service were examined from different perspectives (financing, capacity building, risk mitigation, payment function and supporting government-led trade facilitation initiatives) by including both private and government owned commercial banks. Most of the previous studies focused only on the private commercial banks with limited roles perspective in their studies. These studies, in fact, overlooked the roles that the largest commercial bank of the country, Commercial bank of Ethiopia, has been playing in the international trade services. Furthermore, the previous studies that dealt with the topic did not properly address some roles such as supporting government-led trade facilitation initiatives, payment role and capacity building roles of commercial banks.

Moreover, as best of the researcher's knowledge, none of these studies has clearly shared us which role/s of commercial banks are predominant in the international trade services in Ethiopia since they did not comprehensively study the roles of commercial banks from different perspectives by including both private and government owned commercial banks.

Thus, this study was an attempt to fill the above-mentioned research gap by providing empirical evidence on the roles of commercial banks in international trade service practice in Ethiopia by including broad dimensions of roles such as supporting government led-trade facilitation initiatives, payment role and capacity building role played by both private and government owned commercial banks as unit of analysis.

### **1.3 Research question.**

In parallel to the above-mentioned research gap, the researcher has developed the following specific research questions that have been addressed by the study.

- What is the scope of trade finance services provided by commercial banks in Ethiopia in facilitating international trade transactions?
- What are the capacities building efforts undertaken by commercial banks in Ethiopia to enhance the growth of international trade?
- How do Ethiopian commercial banks manage and mitigate risks related to international trade transactions?
- How do commercial banks in Ethiopia support government-led trade facilitation initiatives?
- What is the extent of the payment facilitation role of commercial banks in the provision of international trade services in Ethiopia?

### **1.4 Objectives of the study**

#### **1.4.1 General Objectives**

The overall objective of the study is to critically examine the roles of Commercial banks in international trade service in Ethiopia.

#### **1.4.2 Specific objectives**

The specific objectives of the study are:

- To analyze the scope of trade finance services provided by commercial banks in Ethiopia in facilitating international trade transactions.
- To investigate the capacity building efforts undertaken by commercial banks in Ethiopia to enhance the growth of international trade.
- To evaluate the risk management practices employed by commercial banks in Ethiopia in mitigating risks related to international trade transactions.

- To explore the role of commercial banks in supporting government led-trade facilitation initiatives in Ethiopia; and
- To assess the payment facilitation role of commercial banks in the international trade service.

## **1.5 Significance of the study**

This study has significance for various parties. More importantly, it is significant for international traders, managers and shareholders of commercial banks, government, and researchers.

The study's implications/findings can be used as an input for policy makers. This study was intended to shed light on the role of commercial banks in international trade. In this regard, it can be used as an input for National Bank of Ethiopia, Custom commission, Ministry of trade and others when they enact directives or other governing rules about international trade.

Secondly, it is believed that the study's findings can assist the commercial banks operating in the country in general and their international banking divisions in particular in their day-to-day trade service delivery. In fact, it can help management of the banks in decision making of day-to-day operation where the roles they play in the international trade could be taken as one of their competitive advantages in the industry.

The study can also serve as a reference for other researchers to conduct further studies in the area that will be conducted either focusing on roles of commercial banks or international trade practices in the country, or the combination of the two.

## **1.6 Scope of the study**

The scope of the study was limited to role of commercial banks in international trade service practices (i.e. those related to import and export) and did not include other international banking services like remittance and domestic roles including domestic trade service, deposit function and others due to the fact that the emphasis of the study was on the role of commercial banks in the international trade services.

Moreover, this study was onetime cross-sectional research where the roles of commercial banks in the international trade were examined based on the survey data collected at once. Specifically, the target respondents were selected from employees of selected commercial banks that were working in the international banking division. The study did not include all divisions' employees of the

selected banks since it was found to be irrelevant to include them as far as the research topic is concerned with the role of the banks in international trade services.

The study also did not also include all commercial banks operating in the country. Commercial banks that have been in operation for less than five years have been purposely excluded from the survey since the researcher believed these banks have low banking experience in general and international banking experience in particular. Accordingly, the survey data was limited to only 17 commercial banks that have been in banking operation for more than ten years.

In addition, due to the dispersed nature of location of the international traders (importers and exporters), the study did not include international traders for the data collected through questionnaires. It was practically challenging to include these traders in the survey since some of the offices of the international traders are outside of Addis Ababa. Even those found in and near to Addis Ababa are much dispersed. It was believed that it would be better to address them through detailed interviews than totally excluding them from the study since their opinion was found to be very important to have full picture related to the topic under investigation. Accordingly, semi-structured interviews were held only with four international traders.

Furthermore, the study used descriptive statistics than inferential though the researcher understands its basic limitation of not supporting generalization. But the researcher believes that descriptive statistics can enable us quick overview and understanding of data without inference, grasp the key features and insights without needing advance statistical knowledge, reduce complex data sets into few key summary measures where all these do not require rigorous assumptions, hypothesis testing and statistical models. In addition, the researcher believes that descriptive statistics are sufficient to analyze the collected data in this study since the nature of collected data by itself could be analyzed by using descriptive statistics.

## **1.7 Limitation of the study**

As with any other study, this study was not without limitations. The first limitation may be related with the nature of the data (type of data) collected. The study primarily used primary sources of data that was collected primarily through survey questionnaires which in turn subject to response bias & questionable of reliability and validity. But this limitation is the inherent limitations of using primary data in general and due professional care was implemented in maintaining consistence and stability of the measurement instruments and data collection procedures.

Another potential weakness in this study is the sampling process. The researcher's selection criteria were the basis for the non-probability sampling method employed in this study to choose the banks. The selection factor was the length of time that the company had been in business. This could inject bias into the non-probability sampling procedure, which would then impact how broadly the results can be applied to all of the nation's commercial institutions. However, because they account for the bulk of the population under study and have operated for a longer period of time than non-selected institutions, the chosen commercial banks can be regarded as representative.

## **1.8 Organization of the study**

There are five chapters in this study. The background information and broad introduction of the study are provided in the first chapter, as previously mentioned. The subject area's theoretical and empirical literatures are presented in Chapter 2. It also includes the study's conceptual framework and research gaps. The design and technique of the research are described in the third chapter. Chapter Four presents the research findings and discussions. The paper concludes with a section outlining potential areas for future research and gives the conclusions and recommendations that were reached.

# **CHAPTER TWO**

## **REVIEW OF RELATED LITERATURE**

### **2.1 Introduction**

This chapter includes a review of related literature. Theoretical assessments of banks' responsibilities in international trade are covered in the first section of the chapter. The empirical

research done in Ethiopian and foreign contexts is also reviewed in the second half of the chapter. A summary of the empirical review and the current research deficit are also included in this chapter. A summary of the conceptual underpinning of the study wraps off the chapter.

## **2.2 Theoretical Review**

According to Tian et al. (2018), countries want a piece of the "trade pie" and pursue trade as a means of advancing their economies. Trade globalization has resulted in systemically linked international economic integration, which is crucial for influencing ecological dynamics and sustainable economic development between countries. There are several theories that describe the roles of banks in international trade though there is no direct theory of roles of commercial banks. The following sections discuss the roles of banks in international trade in detail.

### **2.2.1 Financial Intermediary theory**

Scholars like Franklin Allen and Douglas Diamond have conducted extensive research on financial intermediation and its role in various economic contexts (Bethune et al.2022). In the context of international trade, commercial banks function as intermediaries by providing financing, managing risks, and facilitating payments between exporters and importers. In fact, large loans are made possible by the financial intermediary's operation, which also significantly lowers transaction costs and boosts transaction efficiency (Li, 2021). They mobilize funds from savers and allocate them to borrowers engaged in international trade. According to Li (2021), while this theory is not specific to international trade, it provides insights into the functions and implications of commercial banks in facilitating trade-related financial services. According to this author, financial intermediaries play a crucial role in transforming and managing risks, function as intermediaries between exporters and importers, facilitating trade transactions by providing financing, risk management services, and trade-related payment solutions. It also further stated that in the context of government-led trade facilitation initiatives, commercial banks can leverage their expertise and networks to support capacity-building programs, offer advisory services to businesses, and collaborate with government agencies to streamline trade processes, reduce paperwork, and enhance trade efficiency.

However, there are various stakeholders who advocate for and contribute to the understanding and implementation of trade facilitation measures in collaboration with commercial banks (Feng & Sheng, 2012). These stakeholders include International Financial Institutions such as the (WB, IMF, and regional development banks), Government Agencies and Trade Promotion

Organizations, commercial banks themselves, and Trade Associations and Chambers of Commerce.

According to Feng and Sheng (2012) while there may not be specific individual proponents associated with this issue, these stakeholders collectively contribute to the understanding, promotion, and implementation of government-led trade facilitation initiatives, with the active involvement of commercial banks. Their collaborative efforts aim to improve trade processes, reduce barriers, and enhance the efficiency and inclusivity of international trade.

### **2.2.2 Payment theory**

This theory emphasizes the role of banks in facilitating international payment transactions. Banks function as intermediaries between importers and exporters by providing various payment instruments and services (Cherunilam, 2006). Thus, the payment role of commercial banks can be discussed within the broader framework of financial intermediation theory as part of their broader function of facilitating financial transactions and providing payment services to individuals, businesses, and other entities. Commercial banks serve as intermediaries and a significant aspect of their role is to process and facilitate payments (Khan, 2008). However, since some scholars consider payment as an independent concept and theory, it has been presented here independently.

The payment theory in the context of international trade is understood within the framework of ICC and international payment systems. Cherunilam (2006) listed and discussed the five most common international trade payment methods. These are cash-in-advance, open account, consignment method, documentary collection method and letter of credit.

According to Niepmann and Eisenlohr (2014), the exporter receives payment prior to incurring production costs under the cash-in-advance terms, meaning that the importer is essentially pre-financing the transaction. This puts the buyer at risk since the seller might decide not to deliver the goods even after being paid. According to Cherunilam (2006), the other situation that results in advance payment is when the seller holds a monopolistic position in the market. Because he has less negotiating power in this situation, the buyer must pay the seller in advance of the seller shipping the goods. According to Niepmann and Eisenlohr (2014), when a supplier ships the goods, the buyer pays afterward. In actuality, the exporter is pre-financing the transaction because of the costs associated with his production and distribution prior to receiving payment. When the importer does not pay for the goods after receiving them, the exporter is at risk. According to Cherunilam (2006), the exporter delivers the goods under the open account scheme with only the

commercial invoice as financial documentation to his advantage. Therefore, in the absence of any documentation, the seller bears the full financial burden. The open account method is typically used in situations where there is a long-standing business relationship between the buyer and seller or between affiliated companies due to its elevated risk. When paying by consignment, the seller sends the goods to his agent in the foreign country, who makes arrangements for the goods' sale and pays the supplier. Until the goods are sold to the final buyer, the exporter retains title to the goods. This method does not protect the exporter from potential losses that might occur if the consignee or agent neglects to return the proceeds from the sale of goods to the exporter (Cherunilam, 2006).

According to Niepmann and Eisenlohr (2014), banks process shipment documentation in accordance with seller instructions when using a documentary collection method of payment. When using this payment method, the buyer may only obtain the documents after paying the document value; otherwise, he cannot acquire the products from customs. As a result, a documentary collection offers a higher level of payment reliability than an open account foundation. Niepmann and Eisenlohr (2014) clarified that the exporter may still be in danger if the buyer refuses to pick up the documents, even in the case of a Documentary Collection arrangement. According to Niepmann and Eisenlohr (2014), there are two categories of documentary collections: documents against acceptance and papers against payment. Conversely, Cherunilam (2006) defined a letter of credit as a document that contains a bank's promise to fulfill a draft drawn by a beneficiary or seller on it, subject to specific terms and circumstances and a predetermined sum. Although letters of credit are most commonly employed in international trade as irreversible documents, they can also be revocable, enabling the exporter to receive payment unless the importer revokes them first.

A credit by its very nature is different from the sale or other contract on which it may be based or related to; banks are not concerned with or bound by such contract, even if any reference to such contract is made in the letter of credit, according to the Uniform Customs and Practice (UCP) for Documentary Credits and International Chambers of Commerce. Consequently, the importer's claims arising from its ties with the exporter or the issuing bank do not affect the issuing bank's responsibility to pay under the credit (Jain, 2014 quoted in Zelalem, 2017). All of these payment methods used in international trade, however, must abide by ICC rules and regulations. Modern banks, on the other hand, enable its clients to send and receive money anywhere in the world. A

sophisticated banking system offers a host of alluring services, such as credit cards, debit cards, internet banking, and mobile banking, which all facilitate quick and easy transactions (Kumar, 2022). Commercial banks play a critical role in enabling payments in any kind of payment system.

### **2.2.3 Trade Finance Theory**

Trade finance theory encompasses various principles related to the financing of international trade. Alessandro Missale, an Italian economist, has contributed to the understanding of trade finance and its role in international trade (Ahn, 2020). His research focuses on the relationship between trade finance, financial development, and economic growth. It explores the specific challenges and opportunities associated with trade transactions, including the need for working capital, risk mitigation, and the role of financial intermediaries.

According to Auboin (2015), the theory of trade finance examines the financing aspects of international trade. It recognizes the challenges faced by exporters and importers in accessing working capital and managing risks. Commercial banks play a crucial role in trade finance by providing various financing instruments, such as pre-export and post-shipment financing, letters of credit, and guarantees (Cherunilam, 2006). It is further stated that trade financing is not only providing finances; rather it helps mitigate risks, such as credit risk and country risk, by assessing the creditworthiness of trading partners and providing risk management services. They help to mitigate information asymmetry by conducting due diligence on the creditworthiness of borrowers and counterparties involved in trade transactions (Omar & Ebenezer, 2016). Trade finance also plays a crucial role in supporting international trade, and government-led trade facilitation initiatives aim to reduce trade barriers and enhance the efficiency of cross-border transactions. Commercial banks can actively participate in these initiatives by providing trade finance solutions, such as letters of credit, trade guarantees, and export credit insurance, which help mitigate risks, improve access to finance, and facilitate international trade. The involvement of commercial banks aligns with the goals of government-led trade facilitation efforts to enhance trade flows and economic development (Auboin, 2015). Related to international trade financing, banks finance both pre-shipment and post-shipment as well as working capital of businesses engaged in the international trades.

Cherunilam (2006) states that to cover costs related to purchasing materials and components, processing, packaging, packing, marking, transactions, warehousing, etc., the export must arrange pre-shipment financing from banks. Pre-shipment finance, as the name suggests, is the credit given

to the exporter before the goods are sent. According to Cherunilam (2006), it frequently takes the exporter a short, medium, or long time even after completing the shipment of products to get the export revenues. Therefore, to cover the time between the items' shipment and the exporter's receipt of payment from the foreign trading partner, the exporter looks for post-shipment financing.

According to Cherunilam (2006), the three major ways that banks offer post-shipment advances are through negotiating shipping documents under a letter of credit, buying documents as collateral for payments, and making loans against export bills that are sent overseas for collection. The export proceeds of the associated export bills or the foreign remittances are typically used to settle post-shipment advances. Exporters are frequently expected to provide loans of some type to their foreign purchasers because of the competitive nature of the export industry. By giving exporters credit, financial institutions can help exporters give credit to their customers, shifting the credit burden from exporters to the latter (Cherunilam, 2006).

But the roles of commercial banks are now beyond financing. The view of commercial banks had changed from merely financial institutions that assemble funds and loans to institutions established to perform valuable services to the community to ensure stability, expansion, prosperity and obtaining profits. Commercial banks are playing the capacity building role by providing consultation and other services to clients (Mukhtar, 2016).

### **2.2.3 Transaction Cost Theory (TCT)**

The Transaction Cost Theory, developed by Ronald Coase and further elaborated by Oliver Williamson, examines the costs associated with economic transactions within organizations and between organizations (Cole, 2019). In the context of international trade, the transaction cost theory is relevant because it helps explain why firms engage in foreign trade and the choice of trade modes. The theory suggests that firms consider transaction costs when deciding between exporting, licensing, FDI, or other forms of international business. It also helps to explain the role of transaction costs, asset specificity, and the need for governance mechanisms in managing risks and improving efficiency in international business relationships. (Cole, 2019).

According to Cole (2019), it is important to note that while the transaction cost theory is relevant to understanding the role of transaction costs in international trade, it is not a comprehensive theory solely focused on international trade. It provides a framework for analyzing the factors influencing the choice of governance structures, including those related to international trade and foreign

investment.

The theory states that businesses want to minimize internal bureaucratic expenses during resource exchanges with the environment, as well as the losses sustained during such exchanges. As a result, foreign traders evaluate the expenses related to the exchange of resources both domestically and abroad. The company is likely to expand if its operations were less expensive in the event that external exchange prices exceed internal costs (Zelalem, 2017). This theory holds that markets and firms are two distinct entities with various means of transaction coordination and organization. The company can expand if its operations are more affordable than the costs incurred from outside sources, even if the environmental costs exceed internal bureaucratic costs. Banks handle the promotion and foreign trade activities when internal expenses exceed environmental exchange costs, which will likely lead to the firm shrinking (Dietrich & Wanzenried, 2011 as referenced in Zelalem, 2017).

### **2.3 Implications of theories and the identified roles**

As presented above, these theories recognize the crucial role that banks play in supporting international trade. Commercial banks function as intermediaries that play different roles of intermediation. They play the role of international trade financing, capacity building roles by providing consultancy services to its customers, mitigating risks related to international trades, supporting government-led trade facilitation and play significant role in facilitating payments related to international trade. As per these theories, their involvement helps to overcome the challenges associated with cross-border transactions, promoting global trade economic growth. Furthermore, most of the identified/constructed roles have been presented in different forms in different empirical literatures presented here after.

### **2.3 Empirical Review**

This section reviews the empirical literature on the subject from both national and international (international studies, or research conducted outside of Ethiopia) perspectives (studies in Ethiopia). Since it relates to the subject of the study, the evaluations include empirical literature on commercial banks' operations in international trade finance as well as the difficulties and practices of providing international banking services in the Ethiopian context.

#### **2.3.1 International studies (Empirical Review from different countries)**

The functions of commercial banks in international trade have been the subject of several studies that have been conducted using various methodologies and data from industrialized and developing nations. Studies on the functions of commercial banks and the international trade policies of industrialized and developing nations have been done recently. These investigations' conclusions verified that banks play several roles, each with unique international trade service procedures. The following paragraphs provide a summary of the research results and works of various scholars.

In 2014, Niepmann and Chmidt-Eisenlohr conducted research on banks' roles in international trade, risk, and other related topics. Two new data sets were used in the study to provide insight into the size and composition of the global trade industry, which is heavily concentrated in a small number of major banks. They came concluded that in 2012, 10% of US exports were covered by the two main trade finance instruments: documentary collections and letters of credit. Larger transactions are preferred, which suggests that there are significant fixed costs associated with the provision and usage of these instruments. These empirical results are explained by a payment contract choice model that the researchers have supplied.

Gupta and Keshari (2013) conducted a study on the financing of export commerce in India, specifically focusing on commercial banks. The role and percentage of commercial banks in export financing, along with concerns related to export financing such as borrower needs and aspirations and bank dissatisfaction with current export credit regulations, were discussed. A positive export business is fueled by the requirement for collaboration between banks and financial institutions in the prompt settlement of claims. In order to accelerate the promotion of exports, the study placed a strong emphasis on offering new and creative services such as international factoring, overseas borrowings, counter trading, and banker acceptance.

Mukhtar (2016) studied the function of Commercial Banks in Developing Social Responsibility Principles (using Jordan's Arab Bank as a case study). It clarified what a commercial bank is, how it operates, and what qualities it possesses. It also discussed social responsibility and its importance to society. The findings of this study indicated that the Jordan's Arab Bank paid a considerable attention to consolidating the foundations of the in the Jordanian community by offering many necessary and vital services such as health and education services, the preservation of environment, fight against poverty, Providing consultation services to clients and orphan's support. These services qualified Jordan's Arab Bank to win Jordanian agents and community's

trust.

The study conducted by Akter and Barua (2016) aimed to compare the profitability and efficiency of state-owned and private commercial banks in Bangladesh when it came to financing international trade. Using output-oriented Malmquist Productivity Indices (MPI), they utilized the non-parametric approach data envelopment analysis (DEA) to assess and compare the banks' efficiency over a ten-year panel data set covering 2003–2012, which included all four SOCBs and four classified PCBs. To gauge profitability, they also created a few unique profitability ratios specific to the banks' trade finance operations. Although private commercial banks supplied less trade financing than state-owned commercial banks, the results indicated that private commercial banks are more productive and efficient than state-owned commercial banks.

Cansu and Merve (2019) used a panel data approach to study the role Turkish banks play in international commerce. According to their findings, bank funding boosts exports from Turkey, and it's critical to bring in foreign cash through export routes given Turkey's economy and the value of the Turkish Lira. The study is relevant because it highlights the favorable correlation that exists between the nation's banks and export-related activities. This motivates the real sector to back development through economic growth. Conversely, they omitted the banks' importation contribution as well as the variation in the banks' performance between import and export contributions. Therefore, rather than drawing broad conclusions, it is essential to evaluate the impact of each item bank action.

Nthenge and Ringera (2017) investigated, using Family Bank Limited as a case study, how trade financing affected banks' financial performance. Sixty-six Family Bank Limited credit supervisors, one from each branch, were the target population. 33 credit supervisors were chosen with the aid of the stratified sampling technique. It was clear that letters of credit (LC) had an impact on the performance of the banks based on their effects on their financial results. The high asset value, liquidity, and reported earnings served as proof of this. The bank's increasing earnings from providing credit letters served as more proof of this. One of the biggest obstacles to using most trade finance instruments was the absence of extra security or collateral. The current study aimed to investigate the impact of trade finance on financial performance, while the previously mentioned study was a local investigation that focused solely on letters of credit as trade finance revenue and was restricted to Family Bank Limited.

Gladson and Gideon (2020) looked at Tanzania's commercial banks' role in international trade. The researchers created two sets of questionnaires: one was intended for importers and exporters involved in international commerce, and the other was intended for a subset of Tanzanian commercial and private banks. Each of the 100 participants received a personal questionnaire administration from the researchers. The study employed a multivariate regression model, descriptive statistics, and SPSS as a data analysis tool. The study's conclusions showed that banks offer international trade dealers export and import credit schemes as well as sufficient training on guarantee and credit support criteria. The banks also provide updates and modifications to trade financing rules based on government and union initiatives. Descriptive statistics also demonstrate that banks have extensive and adaptable programs to promote import and export activity. Additionally, this analysis discovered a significant correlation between banks' contributions and global trade (LC, DC, RM, and CDC). The categorical variables related to banking were all statistically significant.

Abdullahi (2020) conducted research on the contribution of commercial banks on Kenya's economic growth. The study employed a descriptive research design to meet its goals. A 10-year period (2009 to 2019) was covered by the data, which was collected using a secondary approach. As instruments for data analysis, both descriptive and inferential statistics were applied. The study's conclusions showed that while long-term loans were a poor indicator of economic success, short-term loans and account deposits were favorable indicators.

The Implications of COVID 19 on Trade Finance in Africa is a study by Zeidy (2022) that examines the function of trade finance in fostering commerce. This research sought to investigate the function of trade financing in advancing trade throughout the African continent. It discussed the trade financing deficit, growth-restraining barriers, prospects for growth, the effects of COVID -19, and the actions taken by development finance institutions and multilateral organizations to lessen the crisis' effects. The study concludes that risk minimization and liquidity are two essential components of the trading process that are supported by trade finance systems. Additionally, banks are essential to the facilitation of trade because they create and oversee payment methods like telegraphic transfers, provide financing and bonding facilities, and documentary letters of credit (L/Cs). Nonetheless, the analysis showed that between 2011 and 2014, the trade finance deficit in Africa was projected to be between \$90 billion and \$120 billion. Large corporates, or the top 10 clients, receive an excessive amount of the available financing, often at the expense of SMEs, who

account for more than 80% of all firms in Africa. The expected amount of the trade finance gap in Africa for 2019 was USD 82 billion. The study also identified the main barriers to trade finance growth, including restricted foreign exchange liquidity, regulatory constraints, banks' leveraged responses to elevated risks, a lack of adequate insurance when needed, and the fact that perceptions frequently influence international trade finance providers' decision-making, particularly during times of crisis.

#### **2.4.2 Empirical Review from Ethiopia**

Only studies conducted in Ethiopia are covered in this section in an effort to address the topic's gaps in the literature and research. The interaction between commercial banks and international trade service practices seems to be little documented in Ethiopian contexts.

Most of the studies conducted related to roles of commercial banks in international trade in Ethiopia have emphasized on international trade financing practices, and practice and challenges of international banking service. For instance, Meseret Tadele (2015), Haddis Said (2015), Getnet Mekonnen (2017), and Sindu Abebe (2018) conducted research on international trade finance service. In actuality, Samrawit Alemu (2022) also investigated the impact of trade financing operations on the financial performance of Ethiopia's commercial bank.

On the other hand, Abeba Tadesse (2016), Zelalem Hailu (2017), Ermias Abraham (2017), Bete Birhane (2018), and Ousman Mohammed (2022) have conducted research on practice and challenges of international banking service.

These studies and other conducted related to roles of commercial banks and international trade practices in Ethiopia have been condensed into the paragraphs that follow.

Mitku Malede (2014) used panel data from eight commercial banks between 2005 and 2011 to conduct research on the factors influencing commercial bank lending in Ethiopia. It examined the correlation between a few factors that influence commercial bank lending, including bank size, credit risk, GDP, investment, deposit, interest rate, liquidity ratio, and cash needed reserve. For analysis, seven years' worth of financial data from eight carefully selected commercial banks were used. To ascertain the effect of those predictor variables on commercial bank lending, ordinary least square (OLS) analysis was utilized. The findings imply that lending by commercial banks is significantly correlated with their size, credit risk, GDP, and liquidity ratio. On the other hand, during the study period, Ethiopian commercial bank lending is unaffected by deposit, investment,

cash necessary reserve, and interest rate.

Meseret (2015) conducted research on the evaluation of Ethiopian commercial banks' export trade financing policies. The study was non-experimental research, and the primary techniques for gathering data were survey questionnaires sent to exporters and interviews with bank staff. Out of a total sample of 96 exporters chosen using Slovincs' algorithm from a population of 2,525 exporters, 71 exporters completed the questionnaire. Statistical graphs, tabulation, percentages, and other approaches were used to assemble and analyze their responses. The results indicated that one of the main obstacles to their business's expansion has been a lack of funding. The main things that made the issues worse were the financial institution's requirement for loan covenants, the absence of collateral, the incapacity of bank employees to advise and encourage exporters, and the government's lackluster support in terms of export credit guarantee scheme.

Additionally, Abeba (2016) investigated the challenges and practices of providing international banking services to a subset of Ethiopia's private commercial banks. To discover issues, reveal any wrongdoing, highlight instances of noncompliance with international standard banking standards, highlight risk areas, and pinpoint knowledge gaps among bank employees, the research used a descriptive survey approach. According to the research, most banks do not immediately pay the remitting bank after releasing the shipping documents that were sent on a foundation of documentation collection. Second, because outstanding purchase orders are not regarded as bank liabilities under the National Bank of Ethiopia's Open Position policy, banks are finding it difficult to control the amount of approved purchase orders. However, most banks fail to review documents and alert negotiation banks to any anomalies pertaining to documents submitted under letters of credit within the permitted five banking days. The study also concluded that when giving letters of credit against a margin of less than 100%, most banks do not conduct a thorough evaluation of the marketability of the consignment and the creditworthiness of the importer.

Using a descriptive research approach, Getnet (2017) evaluated the trade services provided and the difficulties faced by a few chosen Ethiopian private commercial banks to evaluate the trade financing practice. The study employed a mixed-approach research methodology to gather and examine pertinent data. To collect pertinent data, a questionnaire and in-depth interview were employed. Using a purposive sample approach, the study gathered data from 120 respondents, of whom 108 were deemed suitable for analysis. Managers of multinational banks were interviewed in-depth. To analyze the data, descriptive statistics were applied. According to the goal, a single

item's mean, frequency, and standard deviation were employed. The research has shown that the degree of job knowledge is not properly developed because of the high staff turnover among bank employees, inefficiencies, and in certain cases, a lack of periodic training. The current dearth of foreign currency in the nation is having a significant impact on the trade financing operations of private commercial banks, which in turn has an indirect impact on other banking services including credit and deposits. However, most banks may expose themselves to extremely risky operations due to their unfair competition for those limited foreign currency resources, particularly during export document negotiations. The study also concluded that banks' ability to provide effective trade finance services is greatly impacted by foreign exchange transactions on the black market.

Zelalem (2017) looked at how traders were served by foreign banks, with a focus on Ethiopian private commercial banks. The goal of the study was to evaluate the procedures and difficulties involved in offering traders in Ethiopian private commercial banks international banking services. Its objectives were to pinpoint issues, investigate any wrongdoing, highlight instances of non-adherence to global best practices in banking, highlight areas of risk, and pinpoint conceptual gaps among bank employees. Utilizing the survey method for data collection, a descriptive study design was chosen. Based on research, most banks do not immediately withhold payment to the remitting bank upon the release of shipping documentation sent on a documentary collection basis. Second, because outstanding purchase orders are not regarded as bank liabilities under the National Bank of Ethiopia's Open Position policy, banks are finding it difficult to control the amount of approved purchase orders.

Ermias (2017) investigated how well the Commercial Bank of Ethiopia used international trade procedures. It was conducted to evaluate CBE's current trade service practices from the standpoint of international and domestic standards, look at the main difficulties and dangers involved in financing international trade, and find out how well-versed staff members are in the laws and regulations governing international trade. To obtain pertinent data from the target populations and accomplish the study's goals, a mixed-approaches descriptive research methodology was used. Using a systematic questionnaire and in-depth interviews with specialists and business clients, primary data was gathered from 62 respondents who were specifically chosen. With the use of descriptive statistics and other literary works, the gathered data was empirically examined using SPSS techniques. The results showed that most performers followed CBE Trade Service policy,

NBE instructions and circulars, and ICC rules. The study found that: customers' unique payment preferences and other countries' policies and regulations; a lack of domestic directives considering international trade rules and practices; customers' inadequate understanding of international trade; a shortage of foreign currency; and outdated NBE directives. The bank may experience for-ex liquidity constraints or volatility quandaries in an international trade.

Sindu (2018) conducted a second study with the goal of analyzing the procedures and difficulties associated with the international trade finance services provided by a subset of Ethiopian private commercial banks. The study looked at how well international trade operations complied with global laws and regulations, how international trade operations are now conducted, and what obstacles certain banks were facing. Descriptive research design was used in the study to investigate the degree to which a few chosen banks support the operation of international trade services in compliance with legal requirements. To collect primary data from bank employees currently employed at the head office level in the international banking department, the researcher employed the questionnaire approach. The investigation revealed that there were instances of non-compliance with the internal procedure that needed to be revised on time, that employees' understanding of their current jobs is inadequate, and that operators do not have sufficient or timely access to regulations and standards for future reference. The practice of nonpayment, the failure to examine documents within the allotted time, and the good fortune to conduct a thorough evaluation of the consignment's creditworthiness and marketability were seen as hurdles.

Bete (2018) conducted study on the Commercial Bank of Ethiopia's international trade service operating assessment. To discover issues, reveal any wrongdoing, highlight instances of noncompliance with international standard banking standards, highlight risk areas, and pinpoint knowledge gaps among bank employees, the research used a descriptive survey approach. A total of 273 employees' questionnaire responses were gathered, and SPSS version 20 was used for analysis. According to the report, there have been cases of non-compliance with international laws and regulations because of foreign correspondent banks' insufficient balances. The difficulties include the TS personnel's poor communication skills, their inability to update the TS process handbook on time, and the foreign currency approval time schedule that affect the trade service process at CBE. The following risk areas expose customers to paying unreliable sellers and expose the issuing bank to losing goodwill with foreign correspondent banks: failure to follow up to collect guarantee claims and commission; delay in paying remitting banks after releasing the

collection document to customers; inadequate knowledge of buyers and sellers, particularly in the case of advance payment; and lack of assessment regarding the issuing bank's credibility.

Ousman (2022) investigated potential and problems for Ethiopian export trade facilitation methods. Ethiopia's export facilitation strategies were investigated using both quantitative and qualitative methodologies. Descriptive techniques and primary data gathering were used in this study. Additionally, a combination of non-random and random sample approaches were used, such as proportional and basic random sampling methods. Interviews with a semi-structure and closed-ended questions were employed. While interview data was examined qualitatively (content-based), questionnaire data was assessed descriptively. Ethiopia's trade facilitation practices have low export-related document processing costs and a robust governance structure, the report finds. Publications and information pertaining to exporting are rare. The procedures that rely on paper take a lot of time. Export-related paperwork processing and collecting are made difficult and time-consuming by a lack of cooperation between the business community and government institutions that facilitate trade, which slows export clearance. Applying export regulations and processes can be difficult due to its complexity, dynamic nature, and difficulty in understanding. They also fell short of realizing the enormous potential of the nation because of a lack of expertise, real-world experience, sufficient follow-up, and rent-seeking.

However, under the research title "Effect of Trade Finance Operation on Financial Performance of Commercial Bank of Ethiopia," Samrawit (2022) examined the precise effects that trade finance has on the financial performance of a particular commercial bank. Finding out how trade finance operations affected Commercial Bank of Ethiopia's financial performance—as a representative of the commercial banking sector—was the aim of this study. Its goals were to provide an overview of the Bank's trade finance revenue streams and to determine how the dependent variable—return on asset—relates to the independent variables, which included fees and commissions, interest income, foreign exchange trading income, and capital adequacy as a moderating factor. The study employed both descriptive and explanatory research designs, with the Commercial Bank of Ethiopia serving as the target population. Data was gathered from CBE reports covering sixteen years of the Bank's operations, from 2006 to 2021. Version 22 of the Statistical Package for Social Sciences (SPSS) was used to analyze the data. From the quantitative data, descriptive and inferential methods assisted in producing statistical results. The results showed that, notwithstanding some minor variations, interest income, non-interest income, and income from

foreign exchange trading had all been rising over time. Despite some minor variations over time, both the total capital and the total assets had been rising. The return on asset of Commercial Bank of Ethiopia was positively correlated with fees and commissions, interest income, and foreign exchange trading income in a statistically significant way. The income sources of trade finance, or foreign exchange gain, were found to be crucial in improving CBE's financial performance.

Even though there have been few studies about commercial banks' roles and international trade service practices in Ethiopia, it is clear from the aforementioned empirical assessments that there is still more work to be done in order to fully understand the roles that commercial banks play in trading abroad.

## **2.5 Chapter Summary and Research Gap**

As previously mentioned, some nations have attempted to investigate the connection between the functions of commercial banks and services related to international trade.

A study by Abdullahi (2020) on the contribution of commercial banks to Kenya's economic development found that the country's commercial banks were crucial to the country's economic growth, with short-term loans and account deposits serving as positive indicators and long-term loans serving as negative indicators. These responsibilities, as well as extra ones they play in enabling international trade and risk mitigation roles linked with international trades, were also made evident by Niepmann and Schmidt-Eisenlohr's (2014) study on international trade, risk, and the role of banks. Moreover, research by Cansu & Merve (2019) that used a panel data approach to analyze banks' contributions to international commerce in Turkey revealed that bank funding increases exportation in the nation and that foreign exchange input via export channels is crucial.

Additionally, Gladson & Gideon (2020) looked at how commercial banks contributed to international trade in Tanzania and found that banks offer export and import credit schemes to dealers in international trade and adequately educate them on guarantee and credit support requirements.

Finding the precise and comprehensive functions that commercial banks play in international trade, however, is challenging when looking at the studied literatures generally and Ethiopian context specifically. As previously mentioned, most of the research on Ethiopia's commercial banks' responsibilities in international trade and practices focused on the difficulties associated with providing international banking services as well as the practice of financing foreign trade.

In addition to this, these studies did not even include the government owned and the largest commercial bank of the country by focusing only on the private commercial banks with limited roles perspective in their studies.

Furthermore, these previous studies that dealt with the topic did not address some roles such as the role of supporting government-led trade facilitation initiatives and capacity building efforts that enhance commercial banks' trade finance expertise.

Moreover, as best of the researcher's knowledge, none of these studies has clearly shared us which role/s of commercial banks are predominant in the international trade services in Ethiopia since they did not comprehensively study the roles of commercial banks from different perspectives by including both private and government owned commercial banks.

In general, there is an objective ground to study the roles of commercial banks in international trade practices in Ethiopia given no comprehensive study has been done on the topic, to the best of the researcher's knowledge. Previous studies examined limited roles & triggering factors.

Therefore, the objective of this research was to fill this gap by examining the roles of commercial banks in international trade practice by including additional dimensions of roles that are played by both private and government owned commercial banks in Ethiopia.

## **2.6 Conceptual Framework of the study**

**Figure 1: Conceptual framework of the study**



*Source: Researcher's own design based on empirical literatures (Haddis, 2015; Abeba, 2016; Zelalem, 2017; Gladson & Gideon, 2020; and Zeidy, 2022)*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY AND DESIGN**

#### **3.1 Introduction**

This chapter explains the study's overall research strategy and methodology, along with the rationale for the methods' selection over competing approaches. The target population, sample size and determination, sampling methodologies, measurement scale, methods of analysis, validity and reliability, research ethics, and the source and methods of data collecting are all included. Eleven sections make up the chapter, and they are listed below.

### **3.2 Research Design**

According to Creswell (2014), strategies and processes for research encompass a range of decisions, from general hypotheses to specific techniques for gathering and analyzing data. Since the goal of the study is to characterize the current roles that commercial banks play as international trade players, the researcher used a descriptive research strategy for the study. According to Kothari (2004), descriptive research designs are employed when the goal is methodical or when an exact and factual description of the facts and characteristics of a certain population is of interest. It collects information at a specific moment in time to characterize the current conditions, specify the benchmarks by which the current conditions can be evaluated, and ascertain the correlation that exists between specific events. Given that the study's goals are to evaluate and characterize the current roles played by commercial banks in international trade, it is determined that this approach is suitable. Furthermore, this design aids in providing a clear description of the current condition of affairs. The researcher can only report what has happened or is happening in this situation; they have no control over the variables.

### **3.3 Research Approach**

The science and philosophy underlying all research is known as research technique. It delves deeply into the ways in which we know what we know and helps us to comprehend the very tight limitations imposed on our conception of knowing itself. Additionally, it enables us to comprehend the various processes that can result in the creation of knowledge (Adams et al., 2007). Additionally, according to Kothari (2004), when discussing research methodology, we should not only discuss the specific research methods we use, but also the reasoning behind them in the context of our study. We should also justify the use of a given method or technique and the avoidance of others so that the research findings can be assessed by the researcher himself or by others.

Contrarily, a research approach describes the questions to be answered, the validation process, the methods for data collecting, analysis, and interpretation, as well as the chosen strategy of inquiry (Creswell, 2014). According to Creswell (2014), there are three methods utilized when conducting a certain research project. These three approaches are mixed, qualitative, and quantitative. According to his definition, a quantitative research approach looks at the relationships between variables to evaluate objective theories. Its focus is on creating quantitative data, which is measured and organized in a methodical way. In contrast, qualitative research, according to him, aims to investigate and comprehend the significance of how individuals or groups define social or human problems. Additionally, it is said that although qualitative approaches cannot be measured, quantitative approaches use measurements that can be quantified, leading to the use of statistical analysis. Creswell (2014) defines a mixed approach as an investigative strategy that integrates or links both quantitative and qualitative forms.

With the justification that the types of data collected to address the research objectives are diverse, the researcher employed a mixed strategy in this investigation. Creswell (2014) argues that a blended strategy is a better option than relying solely on either the qualitative or quantitative method. A mixed research approach facilitates the production of comprehensive and trustworthy results in a condensed amount of time, measuring and indicating its meanings, correlations, facts, etc. in the real work contexts.

Furthermore, given the following primary benefits of the mixed research technique (Creswell, 2014), it is thought that the mixed research approach is appropriate for the study:

- A full and thorough picture of the study problem can be obtained by combining both quantitative and qualitative methodologies.
- A mixed research method can leverage each approach's advantages while mitigating its shortcomings.
- A mixed methods research methodology is more appropriate than a single method approach for addressing the study's research difficulties (i.e., either quantitative approach or qualitative approach).
- The study attempts to provide a more thorough explanation of the quantitative analysis's results through the collecting and analysis of qualitative data. This can be immensely helpful when unexpected results show up.

- When quantitative and qualitative methods are combined in one study, the results of the quantitative approach are supported by the qualitative approach, increasing the study's validity.

### **3.4 Sampling Design**

As per Burns and Burns (2008), the sampling design entails methodical processes such as describing the population, choosing a sampling technique, estimating the sample size, and designating the sampling frame. The following is a detailed presentation of each sampling design aspect.

#### **3.4.1 Target Population**

Due to time, cost, and access constraints, as well as the fact that data collection can be completed more quickly and accurately through sampling than through a census, it is not recommended for many research questions and objectives to gather and analyze data from the entire population (census) (Burns and Burns 2008 and Saunders et al., 2007). Thus, the study used sampling rather than census to collect primary data. As per NBE fourth quarter bulletin of 2022/23, there are thirty commercial banks in Ethiopia, of which 29 are private and 1 state owned. Of these banks, thirteen of them joined the industry recently (less than five years of operation). The researcher purposely excluded these new banks from the survey because they have not been in operation for long years in the way that support the analysis for the realization of the research topic. Therefore, the sampling frame of the study was employees of international banking divisions of the 17 commercial banks: 16 private & 1 government owned commercial bank in the country.

The sampling frame of the study includes department and unit managers, and officers working in 17 Ethiopian commercial banks with the total population of 436 (Please refer Table 3.1 below).

#### **3.4.2 Sample Size and Sampling Determination**

The sample size of the study for the survey questionnaires (for banks' employees) was determined using the widely applicable sample size determination formula (Weiers, 2002 cited in Desalegne, 2022) as follows:

$$n = p(1-p) / ((e^2/z^2) + (p(1-p)/N))$$

Where n= required sample size,

N = Population size

Z = Z value for the desired level of confidence

p = the estimated value of the population proportion

e = maximum acceptable error

While determining the sample size of the study, adequate care has been taken to strike a balance between the quality and cost of the research. For the study, as a conservative approach, the p-value, which is the estimated value of the population proportion, has been taken as 0.5, the desired level of confidence interval set as 95%, and the maximum error to be accepted fixed as 5%.

**As the population (N) size is 436, the sample size has been calculated using the above formula as depicted below:**

$$n = 0.5(1 - 0.5) / ((0.052 / 1.962) + (0.5(1 - 0.5) / 436)) = 203$$

A sample size of 203 for international banking divisions' employees, which is 46% of the population size, has been selected for the study.

As a rule of thumb, a sample size of 10% of the total population is believed to be sufficient to represent a population (Mugenda & Mugenda, 2008 cited in Desalegne 2022).

Thus, based on the above scenarios, it can be fairly concluded that a total sample size of 203 (or 46% of the population) taken for this study is adequate to represent the population of the study.

Table 3.1: Population and Sample Size of the Study

S.N.	Commercial Banks	Target Population	Sample Size
1	Commercial Bank of Ethiopia	67	31
2	Awash Bank	37	17
3	Dashen Bank	33	16
4	Bank of Abyssinia	35	16
5	Wegagen Bank	22	10
6	Hibret Bank	23	11
7	Nib International Bank	23	11
8	Cooperative Bank of Oromia	31	15
9	Lion International Bank	18	8
10	Zemen Bank	17	8
11	Oromia Bank	24	11
12	Buna Bank	16	7
13	Birhan Bank	19	9

14	Abay Bank	20	9
15	Addis International Bank	16	7
16	Global Bank Ethiopia	18	9
17	Enat Bank	17	8
Total		<b>436</b>	<b>203</b>

*Source: Commercial banks' international banking division report and compiled by the researcher*

### 3.4.3 Sampling Technique

Choosing a sampling technique to extract the sample elements is the last stage in the systematic sampling process. For the study, a combination of probability and non-probability sampling techniques were employed as the sampling method. The study used a proportionate stratified sampling strategy to improve the sample's representativeness for various bank sizes and guarantee that sampling units are chosen at random from the population (Saunders et al. 2007). Accordingly, samples of 203 department and unit managers, and officers were drawn randomly (lottery method for officers) from each commercial bank based on the proportion of their respective sizes as depicted in Table 3.1 above.

The interviewees, commercial banks' directors, and international traders, were purposely selected based on the commercial banks they were working in (for directors-based on numbers of respondents included in the survey) and/or their number of years of experience in the international banking or international trade. Directors with relatively substantial number of respondents and international traders with relatively long-years international trade experience were included in the interviews. The international traders' trade experience was obtained from the corresponding commercial banks where the trader is a long-time customer. Accordingly, semi-structured interviews were held with three directors and four international traders where detailed qualitative data were gathered to triangulate the survey data.

### 3.5 Source and Methods of Data Collection

According to Adams et al. (2007), a research method is a procedure used in the conduct and application of research. According to Kothari (2004), research methods encompass all the techniques employed by the investigator while examining the research problem. Consequently, research methodologies, which include the following topics, do make up a portion of the study methodology.

In this study, both primary and secondary sources of data were used. As primary sources, managers and officers of selected commercial banks working at their Head Offices' international banking divisions. Secondary data were also collected from international banking divisions' report, National Bank's report on international trade, empirical literatures and other secondary data sources related to international trade in Ethiopia context. The primary data were collected using self-administered questionnaires that were designed for each role dimension of the study and semi-structured interviews to substantiate data collected through questionnaires whereas the secondary data were collected through documentary analysis/review.

### **3.5.1 Questionnaire**

The researcher used this tool to collect primary data from respondents. Both close and open-ended questionnaires were used to gather data from bank employees and international traders that help in understanding the roles of commercial banks in international trade. Questionnaires are found appropriate for a large population as they involve the respondents responding to the questions themselves and they are precise and time saving (Kendall, 2008). The questions were formulated in English and translated into Amharic to make them understandable to respondents. In terms of their structure, the close ended questions were designed in the form of Likert scale where respondents are expected to reflect their level of agreement with the stated statements/questions. The researcher believed that it is appropriate tool that enables researcher to measure subjective constructs of the respondents, get standardized form of data that can easily allow comparison of responses between different individuals/respondents; easy to make different statistical analysis & interpretation, its practicality & efficiency (allows the researcher to gather large amount of data quickly and easily which are appropriate for mixed research approach), and its flexibility nature (5 scale points that help the researcher tailor to the specific research objectives). Open ended questionnaires were also designed in the way that substantiate close ended questions and provide room for the respondents 'opinions/views that may not be included in the close ended questions.

### **3.5.2 Interview**

Semi-structured interviews were held with directors of international banking divisions as well as selected international traders. Semi-structured interviews have advantages over the use of only structured and unstructured interviews since it combines the positive elements of the two together. Accordingly, interviews were held with three directors of international banking divisions and four international traders to triangulate data obtained through survey. The interviewees (the directors) were purposely selected based on the commercial banks they were working in (based on numbers

of respondents included in the survey) and their number of years of experience in the international banking or international trade. Directors with relatively considerable number of respondents and international traders with relative long-years international trade experience were included in the interviews.

*Notes that one of the interviewee directors was selected only based on number of years of experience in the international banking and special exposure he had regardless of numbers of respondents included in the survey from her bank.*

### **3.6 Methods of Data Analysis**

The collected data were analyzed using descriptive statistics. Tables, graphs, and pie charts were used to summarize frequencies, percentages and means to present the findings and analysis considering the study objectives. First-hand records (both the questionnaires and the interviews) were put into SPSS software to be analyzed. SPSS version 27 program was used for the analysis. Choosing a sampling technique to extract the sample elements is the last stage in the systematic sampling process. For the study, a combination of probability and non-probability sampling techniques were employed as the sampling method. The study used a proportionate stratified sampling method to improve the sample's representativeness for various bank sizes and guarantee that sampling units are chosen at random from the population (Saunders et al. 2007).

### **3.7 Validity and Reliability**

The research has implemented a proportionate stratified random sampling procedure to improve the study's validity, increase the sample's representativeness for various bank sizes, and guarantee that sampling units are chosen at random from the population. This indicates that a certain percentage of respondents from each commercial bank were chosen to take part in the research. As a result, 203 people, or 46% of the total population, have been chosen as the study's sample size. To gather the necessary data, a semi-structured questionnaire with relevant indicators on each of the study's dimensions has been created. The essential metrics established by numerous experts in the industry have served as the foundation for the questionnaire's development.

According to Sreejesh et al. (2014), reliability quantifies the extent to which a measurement is error-free and yields a consistent result under various conditions. The commonly used metric Cronbach's alpha, which provides an assessment of the measures' reliability, was utilized to evaluate the study's measures' reliability. According to Sreejesh et al. (2014), a Cronbach's alpha

of greater than 0.7 is necessary to guarantee internal consistency and reliability. The study's Cronbach's alpha test result is 0.81, suggesting that it is a credible source.

### **3.8 Ethical Considerations**

The following ethical concerns were considered when the study was being conducted:

- The confidentiality of the participants is crucial and has been ensured.
- No information about any respondent will be provided to a third party, and the data gathered from respondents has been treated with the utmost confidentiality.
- The respondents gave their informed agreement, and commercial banks were polled.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

Under this chapter, the collected primary data are presented and thoroughly analyzed. The chapter is organized into sections and sub-sections. Specifically, the chapter consists of response rate of the survey, profile of the respondents and discussions for a major part of the study. Data for each specific objective are presented and analyzed with the help of SPSS version 27 and presented in tabular form. Furthermore, data obtained through survey questionnaires and semi-structured interviews are separately presented in the way that one substantiates the other (data collected from the interviews are based on the survey data).

#### **4.2 Response Rate**

The population of the study included 17 commercial banks international banking divisions' unit/department managers and officers of head office. Samples of 203 questionnaires were distributed and the researcher managed to collect 187 of which 3 of them were discarded since they were incomplete to use for the analysis. Thus, 184 (90.6% response rate) completed questionnaires were used for the survey data analysis. Considering the response rate of 90.6%, it is acceptable to proceed with the data analysis stage.

### 4.3 Profile of respondents

Respondents were asked about their sex, qualification, experience, age, and their job position to identify the demographic characteristics of the respondents. The demographic information is indicated in Table 4.1 below.

**Table 4.1: profile of the respondents (Survey respondents)**

Demographic variables		Frequency	Percentage (%)
Sex	Female	67	36.4
	Male	117	63.6
	Total	184	100
Qualification/Educational level	1 <sup>st</sup> Degree	99	53.8
	Masters	85	46.2
	Doctorate (PhD)		
	Others		
	Total	184	100
Work experience in the bank	Less than 5 years	6	3.3
	5 to 10 years	70	38.0
	11 to 20 years	91	49.5
	Above 20 years	17	9.2
	Total	184	100

Age	Less than 35 years	38	20.7
	35 to 50	137	74.5
	51 to 60	8	4.3
	Above 60	1	0.5
	Total	184	100
Job Position	Officer position	140	76.1
	Managerial Position	44	23.9
	Total	184	100.00

Source: Researcher's own survey

As indicated in Table 4.1 above, most of the respondents (63.6%) were male. This figure indicates that most of the international banking divisions are dominantly occupied by males. Related to the qualification of the respondents, 46.2% and 53.8% of the respondents were expert's and BSC/BA degree holders, respectively. Nearly half of the respondents (49.5%) had eleven to twenty years of experience followed by 38% of respondents with work experience ranging from five years to ten years. Only 3.3% of the respondents had working experience of less than 5 years whereas 9.2% of the respondents had more than 20 years of experience.

Regarding respondents' age, 20.7% of the respondent are less than 35 years, 74.5% of them are aged between 35 to 50 years, 4.3% of the respondents are aged between 51 to 60 years, and 0.5% of the respondent is aged above 60 years. The data on respondents' age indicates that the number of management members and offices whose age is above 50 is exceedingly insignificant compared to the other age groups.

Related to the respondents' job position/responsibility in a bank, 76.1% of them are at the officer level whereas the remaining 23.9% of the respondents are the managerial positions.

**Table 4.2: profile of the respondents (interviewees)**

S.No.	Interviewee code	Sex	Qualificati on	Year of experience	Position in the bank/business Company
1	Interviewee CB1-Int.1	Male	BA Degree	20 years	Director (International Banking division)

2	Interviewee CB2-Int.2	Male	Master's Degree	13 years	Director (International Banking division)
3	Interviewee CB3-Int.3	Female	Master's Degree	24 years	Director (International Banking division)
4	Interviewee-Int.4	Male	Diploma	22 years	International trader, business owner
5	Interviewee-Int.5	Male	BA Degree	13 years	International trader, General Manager
6	Interviewee-Int.6	Male	12 grade complete	26 Years	International trader, business owner
7	Interviewee-Int.7	Male	BA degree	15 years	International trader, Finance head.

Source: Researcher's own survey

As shown in Table 4.2 above, the participants in the interviews are six males and one female. Three of them are international banking divisions' directors and the remaining four interviewees are international traders. All the interviewees have long-time experience of international banking and international trade with a minimum experience of 13 years. Years of experience are anticipated where the experiences needed for the positions are presumed to be high. Two of the international traders are the owners of companies that engage in international trade. On the other hand, the remaining two are employees of international trading companies with ample of experiences.

#### 4.4 International Trade Service Practices

Respondents were asked four questions to measure the international trade service practices of their commercial banks. As depicted in Table 4.3 below, the mean scores of the questionnaire items measuring international trade service practices range from 2.71 to 3.41 with standard deviations varying from 0.76 to 0.86. Among the questionnaire items, the statement "The services provided are in the ways that signify responsiveness to changes to trade regulations or requirements" as the highest mean score of 3.41 with a standard deviation of 0.78. Whereas the statement "The trade services provided are efficient and reliable services where any trade related issues or disputes are resolved promptly" has the lowest mean score of 2.71 with a standard deviation of 0.86. In general, the average score of international trade service practices was computed to be 3.06 out of 5 with a

standard deviation of 0.63. Thus, based on the average score of international trade service practices, the international trade service practices were rated at a low level.

**Table 4.3: International trade service practices**

S.N.	Statement (Indicators/constructs)	Mean	Std. Deviation
1	The trade services provided are efficient and reliable services where any trade related issues or disputes are resolved promptly.	2.71	0.86
2	The trade services provided are transparent in their processes and fees	3.37	0.83
3	The services provided are in the ways that signify responsiveness to changes to trade regulations or requirements.	3.41	0.78
4	In general, international traders are satisfied with the quality of international trade service provided.	2.77	0.76
<b>International Trade service Practices</b>		<b>3.06</b>	<b>0.63</b>

Source: Researcher's own survey

#### 4.4 Roles of commercial banks in the international trade service practices

This section is concerned with the roles that commercial banks in Ethiopia are playing related to international trade service practices. Five comprehensive roles that include trade financing role, capacity building role, payment role, risk mitigation role, and role of supporting government-led trade facilitation initiatives were identified based on empirical and theoretical literatures. The statements in this section measure the level of the above listed parameters at commercial banks in Ethiopia.

##### 4.4.1 Trade Financing Role

Five questions were asked to respondents to assess the trade finance services offered by commercial banks. Table 5.4 below shows that the mean scores of the items measuring the trade financing role constructs lay between 2.01 and 2.33 with standard deviations ranging from 0.76 to 0.92.

**Table 4.4: International trade service practices**

S.N.	Statement (Indicators/constructs)	Mean	Std. Deviation
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5	The trade finance services offered by commercial banks effectively meet the financing needs of businesses engaged in international trade.	2.05	0.92
6	Commercial banks in international trade practices adequately educate and assist clients in understanding various trade finance instruments, such as letters of credit and guarantees.	2.29	0.80
7	The trade finance services offered by commercial banks in Ethiopia are cost-effective and at affordable cost of finance.	2.33	0.80
8	Commercial banks proactively innovate and introduce new trade finance solutions to meet the evolving needs of businesses engaged in international trade.	2.32	0.76
9	In general, the availability and accessibility of trade finance services offered by commercial banks in Ethiopia are at the satisfactory level and could be taken as effective in facilitating international trade transactions.	2.01	0.90
<b>Trade Financing Role</b>		<b>2.19</b>	<b>0.76</b>

Source: Researcher's Own Survey

The statements “In general, the availability and accessibility of trade finance services offered by commercial banks in Ethiopia are at the satisfactory level and could be taken as effective in facilitating international trade transactions” and “The trade finance services offered by commercial banks in Ethiopia are cost-effective and at affordable cost of finance” have got the lowest and maximum mean scores of 2.01 and 2.33, respectively. As shown in Table 4.4 above, the trade finance services offered by commercial banks in meeting the financing needs of businesses engaged in international trade and their ability of proactively innovate and introduce new trade finance solutions to meet the evolving needs of businesses engaged in international trade were also rated low among the statements trade financing role with a mean score of 2.05 and 2.32, respectively. In general, the average score of trade financing role of commercial banks in Ethiopia was computed to be 2.19 out of 5 with a standard deviation of 0.76. Thus, based on the average score of the construct, trade financing role of commercial banks in Ethiopia was rated low.

#### 4.4.2 Capacity Building Role

Respondents were asked five questions to measure the capacity building role of commercial banks related to international trade service as indicated below.

*Table 4.5: Capacity building role*

S.N.	Statement (Indicators/constructs)	Mean	Std. Deviation
10	Commercial banks play an active role in educating businesses about international trade practices and procedures.	2.85	0.59
11	Commercial banks provide training and workshops to enhance the trade finance knowledge and skills of their clients.	2.72	0.58
12	Commercial banks offer advisory services to assist businesses in understanding and navigating the complexities of international trade regulations and documentation requirements.	2.79	0.59
13	Commercial banks actively collaborate with industry associations, chambers of commerce, and other stakeholders to promote capacity building initiatives in international trade practices.	2.77	0.52
14	In general, commercial banks offer financial literacy programs and resources to help businesses understand the financial aspects of international trade and improve their financial management capabilities.	2.78	0.54
<b>Capacity Building Role</b>		<b>2.78</b>	<b>0.48</b>

Source: Researcher's Own Survey

The mean scores of the items measuring capacity building role range from 2.72 to 2.85 with standard deviations varying from 0.52 to 0.59. Among the statements of measuring capacity building role “Commercial banks play an active role in educating businesses about international trade practices and procedures” has the highest mean score of 2.85 with a standard deviation of 0.59. On the other hand, the statement “Commercial banks provide training and workshops to enhance the trade finance knowledge and skills of their clients” has got the lowest mean score of 2.72 and a standard deviation of 0.58. In general, as shown in Table 5.5 above, the average score of capacity building role of commercial banks related to international trade in Ethiopia was computed to be 2.78 out of 5 with a standard deviation of 0.48. Thus, from the average score of capacity building role, the capacity building role of commercial banks in Ethiopia in international trade service was rated low for all constructs of capacity building role.

#### 4.4.3 Risk Mitigation Role

Respondents were asked five questions to evaluate the risk mitigation role of commercial banks in Ethiopia related to international trade. As depicted in Table 4.6 below, the average score of risk mitigation role of commercial banks in Ethiopia related to international trade was computed to be

3.86 with a standard deviation of 0.45. Table 4.6 also shows that the mean scores of all the items measuring risk mitigation construct were above 3.7 out of 5 with standard deviations ranging from 0.54 to 0.66. In fact, the statement “Commercial banks effectively assess and manage the risks associated with international trade transactions, such as credit risk, country risk, and foreign exchange risk” has the highest mean score of 4.1 with standard deviation of 0.66. whereas the statement “Commercial banks actively monitor and manage compliance with international trade regulations and sanctions to mitigate legal and regulatory risks associated with cross-border transactions” has the lowest mean score of 3.73 with standard deviation of 0.56. Thus, based on the average score of risk mitigation role, the risk mitigation role of commercial banks in Ethiopia related to international trade service was found at a prominent level.

**Table 4.6: Risk Mitigation role**

<b>S.N.</b>	<b>Statement (Indicators/constructs)</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>15</b>	Commercial banks effectively assess and manage the risks associated with international trade transactions, such as credit risk, country risk, and foreign exchange risk.	4.10	0.66
<b>16</b>	Commercial banks provide comprehensive risk mitigation solutions, such as trade finance instruments and insurance products, to protect businesses against potential trade-related risks.	3.87	0.56
<b>17</b>	Commercial banks have robust due diligence processes in place to assess the creditworthiness and reliability of international trade partners before providing trade finance services.	3.78	0.54
<b>18</b>	Commercial banks actively monitor and manage compliance with international trade regulations and sanctions to mitigate legal and regulatory risks associated with cross-border transactions.	3.73	0.56
<b>19</b>	In general, commercial banks provide timely and accurate information on potential risks and market conditions to assist businesses in making informed decisions and managing risks in international trade.	3.82	0.60

<b>Risk Mitigation Role</b>	<b>3.86</b>	<b>0.45</b>
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Source: Researcher's Own Survey

#### 4.4.4 Role of Supporting Government-Led Trade Facilitation Initiatives

Five questions were asked to respondents to examine the role of commercial banks in supporting government-led trade facilitation initiatives related to international trade in Ethiopia.

*Table 4.7: Role of supporting government-led trade facilitation initiatives*

S.N.	Statement (Indicators/constructs)	Mean	Std. Deviation
20	Commercial banks collaborate with government agencies and customs authorities to streamline trade documentation processes and reduce administrative barriers for businesses engaged in international trade.	2.96	0.65
21	Commercial banks actively participate in government-led trade facilitation initiatives to promote seamless and efficient cross-border trade processes.	2.86	0.58
22	Commercial banks support government initiatives aimed at digitizing trade processes and implementing electronic trade platforms to enhance the efficiency and security of international trade transactions.	3.34	0.64
23	Commercial banks actively engage in public-private partnerships to develop and implement trade finance programs that align with the government's trade facilitation goals.	2.83	0.53
24	In general, Commercial banks advocate for policy reforms and regulatory changes that promote trade facilitation and create a conducive environment for businesses engaged in international trade.	2.81	0.50
<b>Role of Supporting Government-Led Trade Facilitation Initiatives</b>		<b>2.96</b>	<b>0.45</b>

Source: Researcher's Own Survey

Table 4.7 above shows that the mean scores of all the items measuring role of supporting government-led trade facilitation initiatives were rated low and they are below 3.35 with standard deviations ranging from 0.50 to 0.65. Among the statements measuring role of supporting government-led trade facilitation initiatives, the statement "Commercial banks support government initiatives aimed at digitizing trade processes and implementing electronic trade platforms to enhance the efficiency and security of international trade transactions" has got the highest mean score of 3.34 with a standard deviation of 0.64. In general, the average score of

incentives and reward alignment in commercial banks in Ethiopia was computed to be 2.96 out of 5 with a standard deviation of 0.45. Thus, based on the average score of roles of supporting government-led trade facilitation initiatives, the role of supporting government-led trade facilitation initiatives of commercial banks in Ethiopia was rated low which demands appropriate actions to improve the case.

#### 4.4.5 Payment Role

Respondents were asked five questions to evaluate the payment role of commercial banks in facilitating international trade payments. As depicted in Table 4.8 below, the average score of payment role of commercial banks in Ethiopia in facilitating international trade was computed to be 4.08 with a standard deviation of 0.27. The table also shows that the mean scores of all the items measuring the payment role construct were above 3.75 out of 5 with standard deviations ranging from 0.38 to 0.53. Specifically, the statement “In general, Commercial banks offer efficient and timely processing of international trade payments, reducing payment delays and uncertainties.” Has the highest mean score of 4.2 with a standard deviation of 0.44. whereas, the statement “Commercial banks offer competitive exchange rates and fees for international trade payments.” has the lowest mean score of 3.78 with a standard deviation of 0.44. Thus, based on the average score of payment role, the payment facilitation role of commercial banks in Ethiopia related to international trade service was found at an important level.

**Table 4.8: Payment role of commercial banks**

S.N.	Statement (Indicators/constructs)	Mean	Std. Deviation
25	Commercial banks provide a wide range of international payment services to support cross-border trade transactions.	3.98	0.42
26	Commercial banks play a crucial role in facilitating secure and efficient international trade payments.	4.10	0.38
27	Commercial banks offer competitive exchange rates and fees for international trade payments.	3.78	0.44
28	Commercial banks provide comprehensive trade finance solutions, including letters of credit and documentary collections, to support international trade transactions.	3.88	0.50
29	In general, Commercial banks offer efficient and timely processing of international trade payments, reducing payment delays and uncertainties.	4.20	0.44

<b>Role of Supporting Government-Led Trade Facilitation Initiatives</b>	<b>3.99</b>	<b>0.24</b>
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Source: Researcher's Own Survey

**Table 4.9: Summary of the role of commercial banks in the international trade service practices in terms of the Study Constructs**

S.No.	Constructs/Factors	Mean	Standard Deviation	Level
1	International Trade Service Practices	<b>3.06</b>	<b>0.63</b>	Low
2	Trade Financing Role	<b>2.19</b>	<b>0.76</b>	Low
3	Capacity Building Role	<b>2.78</b>	<b>0.48</b>	Low
4	Risk Mitigation Role	<b>3.86</b>	<b>0.45</b>	High
5	Role Of Supporting Government-Led Trade Facilitation Initiatives	<b>2.96</b>	<b>0.45</b>	Low
6	Payment Role	<b>3.99</b>	<b>0.24</b>	High

Source: Researcher's Own Survey

*Notes that this classification has been done as per already defined criteria in chapter three. As per this classification, a mean score of greater than 3.8 is considered as high, between 3.4 to 3.79 is considered as moderate and a mean score of less than 3.39 is considered as low.*

Accordingly, as shown in Table 4.8 above, the role of commercial banks in the international trade service practices in Ethiopia, expressed in terms of the study constructs were found at low except for the risk mitigation role and payment which are found to be high.

#### **4.4.6 Role of commercial banks in the international trade service practices (Open-ended Questions)**

In the last part of the questionnaire, respondents were asked three open-ended questions about the current status of the international trade service practices in Ethiopia, the major roles that are being played by commercial banks in international trade service of the country and any measure that shall be taken by commercial banks or concerned bodies to enhance commercial banks' roles in international trade. The results of the open-ended questions were tallied and regrouped based on a common theme. After regrouping the responses to the open-ended questions, frequency distribution was performed for the summarized items and ranked. The findings of the open-ended questions indicate that the status of international trade service practices in Ethiopia are full of

challenges and not convenient to international traders where the respondents stated varied factors for these challenges. On the other hand, the respondents stated the major positive roles that they believe commercial banks are playing in the existing international trade service practices of the country. Furthermore, they also stated measures that shall be taken by commercial banks or concerned bodies to enhance commercial banks' roles in international trade. The responses for each of these three questions are presented separately as shown in the following three tables though most of the respondents have not provided their opinions.

**Table 4.10: Contributing factors for the existing challenging status of international trade service practices in Ethiopia (Open-ended Questions)**

Status/items stated by the respondents	Frequency	Percentage	Rank
Current economic and political situations	19	22.6%	1
Financial service-related challenges	17	20.3%	2
Trade facilitation related challenges	15	17.9%	3
Logistics and Transportation related challenges	12	14.3%	4
Trade compliance related challenges	7	8.3%	5
Others (Legal and regulatory framework, trade promotion institutions, Digital trade infrastructure, Professional services and other related)	14	16.6%	6
<b>Total</b>	<b>84</b>	<b>100%</b>	

Source: Researcher's own survey

As depicted in Table 4.9 above, Current economic and political situations (both the country level and global level economic and political situations) (22.6%), Financial service related challenges (the availability and accessibility of financial service tailored to international trade, such as trade financing and letter of credit) (20.3%), Trade facilitation related challenges (such as customs procedures, documentation requirements and efficiency of boarder clearance process) (17.9%), and Logistics and Transportation related challenges (inefficiency of infrastructures related to port, airport, road networks and railway system ) (14.3%) were the major contributing factors for the existing challenging status of international trade service practices in Ethiopia identified from the results of the open-ended questions. Trade compliance related challenges (country's adherence to

international trade compliance standards like product quality standard) (8.3%) were also the other identified factors that affect the quality of international trade service practices in Ethiopia. The other identified factors, such as Legal and regulatory framework, trade promotion institutions, Digital trade infrastructure, Professional services and other related etc. presumed to affect international trade service practice were alluded by an insignificant number of respondents.

**Table 4.11: Major roles of commercial banks in the international trade service in Ethiopia (Open-ended Questions)**

Status/items stated by the respondents	Frequency	Percentage	Rank
Payment services	34	25.4%	1
Foreign Exchange service	31	23.1%	2
Risk mitigation	25	18.6%	3
Trade financing	21	15.6%	4
Others (Trade documentation services, trade information and advisory service, Digitalization, working capital management and others)	23	17.3%	5
<b>Total</b>	<b>134</b>	<b>100%</b>	

Source: Researcher's own survey

As shown in Table 4.10 above, payment service (facilitating international trade payment) (25.4%), foreign exchange service (providing currency exchange service) (23.1%), and risk mitigation (offering trade insurance products that protect against non-payment) (18.6%) were the major roles of commercial banks in the international trade service practices in Ethiopia identified from the results of the open-ended questions. Trade financing role (trade finance provided by commercial banks include letter of credit and other facility as well as export, import and working capital financing of international traders) (15.6%) were also the other identified role of commercial banks in the international trade service practices in Ethiopia. The other identified roles, such as trade documentation services, trade information and advisory service, Digitalization, working capital management etc were stated roles of commercial banks in the international trade by an insignificant number of respondents. Even though these many roles were identified that are supposed most of them were, in one way or another, incorporated as components of the study constructs.

**Table 4.12: Measures to be taken by commercial banks or concerned bodies to enhance commercial banks' roles in international trade (Open-ended Questions)**

Status/items stated by the respondents	Frequency	Percentage	Rank
Strengthened Trade finance offerings	11	29.8%	
Capacity building and training	8	21.6%	
Government support and policies	7	18.9%	
Collaboration with trade service providers	4	10.8%	
Others (Technology adoption, Risk management and adoption, industry collaboration and others)	7	18.9%	
<b>Total</b>	<b>37</b>	<b>100%</b>	

Source: Researcher's own survey

As indicated above (Table 4.11), Strengthened Trade finance offerings (29.8%), Capacity building and training (21.6%), Government support and policies (provide a supportive policy environment like favorable trade finance regulation, simplified trade procedures, etc) (18.9%) were identified as the major measures to be taken by commercial banks or concerned bodies to enhance commercial banks' roles in international trade. Create collaboration with trade service providers (includes logistic companies, insurance companies, custom authority, etc) (10.8%) were also the other identified measures to be taken to enhance commercial banks' roles in the international trade service practices in Ethiopia. The other, such as technology adoption, Risk management and adoption, industry collaboration and others etc were stated measures to be taken to enhance the roles of commercial banks in the international trade though the proponents were insignificant in numbers.

#### **4.4.7 Qualitative Data Results (results of Semi-structured interview)**

To collect the qualitative data, six semi-structured interview questions were developed based on the results from the survey questionnaires data analysis phase of the study. The semi-structured interview questions entail questions on all constructs of the study and explore the relationships among constructs and try to explain the results of the survey questionnaires of the study in detail. Using the designed semi-structured interview questions seven individuals (three directors and four international traders) were interviewed. Identification of themes, trends, patterns, and relationships in the qualitative data was undertaken to answer the research questions of the study in great depth as presented below.

#### ***4.4.7.1 International trade service practices in Ethiopia***

To identify the major reasons behind the status of international trade service practices in Ethiopia, respondents were asked the following two questions: **How do you evaluate the current status of the international trade service practices in Ethiopia and what do you think are the factors for the existing status?**

The questions were asked primarily to establish the main reasons why international trade service practices in Ethiopia are found to be low as per the survey data. The respondents stated that the status of international trade service practices in Ethiopia is characterized with full of challenges or obstacles. The commonly stated challenges by all interviewees were current political and economic condition of the country as well as the globe, government policy, regulations, proclamations and directives, Trade facilitation problems, and foreign currency allocation problem. Interviewees 2 and 3 indicated that the current political and economic situation of the country was one of the most critical factors that contribute to the ineffectiveness of international trade service.

“Our bank’s international trade service is not effective due to the existing situations in the country. Exports are not as they were five years due to instability in the country. Our textile and garment manufacturers and exporters are not exporting now due to the AGOA suspension. No exports from the northern and other part of the country. As the result of what I mentioned and others, international trade services are not effective.” (Interviewee CB2-Int.2)

“In my opinion, the overall international trade service is not as effective as it could have been for a variety of reasons, primarily due to the existing political and economic instability of the world in general and our country in particular.” (Interviewee CB3-Int.3).

Interviewee CB1-Int.1, on the other hand, indicated the impacts of government proclamations and directives related to international trade services.

“National bank directives prohibit commercial banks to not allocate their foreign currency based on their customers’ request and economic value. Rather, we are forced to allocate only to priority areas.” (Interviewee CB1-Int.1).

On the other hand, trade facilitation and foreign currency allocation problems were mentioned by the interviewees of international traders as the factors for ineffective status of international trade service practices. “I have been in the business of international trade for more than 20 years; but the

recent two years challenges are not comparable. We cannot import items that were easily imported two years ago. Unless you have export, you cannot import.” (Interviewee-Int.4)

“The current main problem of international traders (importers and manufacturers) is foreign currency problems. In fact, the international traders understand the existence of shortage of foreign currencies in the country. But the problem has become critical where many of the manufacturing companies are about to be closed due to lack of foreign currency to purchase raw materials from abroad. We could not get the foreign currency from commercial banks that we used to get from for the past two years. All processes of importing items, whatever types of items they are, are full of bureaucracy with long-chain of custom clearance processes.” (Interviewee-Int.5)

“Recently, foreign currency has become a problem of all companies, whether importer or exporter. Both are now challenging. You cannot easily import an item from an abroad even through Franco valuta.” (Interviewee-Int.7)

“The current situation of international trade service practice is at the worst stage where the cooperative efforts are needed to reverse the situation. I have imported and exported different items for more than 25 years. There were times of international trade recessions. But the current situation is completely different from these periods. Getting foreign currency (USD) is considered like winning a lottery. If things continue like this, international traders including factory owners will be out of business and will lead us to economic crises”. (Interviewee-Int.6)

In general, the qualitative study identified the critical elements for the ineffective status of current international trade service practices that include current political and economic situation of the country, foreign currency allocation problem, limitation in trade facilitation services, and government regulations/directive. The presented factors are almost mentioned by all interviewees though the direct quotes have been made only for a few of the respondents.

#### ***4.4.7.2 Trade financing role***

To understand the level of financing aspects of the commercial banks in the international trade practices, the interviewees were asked two questions based on the survey questionnaire data. The questions were:

**How do you assess the financing role of commercial banks in the international trade service practices in Ethiopia? The service is rated low as per the survey questionnaires, do you agree with this?**

The responses of the interview had two features: one with agreement with the survey results and the other with opposing the results. The supporters of the result of the survey stated that though the roles of commercial banks in financing international trade could not be undermined, the status of this role could be taken as unsatisfactory level. “Some years ago, pre-shipment credit facility was easily financed once you bring sales contract without any collateral. Now, with 100% collateral, it is difficult to get pre-shipment credit facility within brief period of time. Many companies are suffering of working capital shortage because commercial banks are not willing to finance international traders.” (Interviewee-Int.6)

It is also believed by some respondents that commercial banks are not fully supporting international traders as per their request due to their liquidity status of corresponding commercial banks as well as the country’s economic problem. “It is important to acknowledge that the effectiveness of commercial banks' financing role can be influenced by multiple factors. These factors may include their liquidity status and current economic situation of the country.” (Interviewee-Int.5). Another respondent also stated that commercial banks are not financing international trade as expected. “December through March has been high season of financing exports, especially pre-shipments. But this year, compared to previous years, is low. This could be attributed to varied factors where the defaults of many pre-shipment loans were considered as the major factors. Our international traders are not in the status of credit worthy customers. No trust between commercial banks and international traders. Thus, everybody is wanted to be secured and be sure that what has been lent collected back.” (Interviewee CB2-Int.2).

“Banks are not fully financing international trading activities now. We have requested many international trades financing in the last two years. But not successful yet. (Interviewee-Int.4). “Banks are not open to support the international traders. They are blocking our working capital for the suppliers’ credit that is going to be paid after one year. It is a supplier that provides us with credit. But block equivalent amount to be repaid after 365 days or require us 100% collateral.” (Interviewee-Int.7).

On the other hand, all the two of the interviewees from commercial banks believed that commercial banks are playing crucial roles in financing international trades. “Commercial banks play a vital role in providing financing solutions and facilitating trade transactions for businesses engaged in international trade. They offer trade finance services such as letters of credit, export

financing, and guarantees, which are crucial for managing the financial aspects of cross-border trade. So, it is difficult to conclude that commercial banks' role in financing international trade is low though there are many observable challenges. But they are undeniable facts. We are suffering with a shortage of foreign currencies where international trade financing has strong connection. Strict foreign currency controls can limit the availability of foreign currency for commercial banks. Inadequate access to foreign currency can hinder their ability to provide necessary financing for cross-border transactions, impacting importers and exporters who require foreign currency to settle trade obligations. This limitation may result in reduced trade finance options and hinder the overall growth of international trade" (Interviewee CB1-Int.1).

"We are providing credit to international traders in the form of pre-shipment, post shipment, export/import working capital financing, LC, or LG. we are financing needs of businesses engaged in international trade which vary based on their size, sector, and trading partners. Some companies may face specific challenges in accessing trade finance due to their limited financial resources and lack of collateral. These may be considered as limitations. But this is what all banks need to do try to practice prudent lending to protect its bank" (Interviewee CB3-Int.3)

In conclusion, it is possible to agree with the survey findings that it is valuable to consider the challenges and areas for improvement in the financing role of commercial banks in international trade service practices in Ethiopia. By addressing these challenges through collaborative efforts and embracing commercial banks can better support businesses in accessing the necessary financing for international trade and contribute to the growth and development of Ethiopia's international trade ecosystem.

#### ***4.4.7.3 Capacity Building Role***

To evaluate the capacity building role of commercial banks, the researcher also forwarded the following three questions: **Data collected from the survey indicated that the capacity building role of commercial banks in the international trade service practice in the country was rated at a low level, do you agree? Why? What do you think is important to enhance capacity building role of commercial banks in the international trade service practice?**

All the respondents agreed that the commercial bank's role related to building the capacity of international traders as well as its expertise is found to be low. Although they stated that commercial banks are weak in playing this role, they have stated numbers of benefits would have been obtained if commercial banks had successfully fulfilled the role.

“Enhancing the capacity building role of commercial banks in the international trade service practice is crucial for several reasons. It can help ensure that banks have the necessary knowledge and expertise to provide tailored trade finance solutions, guide businesses in navigating international trade regulations, and effectively manage the associated risks.” (Interviewee CB3-Int.3).

“It encourages collaboration between commercial banks, government agencies, trade associations, and international organizations that can facilitate knowledge-sharing, training programs, and the exchange of best practices. We were frequently doing these issues in the past years. We are not doing such kind of capacity building issues because whenever we get international traders, their request is foreign currency allocation” (Interviewee CB1-Int.1).

“Investing in training programs and workshops that focus on international trade finance, risk management, compliance, and emerging trends can enhance the skills and knowledge of bank personnel involved in international trade services.” (Interviewee CB2-Int.2).

“Commercial banks have access to up-to-date information on international trade regulations, market trends, and trade financing options enable them to better serve businesses engaged in international trade.” (Interviewee-Int.4).

“There were trends of information sharing and briefing on new emerging trends of international trading in the past years. These discussions and briefings were especially important to have up to date information. We were frequently updated about any change in the international trade.” (Interviewee-Int.5).

“It promotes financial literacy of businesses engaged in international trade, which can help them understand trade finance options, risk management strategies, and the overall process of international trade transactions. They sometimes send us memos which involve the lists of required documents” (Interviewee-Int.6).

“We used to receive short-term training or briefing on how to use our foreign currency retention account though the goal of the training were how to increase their foreign currency earnings. There were also sessions of experience sharing where we had different experiences. But these issues do not exist now.” (Interviewee-Int.7).

It could be concluded that though commercial banks were playing significant roles in the capacity building of the actors of the international traders, this role is not found at the expected level based on the survey as well as the interview data. By addressing these considerations and implementing effective capacity building measures, commercial banks can strengthen their role in supporting businesses engaged in international trade that in turn can contribute to the overall growth and development of the international trade in the country.

#### **4.4.7.4 Risk Mitigation Role**

Related to the risk mitigation role, the interviewees were asked two questions related to the survey finding. **The quantitative survey result shows that the risk mitigation role of commercial banks related to international trade is high. Do you agree with the survey and why?**

All the respondents agreed with the survey result and justified their views. They stated different justifications for the role to be high. "I agree with the survey result indicating that the risk mitigation role of commercial banks related to international trade is high. Commercial banks play a critical role in mitigating risks associated with international trade transactions, and their expertise in risk management is instrumental in facilitating secure and smooth trade operations." (Interviewee-Int.7).

"Commercial banks employ various risk mitigation practices to ensure the safety and reliability of international trade transactions. They conduct thorough due diligence on the parties involved in the trade, including buyers and sellers, to assess their creditworthiness and reliability. This helps minimize the risk of non-payment and default." (Interviewee CB1-Int.1).

"Commercial banks facilitate the use of trade finance instruments such as letters of credit and documentary collections, which provide an added layer of security for both exporters and importers. These instruments help ensure that payments are made only upon the fulfillment of specified conditions, reducing the risk of non-compliance or fraudulent activities." (Interviewee CB2-Int.2).

"Commercial banks often possess in-depth knowledge of international trade regulations, compliance requirements, and country-specific risks. They assist businesses in navigating complex trade regulations, including customs procedures, sanctions, and export/import controls. By providing guidance on compliance matters, commercial banks help mitigate potential risks and ensure adherence to legal and regulatory frameworks." (Interviewee CB3-Int.3).

“Commercial banks have experience and expertise in assessing and managing risks associated with international trade. They employ robust risk management frameworks and practices to safeguard the interests of both exporters and importers. By conducting thorough due diligence, credit assessments, and risk analysis, commercial banks can make informed decisions and mitigate potential risks.” (Interviewee-Int.6).

“Commercial banks have a global network and knowledge of international trade regulations and compliance requirements. They assist businesses in navigating complex regulatory landscapes, including sanctions, export/import controls, and anti-money laundering measures. By providing guidance and ensuring compliance, commercial banks contribute to risk mitigation in international trade transactions.” (Interviewee-Int.6).

“The prudent risk mitigation approach commercial banks practices are supporting them to have prominent role in mitigating risks related to international trades. Banks are very conservative and sensitive for everything that an international trade may overlook.” (Interviewee-Int.6).

Overall, it could be concluded from the survey as well as the interview that the high rating of commercial banks' risk mitigation role reflects the industry's commitment to ensuring the safety and reliability of international trade transactions. Through their expertise and risk management practices, commercial banks contribute significantly to reducing risks and fostering trust in international trade.

#### ***4.4.7.5 Roles of supporting government-led trade facilitation initiatives***

In response to regarding the low rating of commercial banks' roles in supporting government-led trade facilitation initiatives in Ethiopia, the interview respondents provided mixed responses. Some of the respondents believed that commercial banks are supporting government-led trade facilitation initiatives. Whereas the others stated it is not at an adequate level. All respondents have their own justification for their responses. Some presented the probable reasons why the role is low while the other still believe the role is high. The presented question was: **The survey result shows that commercial banks' roles of supporting government-led trade facilitation initiatives in Ethiopia were rated low. What do you think are the reasons?**

The views of the respondents are presented as follow:

“Commercial banks are implementing many government initiatives. For instance, the digitalization initiative of government has been implemented by most of the commercial banks.

Commercial banks are now using a single platform called **single window system** for international traders to process their document.” (Interviewee CB1-Int.1).

“Commercial banks are the most regulated financial institutions and expected to follow all regulations and directives of national banks whether they are initiatives or policies. Almost all commercial banks are following government directions and act accordingly. But there are challenges from external factors beyond the control of commercial banks, such as political instability, economic volatility, or trade disruptions that can impact their ability to support government-led trade facilitation initiatives.” (Interviewee CB2-Int.2).

“In my view, though there are some coordination problems, commercial banks are tools of implementing government trade initiatives. The low rating could be attributed to a lack of effective collaboration and coordination between commercial banks and government agencies responsible for trade facilitation. Limited communication, inadequate information sharing, and a lack of joint initiatives may hinder the banks' ability to align their services with the government's trade facilitation objectives. But still, commercial banks are playing great role in implementing government-led trade facilitation initiatives.” (Interviewee-Int.4).

“Commercial banks may not have a comprehensive understanding of the specific trade facilitation initiatives implemented by the government in Ethiopia. This lack of awareness could result in a limited focus on aligning their services and support with the government's objectives, leading to a lower rating in the survey.” (Interviewee-Int.5).

“The existing regulatory and policy framework might pose challenges for commercial banks to actively engage in government-led trade facilitation initiatives as expected. If regulatory requirements are burdensome or not conducive to collaboration, commercial banks may face difficulties in providing the necessary support, resulting in a lower rating.” (Interviewee CB3-Int.3).

“Some commercial banks’ experts have capacity and expertise gaps in understanding and delivering on the specific requirements of government-led trade facilitation initiatives. Inadequate training and knowledge transfer programs for bank personnel can limit their ability to effectively support and implement the necessary trade facilitation measures.” (Interviewee-Int.).

“There is lack of coordination between different government agencies involved in trade facilitation of commercial banks. There is no coordination among banks, custom authority, and logistics. If

there is a lack of cohesive policies and strategies across different stakeholders, it can impede effective collaboration and hinder the banks' ability to support government-led initiatives. There is a lack of alignment between the government's trade facilitation policies and the strategies and priorities of commercial banks. If there is a mismatch between the objectives and approaches of the government and commercial banks, it can impact the effectiveness of their collaboration and result in a lower rating.” (Interviewee-Int.7).

Thus, it is possible to conclude that the status of commercial banks' role in supporting government-led trade facilitation initiatives is found to be low where the status could be justified with different attributed factors and situations.

#### **4.4.7.6 Payment Role**

Lastly, the researcher asked the interviewees to express their opinion related to the payment role of commercial banks in the international trade services. The respondents were asked whether they agreed with the survey result or not and the justification behind their opinions. Accordingly, almost all of the respondents agreed with the survey findings with different levels of agreement and justifications. The question for the interview was:

**The quantitative survey result shows that the payment facilitation role of commercial banks related to international trade is high. Do you agree with the survey and why?**

"Yes, I agree with the survey result indicating that the payment facilitation role of commercial banks related to international trade is high. Commercial banks play a crucial role in facilitating and streamlining payment transactions in the context of international trade, ensuring the smooth flow of funds between exporters and importers.” (Interviewee CB1-Int.1).

“Commercial banks offer a wide range of payment services that cater to the specific needs of businesses engaged in international trade. These services include letters of credit, documentary collections, wire transfers, and electronic payment platforms. By providing these payment mechanisms, commercial banks enable secure and efficient transfer of funds, reducing the risk of non-payment or delayed payments.” (Interviewee CB2-Int.2).

“In my view, commercial banks possess expertise in foreign exchange services, which is essential in international trade. They facilitate currency conversions and manage exchange rate risks, allowing exporters and importers to conduct transactions in different currencies. This ability to handle foreign exchange transactions simplifies the payment process and enhances the

convenience for businesses engaged in international trade.” (Interviewee-Int.4).

“Commercial banks often have extensive networks and partnerships with correspondent banks globally. This network enables them to facilitate cross-border payment transactions efficiently. By leveraging their correspondent banking relationships, commercial banks can ensure timely and reliable payment transfers, even in complex international trade scenarios.” (Interviewee CB3-Int.3).

Additionally, commercial banks are now simplifying the international payments by developing different online platforms that support the international payments. “Commercial banks invest in technological advancements to enhance their payment facilitation capabilities. They offer online banking platforms, mobile payment applications, and digital wallets, making it easier for businesses to initiate and track payment transactions. These digital payment solutions provide convenience, accessibility, and real-time visibility into payment status, further facilitating international trade transactions.” (Interviewee-Int.5). Other respondents (Interviewee-Int.6&7) also shared these ideas. They stated that commercial banks are helping them to pay their international bills easily through their internet banking and other system and receive their payments easily.

In general, the high rating of commercial banks' payment facilitation role in the survey reflects their significant contribution to the smooth and efficient execution of payment transactions in the context of international trade. Through a combination of expertise, global networks, technological advancements, and collaboration, commercial banks play a vital role in facilitating payments and supporting the growth of international trade as per the data obtained from the survey and interviews.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1 CONCLUSION**

The major objective of the study is to examine the role of commercial banks in the international trade service practice in Ethiopia. The study grouped the major roles of commercial banks in international trade in to five comprehensive roles based on theories and empirical literatures. In one hand, the study concluded that the status of the international trade service practice in the country is found at unsatisfactory level where commercial banks' roles are paramount in improving the status.

Commercial banks are playing decisive roles in mitigating risks related to international trade. Their risk prudence and comprehensive risk mitigation approach support to protect businesses against potential trade-related risks. In fact, Commercial banks have robust due diligence processes in place to assess the creditworthiness and reliability of international trade partners before providing trade finance services.

Furthermore, commercial banks are also playing an irreplaceable role in the smooth and efficient execution of payment transactions in the international trade. They play a vital role in facilitating payments and supporting the growth of international trade. In Ethiopian context, it is unthinkable to make and receive international trade related payment without commercial banks or their services and products.

However, the trade financing role, as one of the commercial banks' roles in the international trade service, is not found at the expected level to successfully support the international trade of the

country. There are limitations on credit facilities for international traders. Pre-shipment and post-shipment as well as letter of credit opening have become tiresome and thus, the commercial banks' role of international trade financing is at the stage of evaluating the international trade actors.

The capacity building role of commercial banks to their international trade customers and businesses are also found at a stumpy level. In fact, the commercial banks' support does not go beyond providing lists of required documents. The advisory services expected from commercial banks to assist businesses in understanding and navigating the complexities of international trade regulations are not at the satisfactory level.

In addition, the role of supporting government-led trade facilitation initiatives is also at inadequate level. But international trade related initiatives have different factors where some roles need close cooperation with other stakeholders of the country. In this regard, the role that the commercial banks played in digitizing trade processes and implementing electronic trade platforms (the single window system) to enhance the efficiency and security of international trade transactions could not be understated. Nevertheless, there are still gaps of working in collaboration with government agencies and customs authorities streamline trade documentation processes and reduce administrative barriers for businesses engaged in international trade.

In general, the study concluded that though commercial banks play central roles in the international trade service in Ethiopia, some of the roles are currently found at inadequate level.

## **5.2 Recommendation**

In line with the findings of the study, the researcher has forwarded the following recommendations:

- The ineffective status of current international trade service practices in the country needs to be improved by working on foreign currency allocation problems, limitation in trade facilitation services, and government regulations/directive.
- Commercial banks shall address challenges related to financing international trade in the way that they contribute to the growth and development of Ethiopia's international trade while exercising prudent lending to serve reasonable needs and credit worthy international traders.
- Commercial banks shall implement effective capacity building measures that can strengthen their role in supporting businesses engaged in international trade that in turn can contribute to

the overall growth and development of the international trade in the country.

- Commercial banks shall work in close collaboration with other government entities/organs that have stakes in the international trade service like Ethiopian custom authority and Logistic and transport minister in the way that support government-led trade facilitation initiatives, leading to more effective trade service practices.
- Finally, this study examined the role of commercial banks in the international trade service practices in Ethiopia. But this study employed commercial banks' employees only for cross-sectional study which leads the study to have small sample size in addition to other resource limitation. Thus, future researchers may conduct more research on the area by including international traders in their survey. In addition, further research can also investigate other roles of commercial banks in the international trade service. These roles could also be studied by ownership structure (private vs government) of the commercial banks.



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## **ANNEX I: SURVEY QUESTIONNAIRES**



**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF MANAGEMENT**

**PROGRAM OF INTERNATIONAL BUSINESS**

### **Survey questionnaires**

Dear Respondent

This project is entitled "Roles of Commercial banks in International Trade service: Ethiopian Perspective". I am a Masters of International Business (M.Sc.) student at Addis Ababa University.

The purpose of this study is to examine the roles that Commercial banks play in international trade service. To realize this major objective, the researcher aspires to collect important data from international banking expertise and international traders using self-administered questionnaires.

Participation in this study is totally voluntary. The information you provide is kept confidential and used only for research purpose. Personal answers are not being recognized in the researcher.

Your response to the question has significant impact on the quality of data and result. Thus, you are politely requested to respond genuinely.

Thank you in advance for your cooperation.

For further information, please contact Hana Mulugeta by the following address:

Tel:- +251 946661246

## **INTRODUCTION**

The major objective of the study is to **critically examine the roles of Commercial banks in international trade service from Ethiopian Perspective**. This questionnaire is to be completed by bank employees (specifically, employees that are working in international banking division/department) and international traders. It has three major parts that include Commercial banks' regulatory environment related to international banking, Commercial banks' roles in international trade service in Ethiopia and open-ended questions related to roles of commercial banks in supporting international trade service in Ethiopia. Brief explanations are provided at each section to create common understanding and further clarity on these concepts. Please indicate your level of agreement to each statement by inserting an "x" in the appropriate box using the following five-point measurement scale:

1 = Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

Please also provide your answer for other questions by inserting an "x" in the appropriate place and corresponding explanations for the open-ended questions.

**PART I: DEMOGRAPHIC PROFILE**

Please tick (x) in the appropriate box.

<b>i. Sex</b>	<b>Female</b>	<b>Male</b>

<b>ii. Qualification</b>	<b>1<sup>st</sup> Degree</b>	<b>Masters</b>	<b>Doctorate (PhD)</b>	<b>Others</b>

<b>iii. Work/ Business Experience</b>	<b>Less than 5 years</b>	<b>5 to 10 years</b>	<b>11 to 20 years</b>	<b>Above 20</b>

<b>iv. Your age</b>	<b>Less than 35 years</b>	<b>35 to 50</b>	<b>51 to 60</b>	<b>Above 60</b>

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**PART II: INTERNATIONAL TRADE SERVICE PRACTICES**

This section deals with the examinations of the international trade service practices and the statements in this section measure the level of efficiency, transparency, responsiveness and customer satisfaction of international trade service practices. Based on your knowledge and experience, please carefully indicate the level of your agreement for each statement by inserting “x” mark in the appropriate box.

S.N.	Statement (Indicators/Questions)	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	The trade services provided to traders are efficient and reliable services where customs procedures, documentation requirements and boarder clearance processes are efficient.					
2	The Ethiopian international trade services are characterized with the availability and accessibility of financial service to international traders					
3	Services provided in the international trade are in the ways that signify responsiveness to changes to trade regulations or requirements.					
4	In general, international traders are satisfied with the quality of international trade service provided.					

**PART III: COMMERCIAL BANKS’ ROLE IN INTERNATIONAL TRADE SERVICE PRACTICES**

This section is concerned with the major roles that commercial banks play in the international trade services that include Trade finance service, Capacity building role, Risk mitigation role, and role of supporting government led trade facilitation initiatives. The statements in this section measure the level of the above listed roles' parameters at your Bank. Based on your knowledge and experience in the Bank, please carefully indicate the level of your agreement for each statement by inserting an "x" in the appropriate box.

#### A) TRADE FINANCING ROLE

S.N.	Statement (Indicators/Questions)	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
5	The trade finance services offered by commercial banks effectively meet the financing needs of businesses engaged in international trade.					
6	Commercial banks in international trade practices adequately educate and assist clients in understanding various trade finance instruments, such as letters of credit and guarantees.					
7	The trade finance services offered by commercial banks in Ethiopia are cost-effective and at affordable cost of finance.					
8	Commercial banks proactively innovate and introduce new trade finance solutions to meet the evolving needs of businesses engaged in international trade.					
9	In general, the <b>availability and accessibility</b> of trade finance services offered by commercial banks in Ethiopia are at the satisfactory level and could be taken as <b>effective</b> in facilitating international trade transactions.					

## B) CAPACITY BUILDING ROLE

S.N.	Statement(Indicators/Questions)	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
10	Commercial banks play an active role in educating businesses about international trade practices and procedures.					
11	Commercial banks provide training and workshops to enhance the trade finance knowledge and skills of their clients.					
12	Commercial banks offer advisory services to assist businesses in understanding and navigating the complexities of international trade regulations and documentation requirements.					
13	Commercial banks actively collaborate with industry associations, chambers of commerce, and other stakeholders to promote capacity building initiatives in international trade practices.					
14	In general, commercial banks offer financial literacy programs and resources to help businesses understand the financial aspects of international trade and improve their financial management capabilities.					

## C) RISK MITIGATION ROLE

S.N.	Statement (Indicators/Questions)	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
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15	Commercial banks effectively assess and manage the risks associated with international trade transactions, such as credit risk, country risk, and foreign exchange risk.					
16	Commercial banks provide comprehensive risk mitigation solutions, such as trade finance instruments and insurance products, to protect businesses against potential trade-related risks.					
17	Commercial banks have robust due diligence processes in place to assess the creditworthiness and reliability of international trade partners before providing trade finance services.					
18	Commercial banks actively monitor and manage compliance with international trade regulations and sanctions to mitigate legal and regulatory risks associated with cross-border transactions.					
19	In general, commercial banks provide timely and accurate information on potential risks and market conditions to assist businesses in making informed decisions and managing risks in international trade.					

**D) ROLE OF SUPPORTING GOVERNMENT-LED TRADE FACILITATION INITIATIVES**

S.N.	Statement (Indicators/Questions)	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
20	Commercial banks collaborate with government agencies and customs authorities to streamline trade documentation processes and reduce administrative barriers for businesses engaged in international trade.					
21	Commercial banks actively participate in government-led trade facilitation initiatives to promote seamless and efficient cross-border trade processes.					
22	Commercial banks support government initiatives aimed at digitizing trade processes and implementing electronic trade platforms to enhance the efficiency and security of international trade transactions.					
23	Commercial banks actively engage in public-private partnerships to develop and implement trade finance programs that align with the government's trade facilitation goals.					
24	In general, Commercial banks advocate for policy reforms and regulatory changes that promote trade facilitation and create a conducive environment for businesses engaged in international trade.					

**E) PAYMENT ROLE**

S.N.	Statement (Indicators/Questions)	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
25	Commercial banks provide a wide range of international payment services to support cross-border trade transactions.					
26	Commercial banks play a crucial role in facilitating secure and efficient international trade payments.					
27	Commercial banks offer competitive exchange rates and fees for international trade payments.					
28	Commercial banks provide comprehensive trade finance solutions, including letters of credit and documentary collections, to support international trade transactions.					
29	In general, Commercial banks offer efficient and timely processing of international trade payments, reducing payment delays and uncertainties.					

**Part IV: OPEN-ENDED QUESTIONS**

a) How do you evaluate the current status of the international trade service practices in Ethiopia and what do you think are the factors for the existing status?

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b) What do you think are the major roles that are being played by commercial banks in international trade service of the country? Please explain them.

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c) In your opinion, what measures shall commercial banks or concerned bodies take to enhance commercial banks' roles in international trade?

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**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF MANAGEMENT**  
**PROGRAM OF INTERNATIONAL BUSINESS**

**INTERVIEW QUESTIONS**

1. How do you evaluate the current status of the international trade service practices in Ethiopia and what do you think are the factors for the existing status?
2. How do you assess the financing role of commercial banks in the international trade service practices in Ethiopia? The service is rated low as per the survey questionnaires, do you agree with this?
3. Data collected from the survey indicated that the capacity building role of commercial banks in the international trade service practice in the country was rated at a low level, do you agree? Why? What do you think are important to enhance capacity building role of commercial banks in the international trade service practice?
4. The quantitative survey result shows that the risk mitigation role of commercial banks related to international trade is high. Do you agree with the survey and why?
5. The survey result shows that commercial banks' roles of supporting government-led trade facilitation initiatives in Ethiopia were rated low. What do you think are the reasons?
6. The quantitative survey result shows that payment facilitation role of commercial banks related to international trade is high. Do you agree with the survey and why?

ANNEX III: RELIABILITY STATISTICS

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.788	.808	29

#### ANNEX IV: SPSS OUTPUT FOR THE STUDY CONSTRUCTS

		Question #1	Question #2	Question #3	Question #4	INTERNATIONAL TRADE SERVICE PRACTICES
N	Valid	184	184	184	184	184
	Missing	0	0	0	0	0
Mean		2.71	3.37	3.41	2.77	3.0625
Std. Deviation		.856	.833	.777	.764	.63388

		Question #5	Question #6	Question #7	Question #8	Question #9	Trade finance
N	Valid	184	184	184	184	184	184
	Missing	0	0	0	0	0	0
Mean		2.05	2.29	2.32	2.32	2.01	2.1967
Std. Deviation		.916	.804	.802	.760	.902	.76236

		Question #10	Question #11	Question #12	Question #13	Question #14	Capacity building role
N	Valid	184	184	184	184	184	184
	Missing	0	0	0	0	0	0
Mean		2.85	2.72	2.79	2.77	2.78	2.7826
Std. Deviation		.590	.577	.595	.525	.540	.48239

		Question #15	Question #16	Question #17	Question #18	Question #19	Risk Mitigation role
N	Valid	184	184	184	184	184	184
	Missing	0	0	0	0	0	0
Mean		4.10	3.87	3.78	3.73	3.82	3.8609
Std. Deviation		.645	.646	.540	.563	.596	.44867

		Question #20	Question #21	Question #22	Question #23	Question #24	Government-led trade facilitation role
N	Valid	184	184	184	184	184	184
	Missing	0	0	0	0	0	0
Mean		2.96	2.86	3.34	2.83	2.81	2.9587
Std. Deviation		.648	.584	.641	.535	.503	.44993
		Question #25	Question #26	Question #27	Question #28	Question #29	Payment Role
N	Valid	184	184	184	184	184	184
	Missing	0	0	0	0	0	0
Mean		3.98	4.10	3.78	3.88	4.20	3.9880
Std. Deviation		.424	.384	.443	.502	.441	.24398