

## **ABSTRACT**

This research project is carried out on the importance of Documentary credit operation by banks in international trade. Extensive review of related literature was done. This provided the basis upon which the question were constructed sixty-three copies of questionnaires were administered among the staffs of oceanic Bank International Plc, Ughelli and were received from the respondents. A sample percentage of research question method was used in arriving at conclusions. in addition, some recommendation for further research work was made, finally limitations of study were stated.

## **CHAPTER ONE**

**1.1** Man's quest for knowledge and adventured have brought the different part of the world in contact with each other despite the delivery of climates and terrain of the earth. the knowledge acquired by man through contact brought with it the demand for commodities not available in ones home area dependence on each other by the people of the world is the ultimate effect of the knowledge obtained by man through contact. This interdependence has best been evidence by the fact that the world's economy hinges on international trade. Mode of trade has progressed from the fact the barter practical methods being employed at present, which depends on bank for their successful operations.

Since there loan became necessity of trading in the sale and purchase of goods as many countries banks have come to play an indispensable role in international trade. There are different methods of making payment through the banking system these include bills of exchange, bill for collection, documentary letter of credit, open account, advance payment, mail transfer, telegraphic

transfer, standing orders, western union money transfer services etc.

The different mode of payment available to the exporter for goods shipped to the importer include open account, bill for collection, direct remittance and documentary letter of credit have however become the most commonly used methods of payment for international trade since they provide a form of security for the parties involved and also ensures payment, provided that the terms and conditions of the credit have been fulfilled.

## **1.2 STATEMENT OF THE PROBLEM**

It has been made known that documentary credit operations used to be carried out with considerable ease in the past and it was a sure and prompt method of facilitating payment for goods imported by business men. But as a result of the deterioration in the economy government was forced to review its economic stabilization measure first introduced in April 1982. Highlight of the review which took effect from 1st January 1983 resulted in drastic restriction of importation of all other items by placing them under license, extension of list of prohibited imports and review of custom

tariffs. The new order jolted many business operation especially those in the industrial and manufacturing sectors who had no previous experience of procuring import licenses.

As a result, there was an unprecedented increase in the number of clients of the federal ministry of commerce and industry frustrating delays become the order of the day, which was further compounded by lack of any knowledge, criteria or priority rating in dealing with applications. Coupled with what is stated above, bills were not settled on time at the Central Bank of Nigeria (CBN). As a result of the low level of the country's foreign exchange earnings. The need thus arose to see the importance and how effective documentary credit operation as a means of facilitating payment for goods imported as well as the ease with which the operations are carried out in international trade.

### **1.3 OBJECTIVE OF THE STUDY**

The objective of the study include the following:

1. How a documentary letter of credit can be established in Nigeria banks.

2. To examine the importance and effectiveness of documentary credit operation in international trade.
3. To know the parties involved in documentary credit operation.
4. To identify the problems encountered by the operators of documentary credit operation in international trade.
5. To appraise and evaluate the situation in this present stage and make recommendations on how to improve on documentary credit operations.

#### **1.4 SIGNIFICANCE OF THE STUDY**

Since documentary credit operations in banks have become the most acceptable and desirable method of settlement adopted by exporters and importers international trade for the settlement of purchased goods and services, there is need to educate the general public, most especially the business men who are or may in one way or the other engage in international trade.

The same knowledge is also needed by student in the school of financial studies who may find themselves in any of the financial institutions or may want to go into foreign trade on graduation.

## **1.5 RESEARCH QUESTIONS:**

1. Are the services of a bank to customers as regard documentary credit operations in international trade effective?
2. Has the level of illiteracy among the business men resulted in negative impact in operation and development of documentary credit operations?
3. Is the distribution of economic bank branches in Nigeria adequate in coping with the service needed by businessmen in international trade as regard documentary credit operations?

## **1.6 SCOPE AND LIMITATIONS OF THE STUDY:**

A lot of effort was made towards collection of data on the importance of documentary credit operation by banks in international trade. But unfortunately, the data collected were not exhaustive due to some limiting factors:

1. **FINANCE:** The high cost of material used in this research was a problem to the researcher. Also, the high fare of public transport cost greatly affected the areas covered by this study.

2. TIME FACTOR: The time given for this research work is not adequate considering the nature in line with other academic commitment of the period which was short.
3. DIFFICULTIES ENCOUNTERED IN COLLECTING DATA FROM THE BANK USED AS A CASE STUDY:

Some of the question in the questionnaire were not answered in spite of the proper identification and inscription on the questionnaire and the detailed explanation given to them on the need for study. They insisted that those information are confidential and could not be released.

### **1.7 OPERATIONAL DEFINITION OF TERMS:**

- i. BILLS OF EXCHANGE: The bills of exchange is an unconditional order in writing addressed by a person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed determinable future time a some certain in money to or to the order of a specified person or bearer.
- ii. DOCUMENTARY LETTERS OF CREDIT

According to the international chamber of commerce publication no 400 entitled “uniform custom and practice for documentary credit it was defined as “any arrangement. However, named or described whereby a bank (the issuing bank) setting on the request and on the instruction of the customer (the application for the credit) is to make payment to or to the order of a third party (the beneficiary), or is to pay accept bills of exchange (drafts) drawn by the beneficiary: or authorizes another bank to effects such bills of exchange (drafts) against stipulated documents, provided the terms and condition of the credit are complied with (Akpala, 2005).



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 WHAT IS A BANK?**

Bank and other financial institution (BOFIA), 1991 defined banking business as the business of receiving deposits on current, savings account or other similar accounts paying or collecting cheques drawn by or paid in by customers provisions of finance or such other business as the governor may be order published by gazette designate amended for as banking business.

The same decree has been amended for a bank to reed the business of receiving deposit on current saving or other accounts; paying or collecting cheques drawn or paid by customer or provision finance, consultancy and advisory services relating to corporate and investment matters making or managing investment on behalf of any person; and the provision of insurance marketing service and capital market business or such other service as the governor of the Central Bank of Nigeria(CBN) may be order published by gazette, designated as banking business.

## **2.2 STRUCTURE AND OPERATION OF OCEANIC BANK:**

Oceanic bank with some 15years experience in banking today boast of assets of about #3.287 billion and employs over 495 persons. The bank has it head office in Abuja. In order to effectively service the needs of business community outside Abuja area, it opened its corporate office in Lagos and other branches over the country were opened.

### **SERVICE RENDERED BY OCEANIC BANK INTERNATIONAL PLC**

a. **HOLDING OF CASH:** Oceanic bank holds cash through the following ways:

Providing chance for customers and noncustomers alike movement of cash from one place to another from and to CBN, or from the bank branch to their customers.

b. **FINANCIAL INTERMIDATION:** oceanic bank act as intermediary between suppliers of funds and users of fund. They perform this function by mobilizing deposits from the fund surplus unit land lending the money to deficit unit it users of fund in form of loans. This is the most important functions of commercial banks.