



**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**MBA IN FINANCIAL SERVICE**

**THE PRACTICES AND CHALLENGES OF FOREIGN CURRENCY  
GENERATION IN COMMERCIAL BANK OF ETHIOPIA**

**BY**

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## DECLARATION

I, (Tofik Rahmeto), the under signed, declare that this thesis entitled: “The Practices and Challenges of Foreign Currency Generation in Commercial Bank of Ethiopia” is my original work. I have undertaken the research work independently with the guidance and support of the research supervisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis has been duly acknowledged.

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This is to certify that the thesis entitled: “**The Practices and Challenges of Foreign Currency Generation in Commercial Bank of Ethiopia**” submitted in partial fulfillment of the requirements for the degree of Masters of Business Administration of the Postgraduate Studies, Addis Ababa University and is a record of original research carried out by Tofik Rahmeto (ID No: GSE/3845/11), under my supervision, and no part of the thesis has been submitted for any other degree or diploma. The assistance and help received during the course of this investigation have been duly acknowledged. Therefore, I recommend it to be accepted as fulfilling the thesis requirements.

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## **LIST ABBREVIATION AND ACRONYMS**

**ADB** – Asian Development Bank  
**AGO** - Africa Opportunity Growth and Act  
**AML**- Anti-Money Laundry  
**CBE** - Commercial Bank of Ethiopia  
**CFA**- Communauté Financière Africaine  
**CFT**- Counter finance for Terrorist  
**CMT**- Cut Market Trim  
**EFH**: Ethiopian fund of Humanitarians  
**EIC** – Ethiopian Investment Commission  
**EIU** – Economist Intelligence Unit  
**EMDEs**- Emerging Markets and Developing Economies  
**ENACT**- Enhancing Africa’s Response to Transitional Organized Crime  
**EU**- European Union  
**FCY** – Foreign Currency  
**FDI**-Foreign Direct Investment  
**FOB**- Free on Board  
**GDP**- Gross Domestic Product  
**GOV**-Government  
**GSP**- Generalized System of Preference  
**IMF** – International Monetary Fund  
**IOM**- International Organization for Migration  
**IPs**-Industrial Parks  
**IPDC**- Industrial Parks Development Corporation  
**LC** – Letter of Credits  
**LMICs**- Low- and Middle-Income Countries  
**MC**- Multi-collinearity  
**MOI**- Ministry of Industry  
**MFN**- Most-Favored Nations  
**MHRSD**-The Saudi’s Ministry of Human Resources and Social Development  
**MNC**- Multi National Corporations

**MoLS**-Ministry of Labour and Skills

**MTOs**- Money Transfer Organizations

**NBE**- National Bank of Ethiopia

**NGOs** – Non-governmental Organizations

**NISS**-National Intelligence and Security Service

**ODA**- Official Development Assistance

**RPW**-Remittance Prices Worldwide

**SOEs**-State Owned Enterprises

**SNNP**- Southern Nation Nationals Peoples

**SSA**- Sub-Saharan Africa

**SWIFT** – Society for Worldwide Interbank Financial Telecommunications

**UN** – United Nations

**US** - United States

**USITC**- Untied States International Trade Commission

**VIF**-Variance Inflation Factor

**WB** – World Bank

## **Abstract**

*The main objective of the study is to examine the challenges of foreign currency generation in Commercial Bank of Ethiopia, using primary and secondary data source from a survey of a random sample of 386 respondents/employees. To deal with this, the researcher has used both descriptive and binary logistic regression model as a tool. In the descriptive analysis part the CBE's share reached as low as 8% in 2020/21 from 32% 2014/15. The remittances that except 2015/16 and 2017/18 its growth rate gradually dropped. In econometrics analysis; internal conflict, absence of foreign currency deposit, less work with development partners and weak employees' knowhow have a positive significant effect on the challenges of foreign currency generation at 1% level of significance ( $P < 0.01$ ) and makes low generation of foreign currency. Also, work with few industrial parks has a positive significant effect on the challenges of foreign currency generation at 1% level of significance ( $P < 0.05$ ). Few dominated agricultural export and National Bank of Ethiopia's directives have a negative significant effect on the challenges of foreign currency generation at 1% level of significance ( $P < 0.01$ ). Furthermore, participated in Africa Opportunity and Growth Act, fair charges of money transfer organizations and less intermediaries have a negative significant effect on the challenges of foreign currency generation at 5% level of significance ( $P < 0.05$ ). The researcher has recommended that the government should stop the internal conflict and maintain peace and security in the country and formulate policies that help to participate in Africa Growth and Opportunity and Act. Also, the government should control illegal intermediaries. In addition, the Bank should work with industrial parks and development partner.*

**Keywords:** Banks, Foreign currency, Currency Earnings

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Globalization has encouraged many corporations and countries to extend their businesses (international trades) beyond the geographical boundaries in order to benefit from competitive advantage and economies of scale, so in the global trade, remittances (movement of funds) involve different currencies the variability of foreign exchange rates is a potentially interesting factor that drives the level of profitability and collecting of FCY for commercial banks as it affects their financial intermediation process (Chiira, 2009).

Trade openness, financial integration and natural resource rent are the sources of foreign currency earnings. A dataset of 26 countries in sub-Saharan Africa (SSA) for the period 2001 – 2012 was built. Specifically, it was found that trade openness and financial liberalization are positive determinants of foreign currency /dollarization, while natural resource rent serves as drag to the dollarization process (Raheem et al., 2018).

The export sector/trade openness is one of the sources of foreign currency earning in Ethiopia in general and Commercial Bank of Ethiopia /CBE/ in particular. Ethiopia earned USD 3.6 billion in 2020/21 from aggregate export that averaged around USD 3 billion over the previous eight years. Foreign currency earnings from textile and garment raised significantly that reached USD 147.1 million in 2020/21 with an average yearly growth of 11% during the past eight years. Whereas, earnings from export of leather and leather products dropped significantly from year to year to reach USD 36.5 million in 2020/21. These items are best known to be eligible for tariff exception under AGOA framework. The US covered about 7.2% of Ethiopian export in between 2014/15 to 2020/21, on average. In 2020/21, about 7.6% of Ethiopian aggregate export (USD 276 million) routed to the USA that made it the third key trade destination after Netherlands and Switzerland. In terms of export, the US market covered the nation's 58.6% of textile & garment, 13.7% of coffee, 23.2% of leather & leather products and 5.8% of oilseeds exports. The leading items sent to the US in 2020/21 were Coffee (46%) followed by Textile & garment (35%) and oilseeds (7%). These goods have 26%, 5% and 8.7% share from the nation's export earnings respectively. Yet they accounts for 22.4%, 48.5% and 7.7% of CBE's foreign currency earnings

accordingly in 2020/21. The other sources of foreign currency earnings in the bank are money transfer organizations, remittances, SWIFT, POSs-ATMs and so forth (CBE annual reports).

This study tries to identify and analyze the challenges and determining factors of foreign currency generation in Commercial Bank of Ethiopia (CBE) in 2014/15 to 2021/22 using descriptive and econometrics (Binary Logit model) analysis. CBE was established in August 1942 as a state bank of Ethiopia by proclamation with the aim of providing commercial banking service to the public. But a year later, in addition to its commercial banking functions, the bank was entrusted with three basic duties of a central bank i.e. controlling the issuance of currency, holding the foreign reserves of the country and acting as fiscal agent of the government. Since its creation up to 1963 CBE combined these official and private functions acting at the same time as a Central Bank of issue and the only important deposit bank operating in the country. CBE was incorporated as a share company in December 1963 to take over the commercial banking activities of the former state bank of Ethiopia and carry on all types of banking business and operations. It's the commercial successor of the former state bank of Ethiopia to whom all the branch networked and established business of its predecessor were transferred in 1963. Today CBE is one of the pioneer and the leading bank in Ethiopian banking industry. Currently, the bank has been expanding its business operation to the extent of over 1824 branches throughout the country. It plays a catalytic role in the economic progress and development of the country. It has over 39,646 permanent employees all over the country (CBE, 2021).

## **1.2 Statement of the Problem**

Foreign currency is critical for businesses engaging in international trade. In recent years, the Ethiopian economy has faced hard currency crunch due to instability and weak performance of the export sector, and many other reasons, while maintaining its economic growth.

Foreign Currency (FCY) earning makes life difficult for businesses operating in the country and hurt economic performance. Companies are unable to obtain FCY to buy imported inputs for industrial goods or capital goods for plants, factories and infrastructures. FCY shortages also deter inward investment for the same reason. Firms are wary of committing capital to countries where the performance of their business is likely to suffer from FCY shortages. They are also aware of that FCY shortages indicate that the exchange rate is overvalued and, therefore, likely to undergo a devaluation at some point. In Ethiopia, FCY reserves including gold in current price

was US dollars 3.046 million in 2020 according to WB collection of development indicators, and providing import cover of only just over two months.

The companies mandatory now deposit funds into each bank account in order to access FCY services. Dealing with multiple banks creates inefficiencies and the process is not straightforward. As the manufacturer reports, “Putting in the same invoice at two different banks is illegal in Ethiopia, so acceptance of my FCY applications is all down to chance (EIU, 2019). So, that the issue of foreign exchange generation is one of the most important aspects of government economic policies. The above mentioned problems will happen, because of the shortage of foreign exchange. The primary need for FCY is to finance the demand for imported goods and services. In the Ethiopian case, the percentage growth rate of the current account deficit has been diverging through time, due to relatively higher growth of the value of imports over exports, says trade balance deficit (Lelissa, 2015).

In Ethiopia earning FCY is not an easy task. Some of the challenges are arising from the rules and regulations of the NBE, such as the recent revised directive No FXD/79/2022 in relation with retention and utilization of export earnings, and inward remittances are challenging the commercial banks to earn FCY. When we see the export, the country mainly exports agricultural and livestock products, raw materials and mining which are mainly affected by volatile international market supplies and their prices unpredictability that would lead to reduce FCY earnings. In response to this, the country imports capital goods which need high amount of FCY. This challenge creates shortage of FCY in the country as well as in the bank. When we see the remittance, except non-governmental organizations (NGOs) and loyal citizens/diasporas, other citizens exchange their hard currency in black markets which cannot create healthy economy in the country as well as in the banking sector. Hence, citizens who transferred their foreign currency in different money transferring organizations are few in number. Therefore, all these make difficult earning FCY for the bank.

Past experiences show that Commercial Bank of Ethiopia (CBE) has been handling most of the requests of foreign currency from various sectors. However, rapid growth in the volume of foreign currency mobilization, the demand for foreign currency has raised significantly. On the other hand, rapid growth in competition for FCY and the decline in market share of CBE in FCY

mobilization have raised challenges. More specifically, from the National FCY earning cake, the share of the commercial bank of Ethiopia is falling to the level of single digit.

The following figures show how the FCY earnings growth rate of CBE declined as the passage of time compared to national earnings; excluding service receipts and official transfers earnings.

**Figure 1-1: Foreign currency earnings growth rate comparison CBE and the country**



Source: CBE annual reports and researcher computation

Source: NBE 2015/16 to 2021/22

There are two main reasons that initiated the researcher in choosing the problems for investigation. Firstly, in the recent decade the CBE foreign currency earnings have been declined as an increasing number of stiff computations from other commercial banks and parallel market. Secondly, as far as the researcher knowledge concerned, there is no research undertaken in the bank.

### 1.3 Research Questions

The study has attempted to cover the following research questions.

- What does the trend of FCY earning looks like in CBE?
- What are the challenges of generating FCY in CBE?
- What can be done, in CBE, to overcome challenges related to FCY generating effort?

## **1.4 Objective of the Study**

### **1.4.1 General Objective**

### **1.4.2 Specific Objectives**

The specific objectives of the study are:

- To assess the trends of FCY generations in CBE,
- To examine possible challenges of generating FCY in CBE; and
- To suggest some possible policy recommendation of FCY generation.

## **1.5 Scope and Limitation of the study**

### **1.5.1 Scope of the study**

Even though it is good to make a research at all private and public banks or national level, the study is only confined to CBE. Also, the paper covers 2014/15 to 2021/22 annual financial report of both CBE and NBE. Besides, the study has used both descriptive and econometrics- Binary Logit analysis. Moreover, the papers discuss the definitions and concepts of banks, FCY challenges and determinants of FCY earnings.

### **1.5.2 Limitation of the Study**

The research is likely to be exposed to various limitations includes; the respondents are not likely to fill and return the questionnaires to the assigned time. Also, there are no sufficient and well organized literature reviews.

## **1.6 Significance of the Study**

This study would be beneficial to several financial service institutions, specifically to stakeholders of banks. This study will provide information to the top managements in the bank as well as regional higher officers of CBE on the measures to be taken to address the challenges of FCY generation in CBE. Also, the study will equip the necessary knowledge for the policy makers of the National Bank of Ethiopia to formulate a harmonized policy which enhance FCY generation in commercial banks in particular and country in general. In addition, the paper

exploits various references and efforts to get a reliable data and draw a conclusion which provides a source of information for the other research paper.

## **1.7 Definition of Key Words or Terms**

**Bank:** it is a company licensed by the National Bank to undertake banking business or a bank owned by the government (<https://nbe.gov.et>).

**Foreign Currency:** it is any currency that the National Bank has declared to be acceptable for payment in Ethiopia (<https://nbe.gov.et>).

**Foreign Currency Generation:** it is any legal business that generates foreign currency revenue (<https://nbe.gov.et>).

## **1.8 Organization of the Paper**

The study is organized in to five chapters. The first chapter is the introduction part which includes back ground of the study, statement of the problem, objectives of the study, scope and limitations of the study, significance of the study, definition of key words or terms and organization of the paper. The second chapter presents the theoretical, empirical review of related literature and conceptual framework on the challenges of FCY generation. The third chapter includes the methodology part. The fourth chapter includes the results and discussions part. Chapter five presents possible summaries, conclusions and policy recommendations. At the end the paper, the relevant references, appendix, questionnaires and interviews are included.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

This chapter attempts to present or verify theoretical, empirical and other related literatures which were done by different scholars; which are important to search the gap and additional knowledge for the study. In addition, it also includes conceptual frame work of the study.

### **2.1 Theoretical Review**

#### **2.1.1 Definitions and concepts of foreign currency and foreign currency generation**

FCY is the currency of any foreign country which is authorized medium of circulation and the basis for record keeping in that country. Foreign currency is traded by banks either by the actual handling of currency or checks, or by establishing balances in foreign currency with banks in those countries (Dictionary of International Trade). When we say foreign currency generation; it is any legal business that generates foreign currency revenue. ([www.investopedia.com](http://www.investopedia.com)).

#### **2.1.2 Determinants of foreign currency generation**

##### **2.1.2.1 EXPORT RELATED**

###### **2.1.2.1.1 Africa Opportunity and Growth Act (AOGA)**

AGOA stands for the African Growth and Opportunity Act, forms part of United States trade legislation. AGOA was signed into law in May 2000 as Public Law 106. It provides qualifying Sub-Saharan African beneficiary countries with non-reciprocal duty free access to the US market for approximately 6,500 products. Under AGOA include textiles and clothing, motor vehicles and parts, many agricultural products including macadamia nuts, leather products, chemicals, wine, travel luggage, machinery and equipment, and many more. It offers special access to its market to Sub-Saharan African beneficiary countries like Ethiopia.

AGOA eligible countries export to the US without tariff for selected items that are dominated by non-agriculture items. Eligible countries export various items to the US market both under AGOA framework and GSP framework, which is a preferential trade arrangement of advanced countries to Least Developed Countries (LDCs).

The US Generalized System of Preferences (GSP) is the largest and oldest US trade preference program. Established by the Trade Act of 1974, GSP promotes economic development by eliminating duties on thousands of products when imported from one of 119 designated beneficiary countries and territories. To qualify for GSP benefits, a beneficiary country must meet the eligibility criteria established by US Congress, including but not limited to: enforcing arbitral awards, a beneficiary may not have nationalized, expropriated or otherwise seized property of U.S. citizens or corporations with providing, or taking steps.

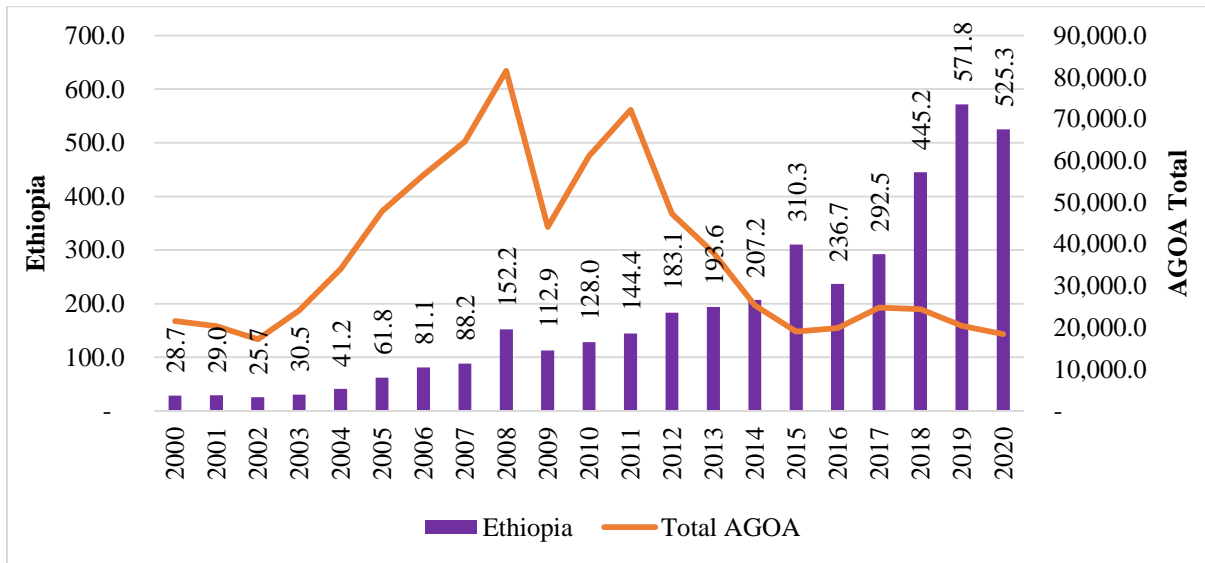
Ethiopia was designated an ‘AGOA beneficiary’ on 2 October 2000. On 2 August 2001, AGOA benefits were also extended to Ethiopia’s textile sector following the successful implementation. Ethiopia was one of 39 Sub-Saharan African countries that enjoyed duty-free exports. Ethiopia has exported to US market constitute such as Coffee (49%), Footwear (8%), Oil Seeds (5%) followed different type of clothes (11%) and Fresh Injera in the year (2016-2020). Ethiopia’s annual apparel exports under AGOA increased dramatically from US dollars 20.3 million in 2015 to US dollars 525.3 million in 2019.

Qualification for AGOA preferences is based on a set of conditions contained in the AGOA legislation. In order to qualify and remain eligible for AGOA, each country must be working to improve country’s rule of law and political pluralism, and respect for core labour standards, efforts to combat corruption, policies to reduce poverty, increasing availability of health care and educational opportunities; protection of human rights and worker rights.<sup>1</sup>

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<sup>1</sup> <https://ustr.gov>

**Figure 2-1: Export of Ethiopia and Total AGOA eligible countries from 2000-2020 (million US dollars)**



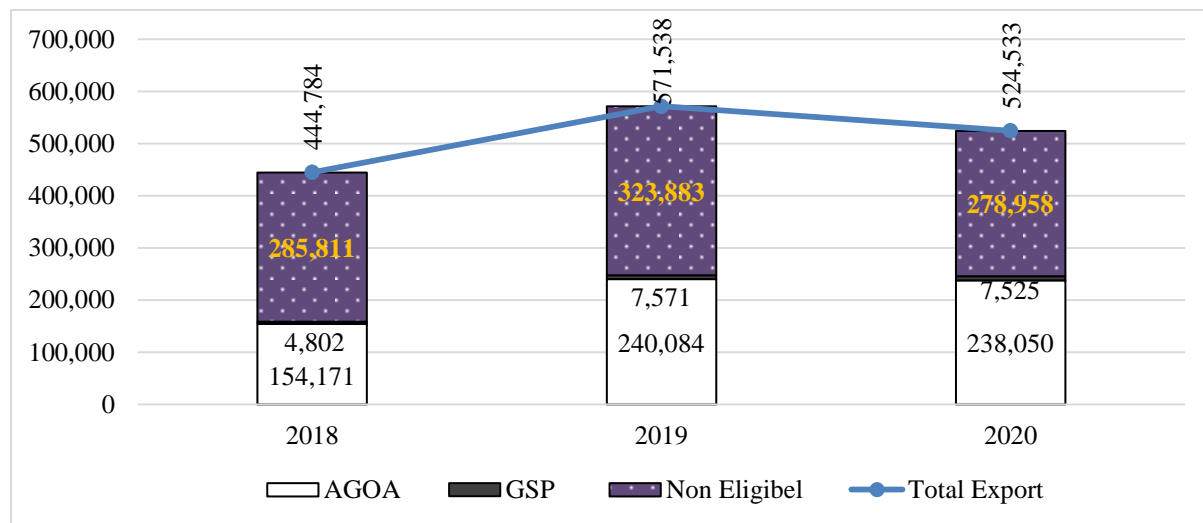
Source: USITC Dataweb database

South Africa, Nigeria and Angola are the leading beneficiary of AGOA that mainly export energy items. The share of Ethiopia, however, remained low from total AGOA export that was below one percent during the whole period on average and reached 3% in 2020.

Ethiopia’s export to the US market is estimated to be US dollars 525.3 million in 2020 that were US dollars 444.7 million in 2018 and US dollars 571.5 million in 2019. Out of the earnings, about 35%, 42% and 45% (41% on average) was eligible for AGOA tariff free access in 2018, 2019 and 2020, accordingly. A meager amount of export was also entertained by GSP framework as Ethiopia is one of the eligible LDCs. However, majority of the export to the US, averaged about 58%, is not eligible to either AGOA or GSP (Figure 2-2).

The share of AGOA eligible items to the US market however show an increasing trend following the expansion of Industrial Parks and rise in number of FDIIs that engaged in export items such as textile and garment, footwear etc.

**Figure 2-2: Export of Ethiopia to the US (000 US dollars) by AGOA eligibility**



Source: USITC

During the last three years (2018-2020), Ethiopia exported various items to the US market that in aggregate worth US dollars 1.54 billion. Of these value, about 41% of exported to the US using AGOA opportunity without tariff while only 1% was exempted under GSP framework. On the other hand, about 58% of the items were exported to the US market without any preferential treatment.

Ethiopia exported items worth about USD 270<sup>2</sup> million in 2020/21 to the US that are mainly coffee, textile products and leather as discussed in the previous section. According to the internal research department of CBE, the suspension of Ethiopia from AGOA will likely to have a limited impact on the export earning of Ethiopia due to the following reasons;

- The share of the US market from Ethiopia is not a such significant that only represents 7.6% of Ethiopia’s export in 2020/21;
- AGOA tariff free access covers only limited number of agricultural items that are primary the export items of Ethiopia with more than 75% share;

<sup>2</sup>Ethiopia’s export to the US was USD 524.5 million in 2020 as reported by US government.

- Ethiopia still can export a list of items<sup>3</sup> under GSP framework as one least developed countries and zero tariff for Non-MFN<sup>4</sup> that includes items such as coffee (that represents 46% of export to the US), cut flower, bee wax etc.
- It is improbable to assume all exporter with preferential trade access from AGOA to cease operation and exporting to USA following the decision supported by the government's actions and incentives to minimize the damages; and
- Operational textile and other manufacturers that use AGOA will likely to see other market options in Europe or elsewhere besides the US market

#### **2.1.2.1.2 Agricultural commodities Export**

African agricultural production is largely subsistence in nature with a high dependence on the rain; farmers suffer price competition with large scale farmers in more developed countries who flood their products in Africa while export capacity of locally produced agricultural products from Africa is very limited (Mkpado, 2013).

Furthermore Food and Agricultural Organization (FAO, 2002), forty-three Sub-Saharan countries generated more than 20 percent of their total export revenue from one farming commodity, during the period 1997–1999. They include East African counties- Rwanda, Burundi, Ethiopia, Uganda (coffee), Côte d' Ivoire (cocoa), Malawi (tobacco), Mali (cotton), Kenya (tea), Ghana (cocoa) in Africa and the coffee-producing Latin American countries Honduras and Guatemala. For Rwanda, Burundi, Uganda, Ethiopia and Mali, revenues from this single crop (coffee) even surpassed 50% of total export revenues, during the period 1986–1988 (highly crop concentration).

According to Gain (2019) cited by Zelalem (2018), Coffee is one of the most essential exports of Ethiopia. It is the principal foreign exchange generator for the country. Ethiopia's miscellaneous coffee diversities, flavors and natural forest friendly production methods provide the economy a comparative advantage in the global market.

Oilseeds export comprises sesame and Niger seed, for which there is an increasing demand in the world market. Ethiopia ranks among the top 5 world producers of sesame seed and linseed.

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<sup>3</sup><https://agoa.info/about-agoa/products.html>

<sup>4</sup>Non- Most Favoured nations that are not WTO member

There are a number of countries imported oilseeds from Ethiopia, but Japan is the biggest world importer of sesame seed, Ethiopia is not one of its sources due to quality requirement disparities; but Ethiopia reimport refined (pressed) edible oil. Chat is one of the most recent commodities that were added to the basket of exportable items in Ethiopia. According to data from NBE, the export of Chat started flourishing during the late nineties. The fertile land of Ethiopia grows several types of Chat which are favored by many consumers.

#### **2.1.2.1.3 Export Destinations**

Country could significantly expands (trade partners) its foreign market or international trades (exports), leaving country less dependent on any single (few) countries. Which in return helps the country to sell its outputs (products) with competitive price, diverse alternative destinations, and greater production can lead to larger economies of scale and better margins (profits). Most of Sub-Saharan countries including Ethiopia hope of increasing export trade volumes and destinations to domestic economies throughout global market in order to foster growth and climb the economic hierarchy to become a middle income class country. However, this objective to a great extent depends on export destination countries integration and cooperation instead of the exertion of one single country or economy. Intermediary influencers most of developing countries share such as distance play a major role in determining export destinations for Ethiopia, whereas endogenous issues like customs procedures and border related issues, tariffs and import quotas, and trade restrictions within the importing countries heavily affect Ethiopian's trade volumes and destinations in international trade.

#### **2.1.2.1.4 Internal Conflict and Political Instability**

(Kazunobu, 2011), Financial risk refers to the risk that a country may not able to repay its foreign liabilities. Without doubt, countries with high financial risk are more likely to face an abrupt financial crisis. As the amount of foreign debt increases relative to the borrowing country's GDP, the country's ability to repay its debt will decline and financial risk of the country will increase. Therefore, MNCs may find the countries with too much foreign debt less attractive for investment, *ceteris paribus*.

Kolstad and Tondel (2002) find that FDI inflows are affected by ethnic tension, internal conflict and democracy, but not by government stability, bureaucracy, external conflict, law and order, and military in politics. For a sample of 83 developing countries, Busse and Hefeker (2007) find

that government stability, internal and external conflicts, corruption, ethnic tensions, religious tension, law and order, democratic accountability of government, and quality of bureaucracy are highly significant determinants of FDI inflows to destination countries.

#### **2.1.2.1.5 Devaluation of home currency**

Devaluation is the deliberate downward adjustment of a country's currency value. The government issuing the currency decided to devalue a currency. It also means official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency. Devaluing a currency reduces the cost of country's exports; the opposite of devaluation is called revaluation. Devaluation help a country's exports gain market share and can shrink trade deficit. A weaken domestic currency makes the nation's exports more cheaper in global markets, and simultaneously makes import more expensive. Higher export volume spur economic growth, while pricey imports also have similar effect because consumers option for local alternative to imported products. Theory suggests devaluations can support economic growth by improving competitiveness abroad. Devaluations increase foreign demand for domestically produced goods as well as make foreign-produced goods relatively more expensive, thus boosting domestic net exports.<sup>5</sup>

In short term devaluation tends to cause inflationary pressure, higher growth and job, and increased demand for exports. Similarly, more expensive imports lead to higher inflation, as well as decline the local consumer purchasing power. It can also result in less efficient and less competitive domestic industries in the medium term. This weaken local currency often result in inflation in the country, more currencies are needed to purchase goods and services because the value of currency has declined.<sup>6</sup>

Developing counties have been used devaluation such as Nigeria: reduce trade deficit (BOP), correct internal real exchange rate, and increase global trade (export growths) competitiveness and attract more FDIs.

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<sup>5</sup> <https://www.investopedia.com>

<sup>6</sup> <https://www.bankbazaar.com>

#### **2.1.2.1.6 Exports Interest to export through CBE**

International trade allows countries to expand their market and access goods and services that otherwise may not have been available domestically. As a result vast international trade, the market is more competitive. This ultimately results in more competitive pricing and brings a cheaper product home to the consumer (investopedia).

WTO (2015), Finance is the lubricant of commerce. A very large share of trade transactions are supported by some form of financing, e.g. a credit, guarantee and/or insurance. For example, a credit is most often required to bridge the gap between the time at which exporters wish to be paid (at dispatch, at the latest; with the order, at the earliest), and the time at which importers will pay (at the earliest, on receipt of the merchandise). The credit can be accorded by the buyer to the seller directly ("buyer's credit") or inversely by the seller to the buyer, without banking intermediation. Such "open account" financing may nonetheless require the intervention of banks, not the least to manage the large amount of "receivables" and "payables" involved in modern global supply chains. The ability of firms to extend direct credit to their trading counterparties may be enhanced by possibilities to either discount their receivables (to forfaiting companies), and the possibility to mitigate payment risk by purchasing trade credit insurance.

A commercial bank is a financial institution offering a verity of services to individuals, businesses and capital markets, international trade in banking services is commonplace, but contracts can be challenging to enforce in riskier countries. The role of bank in international trade is to provide financing products such as letter of credit to help diminish these risks and allow transactions to go smoothly for buyers and sellers worldwide.

#### **2.1.2.2 REMITTANCES RELATED**

Remittances are non-reciprocal transfers of money from an individual or household in one place to another individual or household in another place (Hougaard, 2008). They can take many forms but are typically associated with working migrants that send regular amounts of money to support their families and communities back home. The advantage of these payments is that they usually flow directly into the hands of households, which increases household income and reduces the likelihood of households falling into poverty (International Organization for Migration, 2005). Remittance flows primarily (though not exclusively) tend to therefore move from the high-income economies to emerging markets and developing economies (EMDEs), in

addition to intra-EMDE flows (Bank for International Settlement, 2022). Remittance flows to low- and middle-income countries (LMICs) have been greater than official development assistance (ODA) since the mid-1990s and have surpassed foreign direct investment (FDI) since 2019 (WB, 2022). According to the latest WB data, remittance flows to low- and middle-income countries (LMICs) reached \$605 billion in 2021, dwarfing other high-volume flows such as portfolio investments and official development assistance (WB 2022).

(Bank for International Settlement, 2022) states that greater access to and usage of transaction accounts among remittance senders and recipients could also play a role in increasing the volumes of money efficiently transferred across borders. Furthermore, this could discourage the use of less transparent channels, which are more vulnerable to criminal abuse, such as unregulated money transfer operators.

Digitalization of remittances, i.e. sending remittances between transaction accounts (direct bank account deposit, cash pickup and mobile money), is an opportunity to increase access to and usage of these accounts more generally, thereby contributing to financial inclusion and enable to boost country's as well as commercial banks foreign currencies earning and reserves. Digital remittances, which are defined by the World Bank's Remittance Prices Worldwide (RPW) as those that are sent via a payment instrument online or in a self-assisted manner and received in a transaction account, have recently become significantly cheaper than cash remittances, on average. Digitalization can also support AML/CFT goals by increasing transparency, simplifying recordkeeping and analytics, and making standardized and consistent AML/CFT practices cheaper.

#### **2.1.2.2.1 Prizes scheme (scramble) among commercial banks**

Prizes are promotional tools such as in banking industry used for attract customers in order to resource mobilizations, sales new introduce products and stimulation sales declining (weaken) products etc.... To help people save more money (local deposit mobilizations) and encourage foreign currency earning mobilization, banks in Ethiopia have launched in recent years (decade) known as prize-linked in short term times and special events such as holiday pick incoming foreign currency generation periods, principally to purchase FCY notes, SWIFT transfer to account from abroad via correspondent banks and international remittance received through MTOs.

#### **2.1.2.2.2 Overcrowded of banking services**

Decongestion refers to overcrowding of the stores, outlets or branches. However, it is majority relevant for bank branches. Overcrowded banking halls and long queue during operational hours are a standard part of customer experience that banks should address for the smooth running of a branch. Banks should decongest their branch cater to the growing demand for customer convenient and combat slow or disorganized queues. This helps them offer an enriching customer experience and increase footfall. Selecting the perfect branch location is strategically crucial for banks. A suitable branch location has a more substantial potential to rope sales and garner profitable customers. The number of branches in a particular region has a direct impact on the growth of the bank<sup>7</sup>.

#### **2.1.2.2.3 Working with partners (foreign employments agencies-private)**

Working for a corporation with a location in another nation is known as foreign employment, and typically exclusively work there. Foreign or migrant workers are people who travel to another country looking for work. The classification is broad enough to include house servant, expert technology workers, language teachers, labourers, and even entertainers.<sup>8</sup>

Overseas employment elevates the life standard of the people and has become an important source of earning foreign currency. Foreign employment reduces the unemployment problem of a country like Ethiopia.

Girmachew (2022) wrote article is that, there are over 30 million migrant workers in the more than half-a-dozen Gulf countries. As the third highest destination for international migrants in the world in 2019, Saudi Arabia is the main destination. Ethiopia makes a sizeable number of the kingdom's 13,122,300 migrant workers. It is estimated that about 750,000 Ethiopians were reside and work in the kingdom of Saudi Arabia.<sup>9</sup>

#### **2.1.2.2.4 Working with development partners (government)**

Development partners refer to state, organization, or institution that is committed to and undertaking with another or other development process. They are multilateral institutions

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<sup>7</sup> <https://dista.ai/blog/>

<sup>8</sup> <https://brainly.in>

<sup>9</sup> <https://www.kullabs.org>

development agencies, donors and foundation that contribute financial otherwise to observatory.<sup>10</sup>

#### **2.1.2.2.5 Increasing Number of commercial banks (Competition)**

Competition in banking considers in the sphere of financial services and defines it as struggle for consumer of banking services and creation of such condition for other participants, which do now allow them having decisive influence upon the market. Do to this, it improves typification of banking competition and four types of competition are defined: banking competition, competition between state and non-state banks, competition between banks and non-banking credit institutions, and competition between banks and non-financial organization.<sup>11</sup>

If banks compete against each other, they have to provide great services for their customers – otherwise people will switch to another, better, bank. This makes banks more efficient and productive, which is good for economy.<sup>12</sup>

#### **2.1.2.2.6 Work with NGO**

The WB defines NGOs as “private organizations that pursue activities to relive suffering, promote to interests of poor, protect the environment, providing basic social service or undertake community development.”<sup>13</sup>

They can work to promote social or political change on a board scale or very locally. NGOs play a critical part in developing society, improving communities and promoting citizens participation. Most international and domestic NGOs in Ethiopia are religious based helping the less fortunate with their education, participating in relief and rehabilitation activities, helping out in medical missions, tree planting and many more. Currently there are 53 NGO networks working in Ethiopia, recently the government of Ethiopia has suspended three NGOs for breaching rules of nation and operating outside of their mandate. Most of NGOs are working with the marginalized people at the grass root level.<sup>14</sup>

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<sup>10</sup> <https://www.lawinsider.com>

<sup>11</sup> <https://ideas.reoec.org>

<sup>12</sup> <https://www.bankofengland.co.uk>

<sup>13</sup> <https://documents1.worldbank.org/curated/en/>

<sup>14</sup> <https://acadamiapublishing.org>

NGOs to running their regular day to day activities as well as to cover their operational cost most of them raise fund from their external donor counties such as United States, the United Kingdom, Germany, Canada and the Netherlands. Besides, NGOs accept donations from individuals, for profit companies, charitable foundations. They also charge membership dues and sells goods and services.<sup>15</sup>

### **2.1.2.3 OTHERS**

#### **2.1.2.3.1 NBE directives**

The principal objective of the monetary policy of the NBE is to maintain price and exchange rate stability and support sustainable economic growth of the country. Besides, formulating implements and follow-up the country's exchange rate policy, and manages and administer the international reserves of the country. Licenses, supervisions and regulates the operation of banks, insurance companies and other financial institutions. (Yewondwossen, 2015)

The foreign exchange regime of the country, reflecting the economic setting, the economic management system, the economic policy of the different governments in power, the structure and level of the economic development of the country, the performance of the external trade sector and balance of payments position of the economy, etc has experienced gradual changes and openness over the past four decades.

#### **2.1.2.3.2 Employee Awareness**

In theory customer service in banking is the service provided in support of a bank's core products. Customer service often includes answering questions; handling complaints. It can occur on site (as when an onstage employee helps a customer or answers a question) or it can occur over the phone or the internet.

Customer acquisition is the business process of gaining new customers to add to the existing ones. It involves attracting prospects to your business, and then persuading them to buy your product and/or services. Every financial institution such as banks needs to acquire new customers

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<sup>15</sup> <https://www.investopida.com>

to keep their business running smoothly that can increase sales, adding more profit, and creating comprehensive market coverage.

Nowadays, customer acquisition has been one of the major challenges of banks. The market for financial products is more crowded than ever making it a challenge to capture new customers and meet performance goals.

Service available in international banking include foreign exchange trading, international wire transfers, international investment banking. Foreign exchange trading allows individuals and business to buy and sell different currencies, enable them to manage currency risk and take advantage of market movements.<sup>16</sup>

### **2.1.2.3.3 ATMs and PoSs**

The first ATM was developed and built by Luther George Simjian and was installed in 1939 in New York by the CitiBank of New York. Though, it was removed after six months due to lack of customer acceptance.<sup>17</sup> Standard Chartered Bank of Uganda was first introduced in Africa in 1997. The first signs of electronic banking in the country developed goes back to 2001 with introduce of the automated teller machine (ATM) by CBE with eight ATM machine and followed by from private bank Dashen Bank S.C.

A currency conversion at ATMs transactions begins immediately when VISA or MasterCard is interested at the ATM machine. The ATM automatically determines if the card is eligible for currency conversion.

PoS (Pont of Sale) machine is an electron of device through which a customer can make payment of merchant in exchange of goods or after provision of service through debit/credit/prepaid cards or QR scanner.<sup>18</sup>

In Ethiopia PoSs are usually owned and deployed by commercial banks for their respective customers such as hotels, supermarkets, tourist sites for merchants who are preferred to receive payment and changes now a day banks are mainly focus on deploying both machines at foreign

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<sup>16</sup> <https://www.hlb.com.my>

<sup>17</sup> <http://en.wikipedia.org/wiki/automatic> teller machine

<sup>18</sup> <https://www.planetpayment.com>

currency areas toward foreigners and diaspora communities found place. This turn the rivalry for earning hard currency among commercial banks are very tough ever.

At the end of June, 2022 closing period there were the total number of ATM and POS terminals of the banking industry reached 6,793 and 11,714, respectively; with ratio of one ATM for 54,177 but below world average 1:2325. CBE has currently owns more than half of country's ATM (NBE, 2022).

## **2.2 The Empirical Literature Review**

### **2.2.1.1 Export Related**

#### **2.2.1.1.1 Exit from AGOA**

CBE's FCY earning mainly emanates from exports of textile & garment and leather products, which are the prime victim of the decision. Textile and garment and leather products represented 48.5 percent and 9 percent of CBE's FCY earning from export in 2020/21, respectively; The share of the bank in financing manufacturing firms including those operate in IPs and vulnerable by the decision is significant that will likely to affect its asset quality following downscale and/or closure of affected firms (may case for non-performing loans); and CBE operates in all IPs through its branches and dedicated centers as a sole player for long time and now the leading player along with competitive other commercial banks that will place it on the front to confront the translated impacts from affected IPs. Besides the deposit mobilization performance CBE is thereof prone to be affected mainly through branches that operated at IPs at end of 2020/21 total deposit positions of these branches 1.9 billion which represents trivial share from the CBE's deposit. The reliance of the bank on coffee and oilseeds (mainly sesame) to generate FCY shifted to textile & garment in recent years. In 2020/21, textile and garment accounted for about half of CBE's FCY earning from export followed by coffee (24%) and Leather products (9%). Unfortunately, the adverse impact of suspension of Ethiopia from AGOA tariff and quota free access is likely to be sound on above export items, except coffee<sup>19</sup>

#### **2.2.1.1.2 Agricultural Commodities export**

Zelalem (2019), International trade of fruits and vegetables is of vast dimensions. Gifted with diverse geographical regions and climatic zone, Ethiopia produces a wide variety of fruits and

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<sup>19</sup> <https://nbe.gov.et>

vegetables. In recognition of the importance of production of fruits and vegetables as a valuable supplement to the food resources of the country and as a sector offering sizable export prospects, increasing attention has been paid, in recent years, to gear up this industry to achieve the dual objectives. But Agro-industrial processing in this regard also very infant even most of industries which operated demonstrated on local market instead of export.

Even though Ethiopia is the first population of livestock in Africa and 17<sup>th</sup> in the world, the sector development and growth still stumbled. Although almost all Ethiopia's regions have large population of cattle, pastoralist areas are main sources of animals for meat export.

Ethiopia's floriculture (cut flowers) industry is exceedingly emerging, and currently it ranks as sixth largest exporter of roses worldwide and second largest in Africa, after Kenya. Currently many flowers, such as rose, gypsophila, carnation, and chrysanthemum are growing. In the fiscal year 2021/22 budget year, the flower export climbed by 15.1 percent from the preceding year to generate USD 541.6 million.

Zelalem (2019), stated that one of the silent future Ethiopian export sector is its lack of diversification or concentration on few commodities. As a part of the developing world, agricultural commodities constitute the major share of Ethiopian exports meaning there are insignificant nonagricultural exports in total merchandize export. For the past four decades, primary agricultural products accounted for 80-90 percent of the merchandise export earnings of Ethiopia.

Another empirical research turns to the country; Belay (1998) pinpointing that the cash crops of major export commodities to the instability of the Ethiopian export proceeds. The results are expected to help policy-makers in making decisions regarding wide export diversification or any other policy interventions.

Fitsum (2008) states that Ethiopian 'specialization' in exporting agricultural products and importing more capital intensive manufactured goods is in line with Heckscher-Ohlin (HO) theorem, said that a nation exports the commodity whose production requires intensive use of the nation's relatively abundant and cheap factors and imports the commodity that is produced by intensive use of a nations relatively scares and expensive factors. This is because Ethiopia is

capital scarce and labor abundant and agriculture is labor intensive in developing countries unlike that of advanced nations where it is rather capital intensive.

Studies such as Abebe (1991) attempted to assess the relation of commodity concentration (few items) and export proceeds (earnings) fluctuation. His results exhibited that major export commodities contribute to the instability of earnings more than proportionately in seventeen of the sampled twenty-nine countries. Inversely, no strong association was found between concentration and instability of export proceeds in the remaining twelve those developing countries.

Further, Mulugeta (2007) advocated that most developing countries taken better focus in exporting raw materials because it is here that they have comparative advantage over industrialized nations. Developed nations on the other hand are suitable to have greater comparative advantage in industrial goods.

Murray (1978) tried to identifying up and down of export inflows against arrangements of instability in export prices and volumes. The result pointed out that instability of export earnings; prices and quantities are higher for underdeveloped countries than developed, as well as earnings volatility in the case of emerging market countries is significantly connected with quantity instability than price.

Massell (1964) used a sample of thirty-six countries when estimating by using linear regression model in which export instability, the dependent variable, was function of commodity concentration; they were positively related to instability of export earnings.

Like many other developing countries, Ethiopia's export is limited to few primary products (traditional export commodities), which are mainly agricultural (primary economic activities output).

MOI (2017), being an unindustrialized economy that highly rest on agriculture, the structure of Ethiopian export is depend on agricultural products which used to account for more than 70% of the total export on country's history. However, the recent decade trend shows that there are improvements on exports of industrial outputs like textile and garments, leather and leather products, and gold. The ultimate objective of the industrial development policy is to bring about structural change in the economy through industrial growth. Particularly, it is aimed at by

combining the share of the manufacturing sector as % of the GDP from the current 13% to 27% by 2025, and also growing the share of the industrial sector as % of the GDP from the current 4% to 17% by the year 2025. Due to most agricultural commodities affected by both fluctuation on volume of outputs due to a country depends on seasonal rainfall and dynamic world price of these commodities.

#### **2.2.1.1.3 Export Destination**

According to CEPHEUS RESEARCH & ANALYTICS (2020) very surprisingly 2019-20 Ethiopian's export volume and destination more concentrated in EU countries. Netherlands imported from Ethiopia in the same period largely cut-flower (rose) 10 percent (or equivalent US dollars 308mn) of Ethiopian's overall exports, followed by Switzerland imported gold from Ethiopia 7 percent share of export or US dollars 199mn. Whereas manufactured goods (textiles, leather) explains the fall in exports to the US, the primary buyer in this category, while reduced exports of oilseeds (sesames) this past year explain drops in export to China. Non-traditional exports, such as electricity exports (US dollars 66mn), as well as electronics exports (Us dollars 38mn—mostly assembled mobile phones), account for rising exports to some African countries.

According to Abebe (1991) there has been a widely held view that such commodity and geographic concentrations are the major cause for instability in the export earnings.

Massell (1964) used a sample of thirty-six countries when appraising with linear regression model in which export instability, the dependent variable, was function of geographic concentration of exports. The results showed that, negatively or insignificant relation between them.

Lious (2021) Ghana's export destinations within the continent of Africa have mainly been South Africa. The country shares borders with Burkina Faso, Cote d'Ivoire and Togo and these nations form part of the top three favorite regional export destinations for the country as is evidenced in export values in 2019.

#### **2.2.1.1.4 Internal Conflict and Political Instability**

Politically stable countries export more (Srivastava and Green, 1986). Fosu (2003) argued that political instability negatively affects expected return which results in capital flight, which ultimately disturbs the exports of the country. The politically unstable country are affected due to

down surge in its economic growth and other factors including income, interest rate, domestic price level, unemployment and exchange rate (Collins, 1996); (Roubini, 1991).

Fosu (2003) found the relationship between political instability and export performance for sample of 30 sub-Saharan Africa countries from the period 1967-1986. The regression results founded by the estimation of Ordinary Least Squares (OLS) and Hausman-Wu test showed that political instability is damaging more to exports as compared to overall GDP.

Khan et al. (2015) studied the impact of political Instability on Pakistan's exports using time series data from 1991- 2010. The method used is Regression analysis and ANOVA. The study concluded the negative relationship between political instability and exports.

Naina and Nida (2020) investigated the impact of Political Instability on International Investment and Trade from 1976 to 2016. Foreign Direct Investment, exports and foreign portfolio investment are highly linked with the political stability in the policies which is directly related to political setup of the country.

#### **2.2.1.1.5 Devaluation of home currency**

Clément (1995) found that by the early 1990s, it became clear to the member nations, the International Monetary Fund (IMF), and France that devaluation was necessary to address the currency's overvaluation. On January 12<sup>th</sup>, 1994, governments from the CFA (Communaute Financiere Africaine) or African Financial Community franc zone consist 14 countries accepted a 50%- nominal weakening against the French franc. At the same time, lending and technical support from the IMF, France, and other donors were dedicated to contain the negative outcomes of the devaluation. This IMF-supported readjustment was planned to restore effectiveness in export markets for countries in the CFA- franc zone and strengthen their economic growth prospects. Van den Boogaerde and Tsangarides (2005) report on the outcome of the IMF-supported devaluation ten years later. They highly pointed the success of the program in the first four years after the devaluation in causing positive growth rates, controlling inflation, and improving competitiveness on exports.

Yiheyis (2006) confirmed that devaluations outcome hold in general for countries in Africa. In a combined study of twenty African countries they find that nominal devaluations have a contemporary negative effect on output, but a positive effect a year after the devaluation.

Contradicting 1990s CFA countries devaluation successful on economic growth and export sector boosted and narrow gap between export and import balance, how devaluation and trade liberalization influenced external competitiveness and export promotion in the Sri Lankan economy between 1977 to 2001 and concluded that these policies did not have a significant impact on improving the trade balance and export performance, especially in the short run, meaning that the export performance of Sri Lanka was below expectation, Alawattage (2002).

Previously in the year 2010 Ethiopia devalued ETB by 17 percent, at that time devaluation makes the domestic currency cheaper in the foreign exchange market, and that the birr was cheap, external market would buy Ethiopia's agricultural commodities at a discounted price than before, hereafter export competitiveness enhanced. The latter simply means the quantity of export goods trade-partners demand have been raised. The decreased in the supply of commodities or the new orders had inspired producers of exportable cash crops, and hence they have engaged in intensifying their activities, consequently inflationary pressures built up because of expenses for salaries and other supplies will mean new money injected (circularized) in the economy.

Latter, in Ethiopia 2017 the government devaluated the value of birr by 15 percent, the sequence of events clearly indicated that Ethiopia was in anxious need of hard currency. It sounds the authorities are lose it because the country's foreign exchange reserve had been rapidly diminishing.

The Reporter Ethiopia magazine titled "Has depreciating Birr missed its mark?" published February, 2022 discussed that, the official exchange rate of birr against the US dollar surpassed the 50 birr mark depreciating by 0.11 percent every day. Birr's value also decreased against other baskets of currencies, especially over the past couple of years. To rebalance the state domination and achieve structural changes in the economy, the government had planned to liberalize the exchange market by now. The consecutive devaluation over the past couple of years is due to the World Bank and the IMF's recommendation to "find the right value of birr." The institutions said that birr was overvalued, which is discouraging exports.

In contrast to the above 2010 and 2017 devaluations of home currency real facts and theories, Almayehu Geda said to the reporter magazine that the devaluation entirely missed its ultimate targets because neither exports increased, nor imports were discouraged. Rather, we have the

adverse by-products of the devaluation, which is skyrocketing market inflation, due to 90 percent of Ethiopian import items not discouraged as they are prioritized as basic necessities such as fuel, medicine, agricultural inputs and other strategic items. Thus he finally remarked devaluation is wrong policy for Ethiopia.

Imported inflation is currently fuelling inflation (hyperinflation) in Ethiopia, while the devaluation continues. Apart from the impact on individual's purchasing capacity, the devaluation of birr has also caused the government's spending and project costs to be inflated. If it continues, inflation is expected to force the government to ask for another round of a supplementary budget or even print more money (seigniorage) and inject it in projects and state owned enterprises (SOEs). However, Fekadu Digafe, vice governor and chief economist at the National Bank of Ethiopia (NBE), argues that the fast depreciation has positive impacts, on his word "The devaluation was not fruitless. It resulted in growth of exports. Since we started to consequently devalue three years ago, Ethiopia's export has been growing by 20 percent on average, up from the downward trend registered before that. Last year alone, export grew by 600 million Birr (21 percent)," adding, inflation during depreciation is unavoidable nevertheless the trade-off is still tolerable.

Tameru Tadesse a coffee exporter said that, the impact of the devaluation is indifferent to them. Due to the depreciation home currency, our suppliers and farmers increased the price of commodities. Price of coffee at farmers' site doubled since the last year alone. So, we buy inflated commodities and export it. Our profit margin even shrunk, instead of growing.

The other exporter also strengthened that the exchange rate adjustment missed its target; he stated that putting the economy in a vicious circle. First of all, the depreciation was not intended to encourage exports. It was started three years ago, because the World Bank and IMF placed devaluing the currency as a prerequisite to disburse loans to finance the reform agenda.

The Reporter Business magazine added and compared with other countries passed situations that exchange rate crisis in Ethiopia currently is similar to the scenarios Sudan, Zimbabwe, Somalia, Egypt and Argentina all went through. For instance, Sudan's pound was at 29 against US dollar, while it was 45 in the parallel market. When the government equalized the official rate with the parallel market, the black market rather jumped to 55 and then to 350 in short periods. The

devaluation resulted in excessive inflation points, which in turn resulted in a public uproar that ended in a government change.

“Both the IMF and government know devaluation will not boost exports. The value of your commodities in the international market can determine the exact value of your currency. The bottleneck to Ethiopia’s export is the lack of industrial input, power outages and bureaucracy. The exchange rate is just one of these factors,” added Alemayehu.

#### **2.2.1.1.6 Exports Interest to export through CBE**

Gladness and Asare (2020), Global and local banks support international trade through a wide range of products that help their customers manage their international payments and associated risks, and provide needed working capital.

Banks play a critical role in international trade by providing trade finance products that reduce the risk of exporting (Friederike & Schmidt, 2014) cited by Gladness (2020). Their involvement in international trade is crucial since they facilitate payments and security of transactions.

Cansu et al (2019) examined banks contribution to international trade in Turkey using panel data approach. Their results indicate that the funds allocated by banks increase the exportation in Turkey and it’s important to inflow foreign exchange to the country through export channels from the point of Turkey’s economy and the value of Turkish Lira.

#### **2.2.1.2 REMITTANCES RELATED**

According to WB, the average remittance for 2021 based on 132 countries was 3715.25 million US dollars. The highest value was in India: 82,977.28 million followed by Mexico 51,585.87 and the third from Africa Egypt 31487 million. While turn to Africa on aggregate thirty countries was 2699.43 million US dollars, the highest value was to Egypt 31,487 million, Nigeria 19,241, then Morocco, Ghana and Kenya highest incoming remittance respectively; and the lowest Lesotho 5.13 million. When come to Ethiopia during periods (1977 to 2021) was 226.37 million with a minimum of 0 US dollars in 1977 and maximum of 1,796.38 million US dollars in 2014. The latest value of 2021 is 447.65 US million dollars. For comparison, the world average in 2021 based on 132 counties is 3,715.25 million US dollars. Over all Ethiopia is ranked 73<sup>rd</sup> in the word and 12<sup>th</sup> in Africa; 4<sup>th</sup> after Kenya (3,770.09 million USD), Uganda (1,082.64 million USD) and Sudan (1,007.28 million USD) in horn of Africa.

#### **2.2.1.2.1 Charges of Remittances**

Varying remittance prices (costs) depending on corridor and channel. The average cost to send USD 200 from the USA, UK, Saudi Arabia or Italy to Ethiopia is 6.7% of the transfer amount (World Bank, 2018). All four corridors are serviced by an array of providers who charge varying fees. The cheapest provider in Italy charges 1.8%, while the most expensive costs 19.2%. A similar picture emerges for the UK. Average costs from the USA and Saudi Arabia are 3.7% and 4.3%, respectively. Especially in the USA corridor, competition is high. The average cost of sending remittances into Ethiopia is lower than that of other SSA countries. Yet the low penetration of financial access points forces especially rural recipients in Ethiopia to travel far to pick up the cash (Stakeholder interview, 2017). The cost of remittances remains higher than international targets, especially in Sub-Saharan Africa. These barriers can hamper the flow of remittances through regulated and/or transparent channels. In Q4 2021, the global average cost of sending \$200 was \$12.08.

Aydas et al. (2005) found that black market premium, income differential, growth and inflation rate at home country were the main determinants of the remittances sent to Turkey.

#### **2.2.1.2.2 Foreign currency exchange Black Market in Ethiopia**

The Ethiopian government faces difficult choices to limit the impact of black market currency exchange and improve its foreign currency reserves. Over at least the past three years Ethiopia's foreign currency deficit has led to a thriving black market exchange, fuelling already-problematic illicit financial flows in the country. The black market limits the inflow and facilitates the outflow of legitimate foreign currency to and from Ethiopia.

There are many unregulated foreign currency exchange bureaus in the country, many of which are located in Addis Ababa. The black marketers use small shops, usually set up for lawful businesses like boutiques, shops from where they signal to or directly ask passers-by for any foreign exchange. On the black market, a United States (US) dollar is worth double the official bank rate, at its peak, in September 2022, US dollar 1 bought nearly 120 ETB on the black market.

Another common way of diverting foreign currency is through illegal hawala. Hawala is a form of informal money transfer outside the banking system whereby Ethiopians in the diaspora remit

foreign currency to middlemen, who pay the chosen beneficiary in Ethiopia in local currency at the black market rate.

In facilitating the outflow of Ethiopia's much-needed foreign currency, black marketers either smuggle out the foreign currency collected in Addis Ababa through Bole International Airport, or transport the funds to Moyale and Togochale, Ethiopian towns on the border with Kenya and Somalia respectively. This is according to a researcher who spoke to ENACT (Enhancing Africa's Response to Transitional Organized Crime) on condition of anonymity.

Banks in Moyale and Togochale purchase and process the foreign currency and mask it a legitimately earned income that Ethiopian businesses have collected from exporting legitimate goods. In explaining this modus operandi, a researcher stated that banks in border towns work in collaboration with their head offices in Addis Ababa, where an individual who will buy the re-entered foreign currency for a higher price has already been identified.

The role of the banks on the black market is not limited to the border areas, according to the former governor of the National Bank of Ethiopia (NBE), Yinager Dessie (PhD). In Addis Ababa, banks pay black marketers 30 ETB commission for a US dollar. They then use back-office deals to sell the foreign currency at a rate higher than even the black market. Finding a higher bidder is not a challenge. Corrupt individuals are willing to launder ETB by paying more for hard currency. Importers' demand for forex is also significantly higher than the supply.

Ethiopia's foreign currency shortage is worsened by on-going instability. Massive government spending on the war resulted in a foreign exchange reserve outflow of US dollars 307 million during the 2020/21 fiscal year. The war obstructed foreign currency inflow by limiting tourism and foreign direct investment. It also affected Ethiopia's access to hard currencies by triggering unilateral economic sanctions by the West and the suspension of aid and international loans, which are still in force.

In April 2022 the NBE tried to mitigate inflation by introducing 'Franco-Valuta' the continued absence of peace and stability, together with severe drought, have diverted government resources and attention to the more pressing concerns of restoring peace and stability, creating an environment where the black market can flourish. Other contributing factors

include skyrocketing inflation, the global economic shock following COVID-19, and the Ukraine war.

The NBE has been trying to manage the shortage of foreign currency by putting in place several rules and regulations. Ethiopians travelling abroad can take with them no more than US dollars 4,000 from their foreign currency account, for which proof of travel is required. As per Foreign Currency Management Rule 70-20-10, international traders can spend only 20% of the foreign currency they bring to Ethiopia – 70% goes to the NBE and 10% to the commercial banks.

In April 2022, the NBE tried to mitigate inflation by introducing ‘Franco-Valuta’ – the privilege of importing essential food commodities without needing to go through the banking system to acquire or spend the required foreign currency. However, this turned the black market into a significant source of forex for Franco-Valuta importers. The ETB lost ground fast – a US dollar overshot from under 65 ETB to over 80 ETB in less than a week. The NBE has revised the scheme to require importers to prove they use legally acquired foreign currency.

In May 2022, the NBE suspended commercial banks from providing forex-related services in Moyale and Togochale by downgrading all banks branch to sub-branches. In August, the Ethiopian National Intelligence and Security Service (NISS) reported the arrest of several Ethiopian and foreign nationals supposedly involved in illicit financial flows and illegal hawala.

Ethiopia’s foreign currency deficit has led to a booming black market exchange. In October 2022, the NBE and NISS froze 1,054 bank accounts over black market exchange and illegal hawala. In that same month, Ethiopia banned the import of several goods deemed non-essential and stopped issuing (import permit) Letters of Credit, or Cash Against Documents, or Advance Payment (TT) for 38 products, from cigarettes and whiskeys to non-electric cars imported by private individuals.

Ethiopia may need to rethink its current approach, which focuses heavily on controlling the black market. Rather than discontinuous efforts aimed at putting out fires, control efforts should be pursued using a consistent strategy. Last October’s 2022 establishment of a dedicated task force is a useful start, as it involves both regulatory bodies and law enforcement agencies. This should

be complemented by a holistic government approach that includes establishing robust inter-agency coordination and cross-border cooperation.

Even this though, is unlikely to address the key issue which is that many Ethiopians believe that it is the black market exchange rate that reflects the true state of the economy, rather than the official exchange rate, interviewees who preferred privacy told ENACT.

An option then is that the government could consider legalising black market exchange and transforming it into a parallel market that the NBE can regulate. If legalised, black market transactions could be recorded, taxed and used to support international trade.

However, an expert suggested to ENACT that legalisation might assume adopting a floating exchange rate, which can work best with a system that maintains a sustainable source of foreign currency. This would likely result in considerable devaluation of the currency, a result the government seems unwilling to accept.

So, the Ethiopian government faces difficult choices but it is clear that a choice needs to be made to limit the impact of the black market exchange and improve its foreign currency reserves.<sup>20</sup>

#### **2.2.1.2.3 Prizes scheme scramble among commercial banks**

All banks are follow same fashions of the prize (lottery scheme) include from huge award vehicle to giveaway of airtime. In this regard CBE is the pioneer and foremost by starting and introducing in the banking industry of the country. CBE has benefited early periods while other similar banks not actively engaged on these series campaigns.

#### **2.2.1.2.4 Working with development partners (foreign employments agencies-private)**

There are no empirical evidences that whether foreign employment agencies have benefiting commercial banks in foreign currency earnings. Besides the researcher cannot get separate financial information of forex earning from foreign employment agencies due to agencies earn commission from abroad (manly Middle East countries) when they send employees. But turn to the country there are a number of agencies which are engaged in working overseas both in the

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<sup>20</sup> <https://eractafrica.org>

capital and over nationwide. Those agencies are one of means to generate foreign exchange (FX).

Recently Saudi-Arabia a large destination of domestic workers of Ethiopians has reopened of doors after three years long of suspension, by limiting the recruitment fee for domestic agencies to 1,840 USD. The Saudi's Ministry of Human Resources and Social Development (MHRSD) has set the maximum cost of hiring domestic workers from Ethiopia at 6,900 in riyals, exclusive of value add tax (VAT) even if payment ceiling set for Ethiopia is very low compared to other countries such as Kenya and Uganda. Following that the government of Ethiopia strongly work with other stakeholders reading domestic workers who are seeking to go Gulf countries providing extensive trainings.

#### **2.2.1.2.5 Working with development partners (government)**

CBE's development partners (government offices) institutions which are directly or indirectly touch their offices those who are individuals and/or institutions that are the reasons for generation foreign currency to the country. In this regard Ethiopian Investment Commission (EIC) is one of organization work together with CBE, its mandate to promote private investment, principally foreign direct investment (FDI). Furthermore advising the government on policy measures needed to create an attractive investment climate for foreign investors. According to EIC, Ethiopia is now become a preferred destination for FDI in Africa. Agro-processing sector accounts for about half of Ethiopia's GDP; more than 80 percent its export revenue and 85 percent of create jobs. Data in US dollars Ethiopia foreign direct investments reached to 4.62 billion in 2021 increase by 77.79 percent from 2020, in 2020 US dollar 2.40 billion, in 2019 US dollar 2.55 billion, and US dollar 3.26 billion in 2018. This worth includes both fund and in kind FDIs. Surprisingly, Ethiopia is the second nation by attracting more FDI after Mozambique US dollars 5.30 billion in 2021. As per the data of WB, country has registered FDI since 1977, but its share of GDP until 1992 was almost null. 2021 FDI share against GDP reached 3.83%, while its pick was at 2016 recorded 5.58 percent of GDP.<sup>21,22</sup>

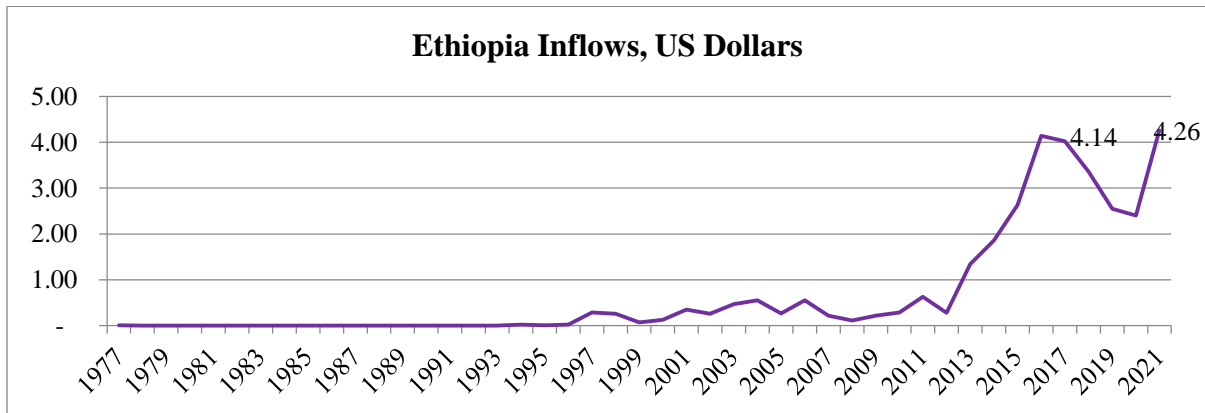
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<sup>21</sup> <https://www.ethiopianinvestment.gov.org>

<sup>22</sup> <https://www.macrotrends.net>

The following figure 2-3 shows the FDI inflows country received, there were very fluctuations in preceding year and insignificant while there are good encouragements recent years though including COVID-19 epidemic, internal unrest, as well as county expelled form AGOA affected.

**Figure 2-3: Ethiopian FDI inflow**



Source:EIC

#### **2.2.1.2.6 Increasing Number of commercial banks (Competition)**

Betelehem (2018), in her work identified that Ethiopian banking sector modernity concentrated while concentration has been decline time to time deposits, loan and total assets.

Yonatan (2018) in his work of assessment of Foreign Currency Mobilization on the Performance of Private Commercial Banks in Ethiopia mentioned that private commercial banks availing competitive service to exporters and remittance recipients and working with multiple number of remitting agencies. Further he stated that constraining policies and rules of the governing body and lack of sufficient number of genuine exporters are the major challenges facing private commercial Banks in their continuous foreign currency mobilization among many.

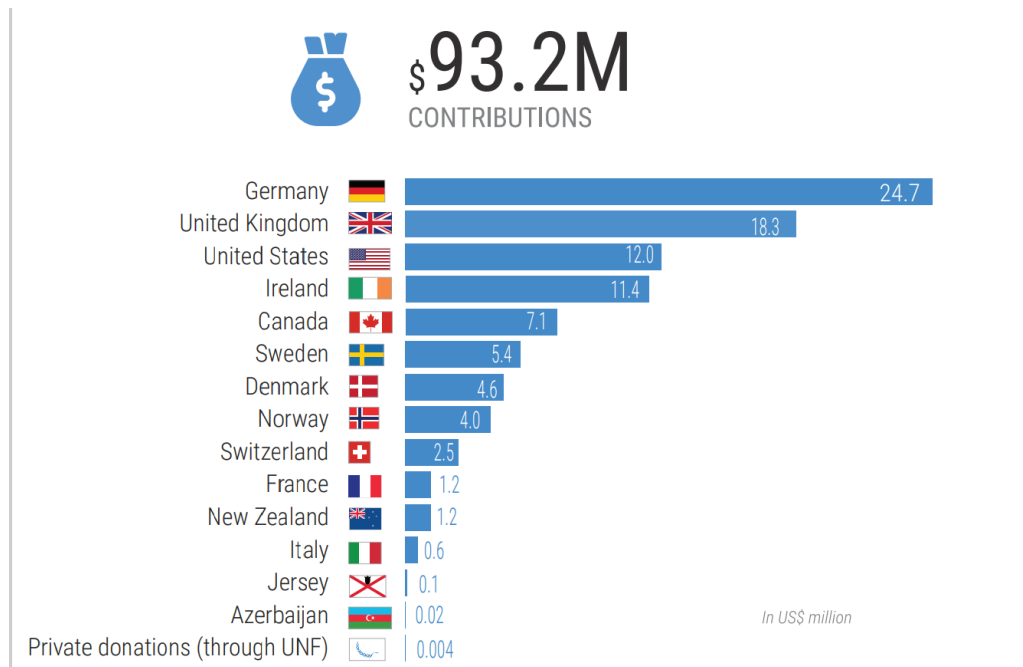
Zerayehu etal (2013) cited by Gebeyhu 2018; tries to determine the degree of bank competition, that he finds monopolistic competitive market structure. But he not stated to show how competition is changing overtime.

### 2.2.1.2.7 Working with NGOs

According to Official development Assistance (ODA) 2022, foreign aid from official donors to an all-time high of US dollars 204 billion in 2022, up 13.6 percent in real terms from US dollars 186 billion in 2021 as developed countries increased their spending on humanitarian aid.

In 2021, donors continued to provide generous support to the Ethiopia Humanitarian Fund, depositing US dollars 93.2 million between January and December 2021. In the year, the highest contribution was received when compared to the last five years. The substantial funding allowed the EHF to support humanitarian partners implementing urgent and lifesaving humanitarian projects in Ethiopia (EFH, 2021).

**Figure 2-4: Donations and Supports from Donors**



Source: EFH 2021 annual report

As shown figure 2-4 Ethiopia has received significant amount US dollars of donation and support from donors. Thus these funds overall transferred through banks including NBE. But CBE has no separate foreign currency generation data from NGOs and other humanitarian organization so as to compare and contrast year (previous) after year (next); whether trend indicate the existing NGO are work with CBE and/or new NGOs are join to the bank.

### **2.2.1.3 OTHERS**

#### **2.2.1.3.1 NBE directives**

Upon early 70's under Imperial regime, the size of the economy remaining very small and the then government pursuing a capitalist economic system, the country had a foreign exchange regime that was designed to serve the needs of a very small open economy and the simple managed foreign exchange regime stayed very static and unaltered for many years.

During the Durg command economic thinking, the static foreign exchange system was continued and made to suit the shadowed economic philosophy of the communist military administration where foreign exchange, like any other resource in a socialist economy, was channeled and directed to the various economic uses through an administrative mechanism. And the effect control on the allocation and utilization of the foreign exchange resource of the country, then government issued a foreign exchange regulation in 1977, which remained until the end of Durg regime 1991.

After EPRDF took the power followed free market economy system, the forex market liberalized, including the government take measure on successive economic and external sector reforms.

NBE has issued different directives in different time on retention and utilization of foreign currency earnings from Export and Inward Remittance until the recent January, 2022.

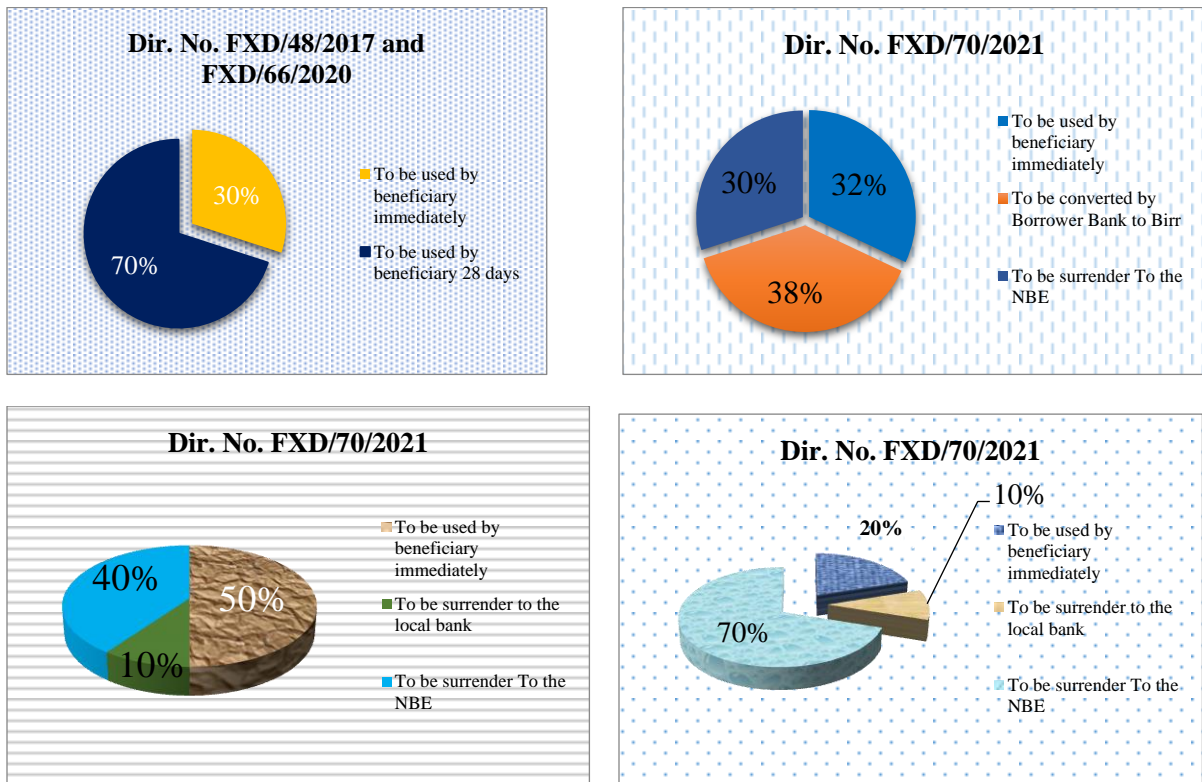
Primary, directive No. FXD/11/1998 was issued by NBE a direct to modify the retention and utilization of Export earnings and Inward remittances. It stated that regular precipitants if foreign exchange remittance from abroad and export of goods and services are eligible customers to open retention accounts at commercial banks in the country. It further detailed that there were two types of retention accounts: Retention Account “A” and retention account “B” can be opened and operated by eligible customers. A new directive changed the former one by that increased and allowed retention account of class “A” 30 percent of foreign currency earning for indefinite period of time but the rest 70 percent put under retention “B” and allowed to exercise or used for 28 days, but the former under retention “A” only 10 percent for unlimited periods and a major amount 90 percent on class retention “B”. In both directives if the beneficiary or account holder not used retention account “B” has been expired or converted into birr. But there were

also sanction to use either “A” and/or “B” only direct business related type. For example, if exporter are engaged on coffee export, its foreign currency allowed to imported for coffee related machineries.

Then after, directive No. FXD/48/2017 issued. It stated that an authorized bank is allowed to open foreign exchange retention accounts for eligible exporter goods and services and inward remittances. It is the same as the above directives that eligible customers of banks to be open Foreign Exchange Account “A” and “B”. Under account “A” 30 percent if account balance for the indefinite period of times, while under account “B” 70 percent up to 28 days, but after 28 days any balance automatically converted into local currency by privilege buying exchange rate; to be used to finance direct business related. Directive No. FXD/66/2020 that allowed minor changes of concerning to credit of funds in retention accounts for domestic traders licensed under NBE on both retention accounts of “A” and “B”. (31 percent to be used by beneficiary immediately; 39 percent to be converted by borrower bank to Birr; and 30 percent to be surrendered to commercial banks).

March 2021, fundamental changed by abolishing the Retention Account “A” and Retention Account “B” only to open and operate one forex account. Establishing a mandatory surrender requirement where all the beneficiaries are required to surrender 30 percent of FX earning to NBE, and reduces the amount of proceeds to be retained on the retention account to 45 percent of 70 percent remaining earnings and it required the sale of 55 percent of 70 percent of the foreign currency earnings to the banks immediately on the day of receipt at the privilege buying exchange rate. The only allowed to imported business related in the previous directive also amended by allowing business license to import goods and services. After six month September, 2021 NBE repealed directive NO. FXD/70/2021 and issued directive No. FXD/73/2021. This directive introduced how to proportionate foreign exchange earnings among parties who are engaged in transaction. 50 percent of shares surrender to NBE; 40 percent to beneficiary, and the remaining 10 percent to commercial banks which facilities. Again after short three months amended by FXD/79/2021, its basic amendments are that surrender amount to NBE is increased, amount of proceeds to be retained is significantly decreased.

**Figure 2-5: Proportionate of Incoming FCY funds**



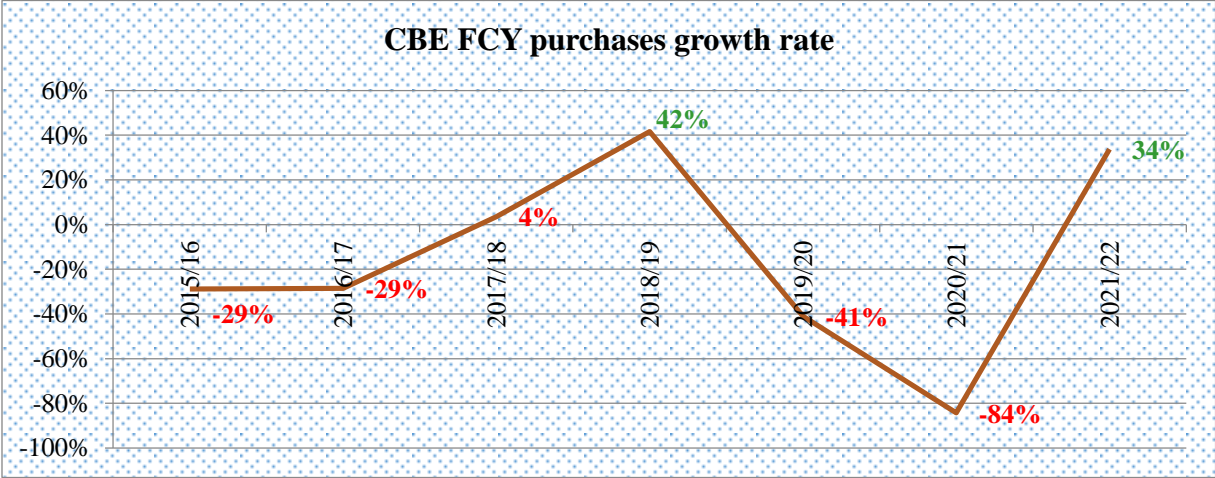
Source NBE’s directives and author computation

NBE issued a new directive (Directive Number FXD/79/2022) to regulate the retention and utilization of foreign currency added NGO’s abroad FCY earner.

**2.2.1.3.2 ATM and POSs**

At the end of June, 2022 closing period there were the total number of ATM and POS terminals of the banking industry reached 6,793 and 11,714, respectively; with ratio of one ATM for 54,177 but below world average 1:2325. CBE has currently owns more than half of country’s ATM. CBE’s foreign currency purchases emanate from three sources namely ATM and PoS acceptance of international cards, and branch window hard currency purchases.

**Figure 2-6: CBE foreign currency purchase growth rate 2014/15 to 2021/22**

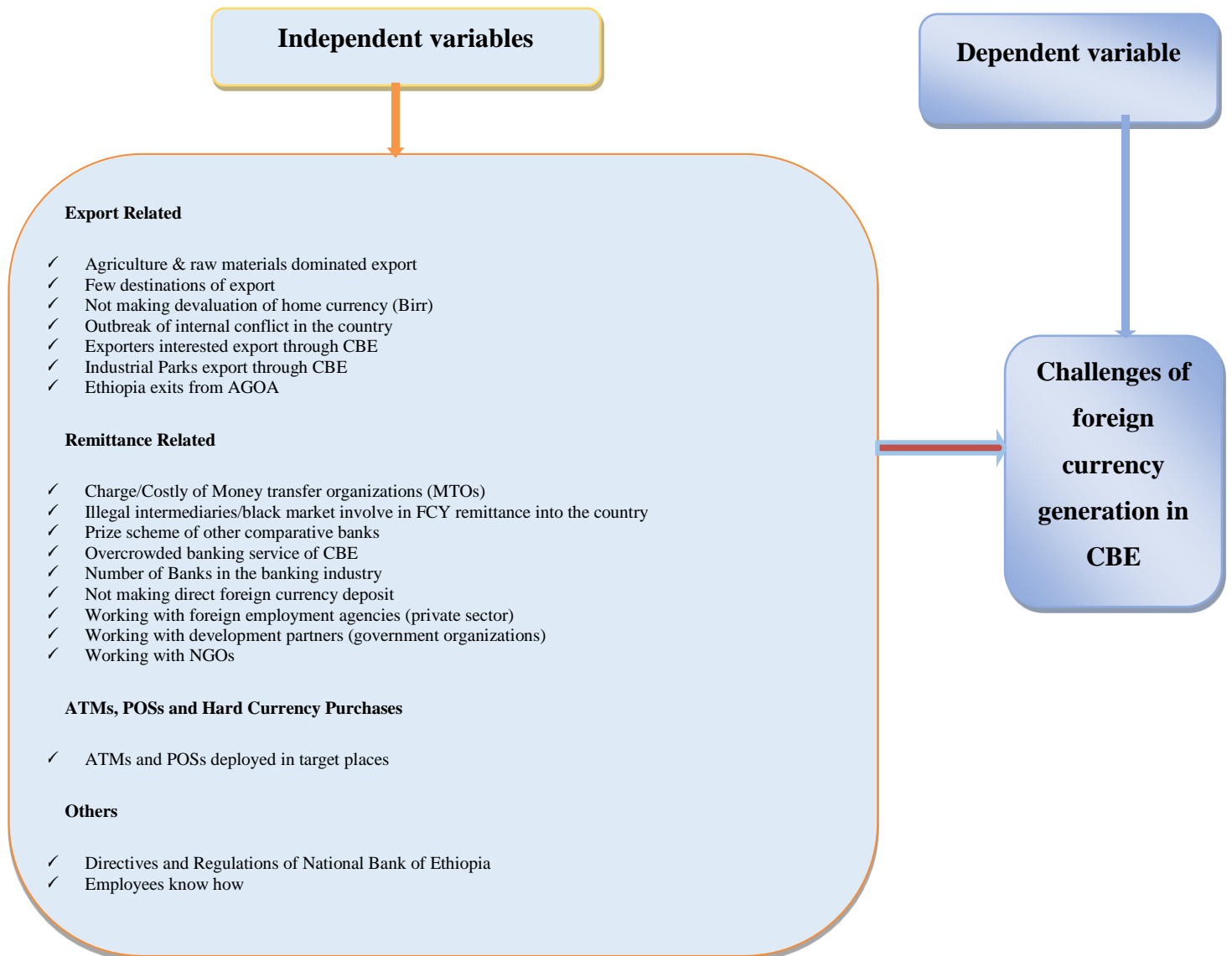


Source: CBE annual reports 2014/15 to 2021/22 and author computation

### 2.3 Conceptual Framework

The conceptual framework indicates the relationship between the dependent and independent variables. The dependent variable is foreign currency generation. The independent variables are export related, remittance related and others which are shown below (Figure 2-7). These independent variables are expected to affect the dependent variable.

The following diagram shows the relationship between the dependent and independent variables



**Figure 2-7: The conceptual framework of the challenging determinants of FCY**

# **CHAPTER THREE**

## **RESEARCH METHODOLOGY**

### **3.1 Research Design**

The study has used explanatory research design. The study assesses the trends of FCY generation and identifies the challenges of FCY generation while using questionnaires and interview as the appropriate tool. Both quantitative and qualitative methods are employed in this research so that the researchers have got relevant and accurate information.

### **3.2 Research Approach**

This research approach was organized using both quantitative and qualitative methods, which was in triangulation research method which is help to clarify *concepts, characteristics, descriptions*, counts and measures to demonstrate implications of the issue under objectives. The quantitative method involves the use of structured questionnaire and observation while qualitative would include the use of interview with the sampled subjects selected for this research.

According to Cooper, D. R., & Schilnder, P. (2003), identified about quantitative methods are most often used when the motives for research are evaluated. The quantitative method refers to the collection of data using numbers, counts and measures of things and qualitative research basically involves the use of words, picture description and narratives.

In other hand, Kothari (2004) was asserted that in qualitative research, it aimed to understand how people live, how they talk, how they behave and what captivates or distress them. The most effective evaluation research is one that combines qualitative and quantitative components, making statistical comparisons is useful and so is gaining an in depth understanding of the processes producing the observed results or preventing the expected results from appearing. It was for this sake that, this research design was choose in order to explore the practices and challenges foreign currency generation in Commercial Bank of Ethiopia.

### 3.3 Sampling Design

A sample design is a definite plan for obtaining a sample from the sampling frame. It refers to the technique or the procedure in which the researcher would adopt in selecting some sampling units from which inferences about the population is drawn and it is determined before data are collected (Kothari, 2004).

Population is the total items in which information is desired from there and it can be classified into finite and infinite. The population is said to be finite if it consists of a fixed number of elements so that it is possible to enumerate in its totality. To represent the population in a given study we take a sample. Sample is the part of population which represents the characteristics of the population and it makes the research economically efficient (Kothari, 2004).

#### 3.3.1 Target population

The target population of the study is about 11,174 staffs. The researcher selects the target population based on their position and the department that the staffs currently worked (CBE human resource management, 2022).

#### 3.3.2 Sampling technique

Hence, the researcher has used both purposive and simple random sampling technique. Purposive or judgmental sampling is selecting a sample based on the basis of knowledge of population, its elements and the purpose of the study. On the other hand, simple random sampling refers to a probability sampling in which the units composing a population are assigned numbers. In simple random sampling a set of random numbers is then generated, and the units having those numbers are included in the sample (Kothari, 2004). The researcher purposively select the study area/region/. Because the researcher expected that the area has a potential to get data and needs scientific study. Then after, simple random sampling technique is applied.

#### 3.3.3 Sample size

According to Yemane (1967), the sample size is determined by

$$n = \frac{N}{1 + N(e)^2} \dots\dots\dots (3.1)$$

Where;

n = Sample size of the study

N = Total population

e = Precision level (margin of error). In this case the margin of error is 0.05. So that the sample size will be;

$$n = \frac{11,174}{1 + 11,174(0.05)^2}$$

$$= 386$$

**Table 3-1: Total target employees size**

No	Regions	Total number of employees	Sample drawn	Proportion of sample
1	Central	6,700	231	59.96%
2	Southeast	3,200	111	28.64%
3	Northwest	1,274	44	11.40%
<b>Total</b>		<b>11,174</b>	<b>386</b>	<b>100%</b>

Source: (CBE, 2022)

Thus, the researcher has used a sample size of 231 (calculated as  $0.5996 \times 386$ ) from Central region, 11 (calculated as  $0.2864 \times 386$ ) from Southeast region and 44 (calculated as  $0.1114 \times 386$ ) from Northwest region. Therefore, the researcher has taken a total sample size 386 respondents.

### **3.4 Data Collection Tools/Instruments and Sources**

The researcher has used both primary and secondary data. The primary data include both open ended and close ended questionnaires to support the findings of quantitative data which are distributed to the respondents. Also, interview is employed to get detailed information from export and incoming department. In addition, the researcher has employed secondary data from CBE annual reports, National Bank of Ethiopia reports, books, internet, published and unpublished materials to reduce the cost as well as to get additional information.

## **3.5 Reliability and Validity of the Data**

### **3.5.1 Reliability of the data**

Reliability is an indication of the stability and consistency in which the instrument measures the concept and helps to assess the goodness of the measure (Sekaran, 2003). And also, reliability is the degree to which measures are free from random error and therefore yield consistent results. Thus this research will use Cronbach's Alpha as a measure of internal consistency (Zikmund, 1997). Cronbach's Alpha is a reliability coefficient that indicates how well items in a set are positively correlated to one another by using of the following formula  $\alpha = \frac{rk}{(I + (K-I) r)}$ , where k is the number of variables in the analysis and r is the mean of the inter-item correlation and reliabilities of 0.7 range is considered acceptable and over 0.8 is good (Sekaran, 2003).

**Table 3-2: Cronbach's alpha**

No	Variables	No. of items	Cronbach's alpha
1	Age	15	0.7638
2	Gender	15	0.7617
3	Education	15	0.7515
4	Experiences	15	0.7575
5	Private Banks prize	15	0.7823
6	Few destination	15	0.7936
7	Not devaluation of home currency	15	0.7828
8	Internal conflict	15	0.7816
9	Absence of FCY deposit	15	0.7857
10	Few industrial parks	15	0.7457
11	Participated in AGOA	15	0.7739
12	Charges of MTOs	15	0.7921
13	Increment of private Banks	15	0.7588
14	Agriculture dominated export	15	0.7789
15	Crowded service in CBE	15	0.7853
16	Less intermediaries	15	0.7827
17	Less interested to export in CBE	15	0.7515
18	Less working with development partners	15	0.7324
19	Working with NGOs	15	0.7324
20	Weak employees' knowhow	15	0.7765
21	Appropriate NBE directives	15	0.7324
	<b>Test scale</b>		<b>0.7767</b>

Source: Computed own survey, 2023

### 3.5.2 Validity of the data

Validity always relates to the extent to which the research data as well as the method for finding the data are accurate, honest and on target (Denscombe, 2003). According to Healy and Perry (2000), validity determines whether the research truly measures that which it was intended to measure. The questionnaires are distributed through various advancement stages prior to coming to the targeted population. The relevant information requires careful planning to ensure that the information is clearly related to research objective. The data are collected from primary and reliable source i.e. directly from employees of the bank through face-to-face survey with full confidentiality.

### 3.6 Method of Data Analysis

The researcher has used both descriptive and econometrics Binary-Logit analysis. Both descriptive and econometrics statistics analysis are performed by STATA Computer version 17. The descriptive analysis helps to analyze the socio economic and demographic characteristics of the respondents and the trends of FCY generation by using line graph, percentage, mean, standard deviation and so forth. The statistical significance of continues and categorical explanatory variables are tested by using t-test and chi-square test respectively. In econometrics analysis, the researcher has used binary logistic regression model. The Binary logit model is employed to determine the challenge of FCY generation. Logit regression is a unit or a multivariate technique which allows for estimating the probability that an event occurs or not occurs, by predicting a binary dependent outcome of a set of independent variables. Logistic regression will be used since FCY generation is a dichotomous binary variable which is measured by whether there is a challenge of FCY generation or not (Gujarati, 2004). Furthermore Press & Wilson (2007) mentioned that logistic regression is a straight forward statistical test and has the ability to include nonlinear effects. According to Gujarati (2004), the binary logit model is specified as follows:

The following logistic regression equation was used for this study:

$$\{(P_i = f(Y=1|X_i) = \beta_0 + \beta_1 X_1 + \dots + \beta_n X_n \dots \dots \dots (3.2)\}$$

Where

$P_i$  = the probability of challenges of FCY generation

Y = dependent variable (FCY generation)

When Y = 1 Challenge on FCY generation or

When Y = 0 No challenge in FCY generation

The Logit model can be written as

$$\text{Logit} \left\{ \frac{P_i}{1-P_i} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13} + \beta_{14} X_{14} + \beta_{15} X_{15} + \beta_{16} X_{16} + \beta_{17} X_{17} + \beta_{18} X_{18} + \beta_{19} X_{19} + \beta_{20} X_{20} + \beta_{21} X_{21} + \beta_{22} X_{22} + \varepsilon_i \dots \dots \dots \right\} \quad (3.3)$$

The dependent variable is the natural log of the probability of the present of FCY generation challenging ( $P_i$ ) divided by the probability no challenge in FCY generation (1-P).

Where:

$\beta_0$  = is the Y intercept or constant

$\beta_1 \dots \beta_{22}$  = coefficient of regression which measures how each independent variable influences the dependent variable that is FCY generation.

$X_1$  = Agriculture & raw materials dominated export

$X_2$  = Few destinations of export

$X_3$  = Not making devaluation of home currency (Birr)

$X_4$  = Outbreak of internal conflict in the country

$X_5$  = Exporters (primary goods) export through CBE

$X_6$  = Few industrial Parks export through CBE

$X_7$  = Ethiopia participated in AGOA

$X_8$  = Fair charge Money transfer organizations (MTOs)

$X_9$  = Less illegal intermediaries/black market involve in FCY remittance into the country

$X_{10}$  = Prize scheme of other comparative banks

$X_{11}$  = Overcrowded banking service of CBE

$X_{12}$  = Number of Banks in the banking industry

$X_{13}$  = Not making direct foreign currency deposit

$X_{14}$  = Working with foreign employment agencies (private sector)

$X_{15}$  = Less working with development partners (government organizations)

$X_{16}$  = Working with NGOs

$X_{17}$  = ATMs and POSs deployed in target places

$X_{18}$  = Proper and periodically follow-up of ATMs and POSs which are deployed and operate

$X_{19}$  = Directives and Regulations of National Bank of Ethiopia

$X_{20}$  = Employees know how

$\varepsilon$  = Error Term

### 3.7 Description of Variables

#### 3.7.1 Dependent Variable

**Foreign currency generation challenge (FCY\_challenge):** it is a dummy variable taking a value of 1 if there is “Challenge FCY generation” and 0 “otherwise”.

#### 3.7.2 Demographic/socio-economic variables

**Age of the respondent (Age):** it is a continuous variable measured in a number of years.

**Gender of the respondent (Gender):** it is a dummy variable which takes a value of “1” if the employer is male and “0” otherwise.

**Educational status (Education):** it is a dummy variable which takes a value of 0 if the employee is for “Certificate”, 1 for “Diploma”, 2 for the “Degree” and 3 for “Masters and above”.

**Working experiences (Experience):** it is a continuous variable and measured in number of years.

#### 3.7.3 Independent Variables

##### I. Export related

**Few agriculture & raw materials dominated export (Agriculture\_dominated):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Few destination of export (Few\_distination):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Not making devaluation of home currency (Devaluation):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Outbreak of internal conflict in the country (Internal\_conflict):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Less export through CBE (Less\_intersted):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Few industrial Parks export through CBE (Industrial\_Parks):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Ethiopia participated in AGOA (Exit\_AGOA):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

## **I. Remittance related**

**Fair charge of Money transfer organizations (Fair\_charge\_MTOs):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Less Intermediaries (Illegal\_intermediaries):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Prize Scheme (Private\_Banks\_Prize):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Crowded banking service (Crowded\_service):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Increment of Banks (Increment\_Banks):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Not making direct foreign currency deposit (Not\_FCY\_deposit):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Working with development partners (Development\_partners\_GOV):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Working with development partners (Foreign\_Employment\_Agencies):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Working with NGOs (Working\_NGOs):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

## **II. Others**

**Rules & directives of National Bank of Ethiopia (NBE\_directives):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

**Poor employee know how(Employee’s\_knowhow):** its measurement is based on 5 point likert scale i.e. taking a value of “0” if the employee’s responded Strongly disagree’, “1” for ‘Disagree’, “2” for Neutral, “3” for ‘Agree’ and “4” for Strongly agree.

### **3.8 Ethical Considerations**

In conducting a study ethical issue has a vital role. In the study area the participants are fully informed of the nature and the purpose of the research and are guaranteed of their rights to withdraw from answering any questions they were not comfortable with, without repercussions. The researcher appeal for their co-operation. Therefore, the writer respects the respondent’s

right, dignity, promised to preserve the confidentiality and anonymity. The data is collected based on the willingness and freedom of participants.

## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

In this section descriptive statistics and binary logistic regression model are presented and discussed. The descriptive statistics of the demographic and socioeconomic sample respondent characteristics and the trends of FCY generation are presented with appropriate statistical tools like mean, standard deviation, percentages, and frequency distribution and line graphs. The second section deal with the challenges of FCY generation is analyzed by using binary logistic regression model.

#### 4.1 Response Rate of Respondents

Totally Three Hundred Eighty Six /386/ questionnaires and eight /8/ interviews were targeted and distributed to the targeted respondents/employees. More than 95% of questionnaires and 100% interviews are appropriately filled and asked respectively and were therefore used in the analysis.

**Table 4-1: Distribution of the total respondents**

No	Regions	Sample drawn	Proportion of sample
1	Central	231	59.96%
2	Southeast	111	28.64%
3	Northwest	44	11.40%
<b>Total</b>		<b>386</b>	<b>100%</b>

Source: Computed from own survey, 2023

#### 4.2 Demographic and Socio-Economic Characteristics of the Respondents

The demographic and socio-economic characteristics of the sample employees' include age, gender, education and working experience. Among these characteristic ages and working

experience are continuous<sup>23</sup> variables while the rest gender and education are categorical<sup>24</sup> variables.

Now, we can see the summary statistics of continuous and categorical variables.

**Table 4-2: Descriptive statistics of the sample employees' characteristics (continuous variables)**

Variables	Mean	Std. Dev.	Min.	Max.
<b>Age</b>	32.56	5.62	23	48
<b>Experience</b>	7.88	4.05	2	24

Source: Computed from own survey, 2023

The above Table 4-2 indicates that, the average age and experience are 32.56 and 7.88 years respectively. From this we can say that the Bank has young employees and have medium working experiences. If workers have more experience, it will be expects that they can perform their duties and responsibilities effectively and efficiently.

**Table 4-3: Descriptive statistics of the sample employees' characteristics (categorical variables)**

Variables	Description	Frequency	Percent
<b>Gender</b>	Male	224	59.10
	Female	155	40.90
<b>Education</b>	Diploma	10	2.64
	Degree	300	79.16
	Masters and above	69	18.21

Source: Computed from own survey, 2023

The above Table 4-3 reveals that; 224(59.10%) are males while the rest 155(40.90%) are females. Even if the male employees are higher in number than female employees, the number of female employees is not as such small.

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<sup>23</sup> Continuous variables are variables which are measurable and quantifiable.

<sup>24</sup> Categorical variables are variables which are not measurable and quantifiable rather they are perceptions and sometimes facts. When we made data analysis these variables can be coded. Because of they are dummy variables.

When we see the educational status of the employees; 10(2.64%) are Diploma holders, 300(79.16%) are Degree holders and the rest 69(18.21%) are Masters and above holders. Hence, the majority of the employees are Degree holders.

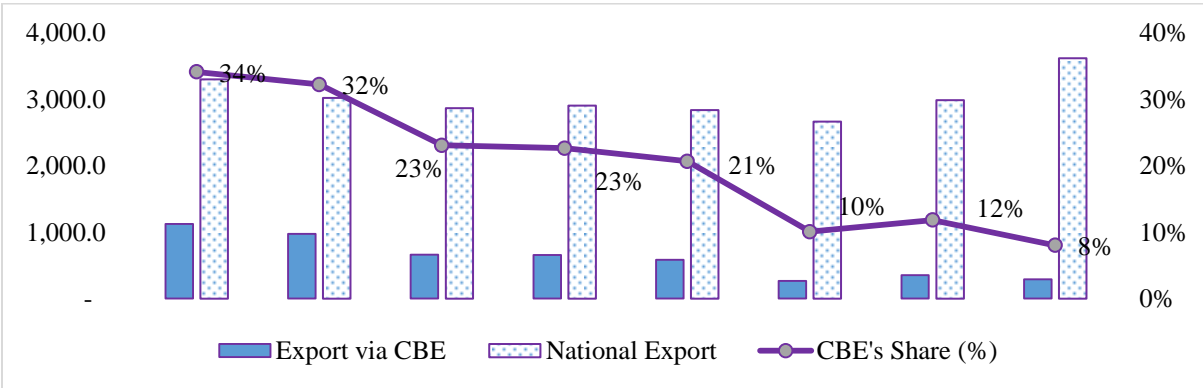
**4.3 The Trends of FCY generation in CBE**

**4.3.1 Export sector**

CBE’s FCY earning mainly emanates from exports of textile & garment and leather products, which are the prime victim of the AGOA sanction. Textile and garment and leather products represented 48.5 percent and 9 percent of CBE FCY earning from export in 2020/21, respectively; The share of the bank in financing manufacturing firms including those operate industrial parks and vulnerable by the decision is significant that will likely to affect its asset quality following downscale and/or closure of affected firms (may case for non-performing loans); and CBE operates in all industrial parks through its branches and dedicated centers as a sole player for long time and now the leading player along with competitive other commercial banks that will place it on the front to confront the translated impacts from affected. Besides the deposit mobilization performance CBE is thereof prone to be affected mainly through branches that operated at IPs at end of 2020/21 total deposit positions of these branches 1.9 billion which represents trivial share from the CBE’s deposit.

CBE’s FCY earning from export continued to slump down during the last couple of years despite a fluctuating trend of export earnings at national level. CBE’s share reached as low as 8% in 2020/21 from 34% in 2013/14.

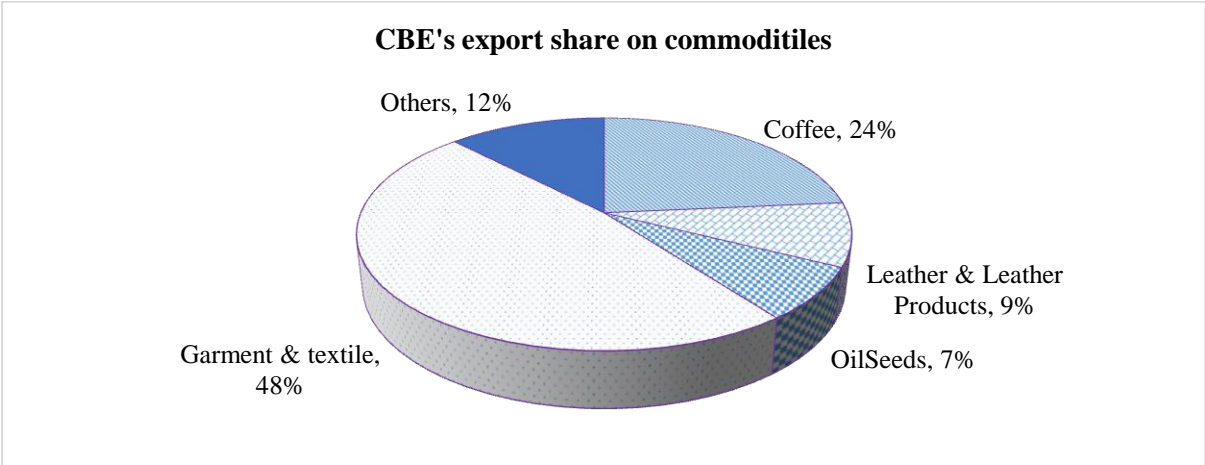
**Figure 4-1: Export Earning (million USD) at National and CBE level and CBE Share (%)**



**Source: CBE annual report, 2014/15 to 2021/22 and author computation**

The reliance of the bank on coffee and oilseeds (mainly sesame) to generate FCY shifted to textile & garment in recent years. In 2020/21, textile and garment accounted for about half of CBE FCY earning from export followed by coffee (24%) and Leather products (9%). Unfortunately, the adverse impact of suspension of Ethiopia from AGOA tariff and quota free access is likely to be sound on above export items, except coffee.

**Figure 4-2: CBE Export Earning (Million USD) and share of export items (%)**



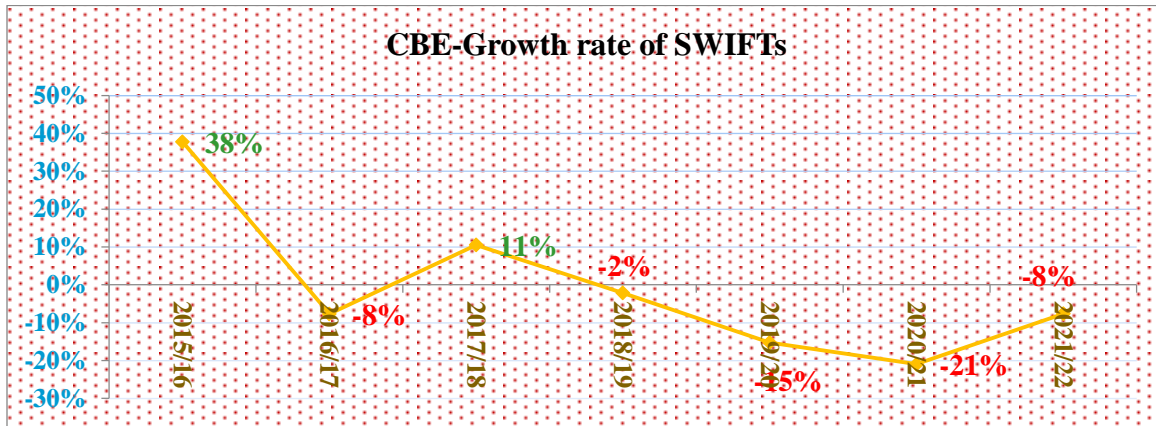
**Source: CBE annual report, 2021 and author computation**

CBE, following the USA 89 percent had great earnings, about 6.08 percent of the FCY proceed was generated from Europe, followed by Asia (except China) (2.1 percent) and Canada (1.5 percent) during 2017-2021. The bank’s total earnings and earnings from export to the US market rose continuously, except for the year 2020/21.

**4.3.2 Remittance**

The SWFIT (the Society for Worldwide Inter Bank Financial Telecommunication) transfers have had contributed beyond a lion’s share of foreign currency earnings for consecutive years, but its contribution in absolute figure (US dollars) time to time declined. As the below figure 4-3 indicated that except 2015/16 and 2017/18 its growth rate gradually dropped.

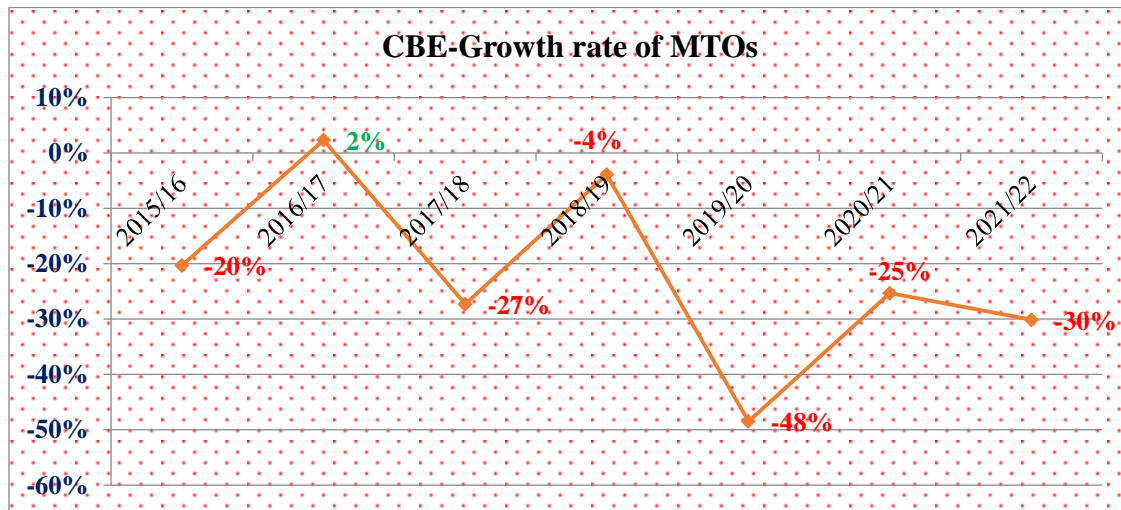
**Figure 4-3: CBE growth rate of SWIFTs**



Source: CBE annual report, 2014/15 to 2021/22 and author computation

One of the ways of CBE collecting FCY is sending money from abroad to home through Money Transfer Organizations (MTOs). Currently CBE actively work with more than sixteen MTOs of them five are the chief contributor on earnings namely Western Union, Transfast, Bole Atlantic, Money Gram, and Dhabshill are respectively. With respect to foreign currency earnings from MTOs, the trend also shown that declined. Statistically the bank's foreign currency generation per annum negatively affected, according to last year 2021/22 annual performance report of CBE, MTOs share from total remittance earning down to 8 percent from the previous years' outstanding share of position (one third share of remittances). The following figure 4-4 exhibits how MTOs performance tumor rate and on average yearly about 22 percent shrinkage.

**Figure 4-4: CBE growth rate of MTOs**



Source: CBE annual report, 2014/15 to 2021/22 and author computation

## 4.4 Econometrics Analysis

### 4.4.1 The challenges of foreign currency (FCY) generation in CBE

In the construction of an econometric model, it may happen that two or more variables giving rise to the same piece of information are included, that is, we may have redundant information or unnecessarily included related variables. This is what we call a multi-collinearity (MC) problem. So that before embarking to econometric estimation the existence of MC among explanatory variables were assessed using different methods. Variance inflation factor (VIF) was used to test the presence of strong MC problem among all the explanatory variables hypothesized. As a rule of thumb: If the Variance Inflation Factor (VIF) exceeds 10, then the model is poorly estimated because of MC problem. But if the VIF is less than 10, then there is no MC problem and the model will be ready for estimation (Gujarati, 2004).

Based on the result of VIF, the data has no MC problem (see table 4-4). Because of the VIF are less than 10.

**Table 4-4: Variance Inflation Factor**

<b>Variables</b>	<b>VIF</b>
Less work with development partners	9.58
NBEs directives	8.37
Working with NGOs	3.41
Not devaluation of home currency	2.59
Absence of FCY deposit	2.51
Few agriculture dominated export	2.49
Weal employees' knowhow	2.49
Crowded service in CBE	2.28
Less illegal intermediaries	2.26
Few export destination	2.06
Less interested to export in CBE	1.97
Less industrial parks	1.76
Faire charges of MTOs	1.68
Exit AGOA	1.62
Increment of private Banks	1.58
Internal conflict	1.41
Private Banks prize	1.23
<b>Mean VIF</b>	<b>2.90</b>

Source: Computed from own survey, 2023

The researcher has used binary logistic regression model to estimate the challenges of FCY generation. The dependent variable is the challenges of FCY generation. The explanatory variables are Agriculture dominated export, Few export destination, Not devaluation of home currency, Internal conflict, Absence of FCY deposit, Industrial parks, Exit AGOA, Higher charges of MTOs, Increment of private Banks, Private Banks prize, Crowded service in CBE, Illegal intermediaries, Less interested to export in CBE, Development partners-GOV, Development partner private-Foreign Employee agencies and Working with NGOs.

The result of the binary logistic regression model is explained as follows.

**Table 4-5: The results of binary logistic regression model**

Logistic regression		Number of obs.	379
Log likelihood = -69.290561		LR chi <sup>2</sup> (17)	386.82
		Prob>chi <sup>2</sup>	0.0000
		Pseudo	0.7362
Challenges of FCY generation	Coef.	Std. Err.	Z
Private Banks prize	-.0448511	.1961138	-0.23
Few export destination	.5880084	.3022984	1.95
Not devaluation of home currency	-.848323	.5841863	-1.45
Internal conflict	.6897704***	.2396702	2.88
The absence of FCY deposit	2.458699***	.6373827	3.86
Few industrial parks	.5237921**	.2671938	1.96
Participated in AGOA	-.7270767**	.3196172	-2.27
Faire charges of MTOs	-.609003**	.2987141	-2.04
Increment of private Banks	.4341996	.307614	1.41
Few agriculture dominated export	-3.808953***	.6587889	-5.78
Crowded service in CBE	.1492644	.3585047	0.42
Less intermediaries	-.8640662**	.3739257	-2.31
Less interested to export in CBE	.0594202	.3132447	0.19
Less working with development partners	3.725762***	.9812313	3.80
Working with NGOs	-.2310668	.3183619	-0.73
Weak employees' knowhow	1.995888***	.5285054	3.78
Appropriate NBEs directives	-2.374658***	.7894995	-3.01
_cons	-.8596058	1.012487	-0.85

Source: Computed from own survey, 2023

**Note:** \*\*\*, \*\* indicate statistically significant at 1% and 5% probability of significance level respectively.

In the output above, we first see the iteration log, indicating how quickly the model converged. At the top of the output we see that all 379 observations in our data set were used in the analysis. The likelihood ratio chi-square of 386.82 with a p-value of 0.0000 tells us that our model as a whole fits significantly better than an empty model (i.e., a model with no predictors). The Pseudo  $R^2$  indicates how well the covariates explain the participation probability. The Pseudo  $R^2$  is found about 0.7362. This Pseudo  $R^2$  indicates that 73.62% of the model is explained by the explanatory variables.

The above table 4-7 shows that Internal conflict, Absence of FCY deposit, Few Industrial parks, Participated in AGOA, Fair charges of MTOs, Few agriculture dominated export, Less illegal intermediaries, Less working with development partners, weak employees' knowhow and NBEs directives are the significant determinants of the challenges of FCY generation while the other explanatory variables like Increment of private Banks, Crowded service in CBE, Less interested to export in CBE, Private Banks prize, Few export destination, Not devaluation of home currency and Working with NGOs are not the significant determinants of foreign currency generation in CBE. (See the P value in Appendix STATA output on logit model).

The discussion of the significant explanatory variables is expressed as follows.

The binary logistic regression equation can be written as:

$$\{P_i = f(Y=1|X_i) = \beta_0 + \beta_1 X_1 + \dots + \beta_n X_n \dots \dots \dots (1)\}$$

Where

$P_i$  = the probability of FCY generation challenge

Y = dependent variable (Challenges of FCY generation)

When Y = 1 there is a challenge of FCY generation or

When Y = 0 there is no a challenge of FCY generation

The estimated binary logit model can be written as:

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} \dots \dots \dots (4.1)$$

The dependent variable is the natural log of the probability of sustainable ( $P_i$ ) divided by the probability of unsustainable (1-P).

Where:

$$Z = \text{Logit} (P_i / (1 - P_i))$$

$\beta_0$  = is the Y intercept or constant

$\beta_1 \dots \beta_{22}$  = coefficient of regression which measures how each independent variable influences the dependent variable

$x_1$  = Internal conflict

$x_2$  = Absence of FCY deposit

$x_3$  = Few industrial parks

$x_4$  = Participated in AGOA

$x_5$  = Fair charges of MTOs

$x_6$  = Few agriculture dominated export

$x_7$  = Less intermediaries

$x_8$  = Less working with development partners

$x_9$  = Weak employees' knowhow

$x_{10}$  = NBEs directives

$$= -0.86 + 0.69x_1 + 2.46x_2 + 5.24x_3 - 7.3x_4 - 6.1x_5 - 3.81x_6 - 8.6x_7 + 3.73x_8 + 2x_9 - 2.37x_{10}$$

Now let us the discussion of each significant explanatory variables

### **I. Internal conflict**

$H_0$ ): Internal conflict has no significant effect on the challenges of FCY generation

The internal conflict is one of the challenges of FCY generation in the CBE as well as country. Since the P-value is less than 1%, we have to reject the null hypothesis ( $H_0$ ). So that internal conflict has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ) and makes low generation of FCY. The odds ratio is calculated as  $\exp(\text{internal conflict}) = \exp(.6897704) = 1.99$ . This indicates that a one unit increases in internal conflict will leads to 1.99 times more likelihood of the challenges of FCY generation, keeping all other covariates fixed. Therefore, if there is internal conflict, it will be challenged to generate the FCY in CBE.

According to Ministry of trade and Industry (MOTI), oilseeds (sesame, soybean, and Niger seed) contribute to nearly 20 percent of Ethiopian's agricultural export earnings, second only to coffee in 2018/19 before outbreak of conflict in the country. 44 percent of national productions of

oilseeds come from Amhara, followed by Tigray (31 percent), and Oromia (13 percent); after that Benishangul-Gumuz, SNNP, and Gambela account respectively for 9, 2, and 1 percent of total production. In this production process about 3 million farmers are involved in cultivation. Total oilseeds production is 500,000-600,000 tons. Total oilseeds area is estimated at 800,000 hector virgin lowland areas in the North West and South East regions of the country. Thus due to outbreak of internal conflict and social instability on cultivation sites and became battlefield heavily affected agrarians who supplied for exporters, investors who are engaged in both production and exporting, taken together the country's foreign currency earning harmfully affected. Due to this battle in the north, this accounted for much of Ethiopian's sesame production, with an estimated 500,000 hectares of sesame fields out of cultivation during 2021 growing season. Conflict has worsened a steady decline in formal revenues from sesame exports, dropping over 115 million US dollars from 2016 to 2021.

An estimated 15-20 million Ethiopians depend on the coffee sector for their livelihoods, and the country remains the largest producer and exporter of coffee in Africa. The majority of coffee production is from the largely forested main coffee zone of the South West, followed by the Sidama (including Yirgachefe) coffee area in the South East coffee region. Due to the majority of the conflict is in the north of the country, and luckily most of the coffee-growing areas are in the southwest thus the civil war has had little effect on both production and exports – mainly for geographical reasons, but the coffee supply-chain slow down due to frequent roadblocks, and financial transaction restrictions. Besides all other agricultural commodities are produced at country side; these part of country having social unrest and exposed frequently for drought which directly affecting the country's production growth rate and foreign currency earnings in particular; additional FDIs attraction and retain the existing are directly relate with political stable atmosphere. In this case CBE has suffered due to most of foreign investors work on IPs lose export to US market because of AGOA sanction and except some IPs there operation are seem to freeze.

## **II. The absence of FCY deposit**

$H_0$ : The absence of FCY deposit has no significant effect on the challenges of FCY generation

The absence of FCY deposit is the other challenges of FCY generation. Since the P-value is less than 1%, we have to reject the null hypothesis ( $H_0$ ). The absence of FCY deposit has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{The absence of FCY deposit}) = \exp(2.458699) = 11.69$ . This indicates that a one unit increases in the absence of FCY deposit will lead to 11.69 times more likelihood of the challenges of FCY generation, keeping all other covariates fixed. Therefore, in the absence of FCY generation, it will be challenged to generate the FCY.

Even though NBE allows to deposit accounts in three currencies namely US dollars, EURO, and UK pounds; the depositors are not allowed to withdrawal the same currency at any point of time; they are discouraged to direct deposit FCY instead they prefer to store at home and/or forced to exchange at parallel markets.

## **III. Few industrial parks**

$H_0$ : Few industrial parks has no significant effect on the challenges of FCY generation

Few industrial parks has a positive significant effect on the of challenges of FCY generation at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{industrial parks}) = \exp(.5237921) = 1.69$ . This indicates that a one unit increases in few industrial parks will lead to a 1.69 times more likelihood of the of challenges of FCY generation, keeping all other covariates fixed.

It is obvious that CBE has strongly hammered by the sanction of AGOA preference of the country by US government; as a result some of Industrial Parks have forced to displace their employees and even shutdown their business and leave the country. In addition due to CBE works with few industrial parks which are mainly exported to US market; it has not able to collect much more FCY generation in recent two years as many of its export shifted from agricultural commodities to industrial outputs.

#### **IV. Participated in AGOA**

$H_0$ : Participated in AGOA has no significant effect on the challenges of FCY generation

If a country has the opportunity or reinstates to use AGOA, then a country will generate more FCY and directly the CBE will be benefited. Participated in AGOA has a negative significant effect on the generation of challenges of FCY at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{Exit AGOA}) = \exp(-.7270767) = 0.48$ . The interpretation is that the odds of AGOA members are 52% ( $= 1 - 0.48$ ) lower challenges of FCY generation than Non-AGOAs members, keeping all other covariates fixed.

The adverse impact on foreign currency earnings from export of firms operating in industry parks might be noticeable. In 2017/18, 2018/19 and 2019/20, about USD 44.8 million, 141 million and 165 million generated from IPs' export, respectively. Since the IPs specialized in textile, garment and leather products, the relinquished AGOA access could reduce export earnings unless mitigated by measures such as looking alternative destinations and additional incentives.

Ethiopia's tariff-free access to the U.S. market was one of the offer of the government to attract foreign investors mainly into export oriented manufacturing sector. Hence, the government has built about 20 Industrial Parks (IPs) across the country in collaboration with private investors to attract investors mainly in manufacturing. These Industrial Parks are located along key development areas and each specialized in specific sectors. NBE, 2021.

The US decision to exclude Ethiopia from AGOA privilege will likely to have the following impact on investments: discouraging new and existing investments mainly in area of textile & garment and leather sub-industries unless mitigated by attractive measures; firms that primary target the USA market as end destination will likely to either scale down or shut down their operation; It would be difficult to fit all developed IPs with potential and well branded manufacturing firms that may cessation development of additional IPs. Even cause of cession to establish more IPs affordable and feasible sites of country.

The industrial policy of Ethiopia prioritised export-based and labour intensive manufacturing sectors such as textile & garment, leather products and agro processing that hires significant

number of citizens resulting fired a number of temporary and permanent employees and overall affects ecosystems (entities).

## **V. Fair charges of MTOs**

$H_0$ : Fair charges of MTOs has no significant effect on the challenges of FCY generation

It has a negative significant effect on the challenges of generation of FCY at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{Fair charges of MTOs}) = \exp(-.609003) = 0.54$ . The interpretation is that the odds of reasonable charges of MTOs are 46% ( $= 1 - 0.54$ ) lower challenges of FCY generation than those which charges high amount, keeping all other covariates fixed.

It has stood that the CBE's earnings for the last eight years under study declined on average 22 percent. This are mainly associated with higher charge of MTO- organization and flourishing of black markets; and absence of digitalization to directly deposit from abroad to the local beneficiary accounts.

## **VI. Few agricultural dominated export**

$H_0$ : Few agricultural dominated exports has no significant effect on the challenges of FCY generation

Few agriculture dominated export has a negative significant effect on the challenges of generation of FCY at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{Few agriculture dominated export}) = \exp(-.3.808953) = 0.02$ . The interpretation is that the odds of few agricultural dominated export are 98% ( $= 1 - 0.02$ ) lower challenges FCY generation than other sectors, keeping all other covariates fixed.

The stability and volatility of major export of traditional commodities, as per below table for 2014/15 to 2021/22 (eight years) based on secondary data source of annual reports of NBE, except Textile and Textile products only the recent last three years (2019/20-2021/22) data. Thus the researcher tries to show both exports international price volatility trend of Ethiopia's exported primary goods as well as the commodities affect the CBE's foreign currency earnings.

**Table 4-6: Unit Value of Major Export Items**

Particulars	2013/14 [Base Year]	2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		Average 8 Years	
		Unit price/kg	%age change	Unit price/kg	%age change	Unit price/kg	%age change	Unit price/kg	%age change	Unit price/kg	%age change	Unit price/kg	%age change	Unit price/kg	%age change	Unit price/kg	%age change	Unit price/kg	%age change
Coffee	3.8	4.2	9.5%	3.6	-16.7%	3.9	7.7%	3.5	-11%	3.31	-6%	3.16	-5%	3.66	14%	4.72	22.5%	3.76	1.8%
Oilseeds	2.1	1.6	31.3 %	1.1	-45.5%	1.1	0.0%	1.2	8%	1.49	19%	1.47	-1%	1.37	-7%	1.54	11.0%	1.36	-5.8%
Leather and Leather products	23.3	21.3	-9.4%	19.3	-10.4%	19.4	0.5%	20.7	6%	20.99	1%	20.28	-4%	15.92	-27%	14.81	-7.5%	19.09	-6.2%
Pulses	0.71	0.65	-9.2%	0.62	-4.8%	0.7	11.4 %	0.6	-17%	0.59	-2%	0.66	11%	0.83	20%	1.02	18.6%	0.71	3.6%
Meat & Meat Products	5	4.9	-2.0%	5.1	3.9%	5	-2.0%	5.1	2%	5	-2%	5.26	5%	5.15	-2%	5.77	10.7%	5.16	1.7%
Fruits & Vegetables	0.3	0.3	0.0%	0.3	0.0%	0.3	0.0%	0.3	0%	0.35	14%	0.31	-13%	0.31	0%	0.39	20.5%	0.32	2.7%
Textile and Textile prod.										7.69	100%	7.41	-4%	6.12	-21%	4.98	-22.9%	6.55	6.5%
Live Animals	1.8	1.9	5.3%	1.9	0.0%	1.9	0.0%	1.9	0%	1.88	-1%	1.84	-2%	1.71	-8%	1.69	-1.2%	1.84	-0.8%
Chat	5.8	5.5	-5.5%	5.6	1.8%	5.6	0.0%	5.6	0%	5.67	1%	5.68	0%	5.65	-1%	6.95	18.7%	5.78	2.0%
Gold (USD/grams)	36.9	35.3	-4.5%	33.9	-4.1%	35	3.1%	35.5	1%	34.12	-4%	59.12	42%	70.28	16%	62.95	11.6%	45.77	4.8%
Flower	4.5	4.4	-2.3%	4.5	2.2%	4.4	-2.3%	4.6	4%	4.44	-4%	4.47	1%	4.63	3%	4.47	-3.6%	4.49	-0.1%

Source: NBE 2014/15 to 2021/22 and author computation

The growth rates of export prices of the country (see above table 4-6) as well as volume of export from the individual major export commodities (see below table 4-7) show that the growth rates have suffered for fluctuations, indicated by the positive and negative signs of these rates at respective tables. Negative growth rates indicate decline in unit prices and as compared to its previous year, while the positive ones showing increase in unit prices, nevertheless these upturns are not uniform. This means that there is a fluctuation even in the growth rates of the foreign exchange earnings on export sectors of commodities.

**Table 4-7: Volume of Major Exports**

Particulars	2013/14 [Base Year]	2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		Average 8 Years	
		Volume of Export	%age change	Volume of Export	%age change	Volume of Export	%age change	Volume of Export	%age change	Volume of Export	%age change	Volume of Export	%age change	Volume of Export	%age change	Volume of Export	%age change	Volume of Export	%age change
Coffee	199.1	183.9	-8.3%	198.7	7.4%	225.7	12.0%	238.6	5%	230.93	-3%	271.11	15%	248.65	-9%	303.24	18.0%	237.60	4.6%
Oilseeds	283.9	319.5	11.1%	436.6	26.8%	333.5	-30.9%	348.5	4%	260	-34%	236.5	-10%	245.48	4%	172.14	42.6%	294.03	-8.9%
Leather and Leather products	4.61	6.17	25.3%	6	-2.8%	5.9	-1.7%	6.4	8%	5.59	-14%	3.55	-57%	2.29	-55%	2.24	-2.2%	4.77	12.6%
Pulses	357.5	340.7	-4.9%	375.4	9.2%	392.7	4.4%	438.1	10%	462.82	5%	354.01	-31%	280.6	-26%	213.87	31.2%	357.28	-8.0%
Meat & Meat Products	15.5	19	18.4%	19	0.0%	19.6	3.1%	20	2%	17.72	-13%	12.82	-38%	14.63	12%	19.01	23.0%	17.72	1.0%
Fruits & Vegetables	135.2	150.1	9.9%	167.1	10.2%	178.6	6.4%	189	6%	175.62	-8%	191.18	8%	221.7	14%	222.65	0.4%	186.99	5.8%
Textile and Textile prod.										19.89	100%	22.8	13%	24.05	5%	35.23	31.7%	25.49	18.7%
Live Animals	100.9	77.9	-29.5%	77.8	-0.1%	36.1	-115.5%	31.9	-13%	24.57	-30%	29.4	16%	26.26	-12%	17.27	-52.1%	40.15	29.5%
Chat	47.2	49.2	4.1%	47	-4.7%	48.8	3.7%	47	-4%	53.57	12%	57.14	6%	71.21	20%	56.33	26.4%	53.78	1.4%
Gold (in mill of grams)	12.31	9.04	-36.2%	8.6	-5.1%	6	-43.3%	2.8	-114%	0.82	-241%	3.32	75%	9.56	65%	8.68	10.1%	6.10	38.7%
Flower	42.4	46.3	8.4%	50.6	8.5%	49.4	-2.4%	50.1	1%	57.85	13%	94.39	39%	101.58	7%	114.25	11.1%	70.56	10.8%

Source: NBE 2014/15 to 2021/22 and author computation

To identify weather volume of export (limited scale) having effect on foreign currency earnings of the country as well as the CBE in particular due to commodities which are exported by the bank all bring from the counties resources. The period under study those agricultural output namely Coffee, Fruit and Vegetables, and Textile and Textile products are increase their export volume. In contrast, Oilseeds, Pulses Live animals, Gold respectively huge decrement of (fluctuation) are observed during the periods of 2014/15 to 2021/22. CBE is one of commercial bank which facilitates exporting country's export items, it directly affected while the volume and price fluctuation due to there are firm competition or scrambling among other commercial banks ever with these slight agricultural export items.

CBE's annual reports only shown amount of FCY generation export of goods due to lack of disaggregated data for exports volume author not able to measure CBE's share of exports of major item. However the above country's recent year export volume trend shown that increased time after time and export earnings are simultaneously increased, but CBE's volume of share

decrease successively and share of proceeds decreased too. In relation with unit price agricultural goods are usually determined by demand side and volume of quantity available in the market. As example coffee, its fluctuation has significant impact due to its share in total export earnings, it affects wide variability in unit price and or aggregate earnings owing mostly to instability in the world market price where Ethiopia has no control over as well as the South American countries coffee supplies heavily affecting the value of coffee in international market of coffee Arabica.

### **I. Less intermediaries**

$H_0$ : Intermediaries has no significant effect on the challenges of FCY generation

Less intermediaries has a negative significant effect on the challenges of generation of FCY at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{Less intermediaries}) = \exp(-.8640662) = 0.42$ . The interpretation is that the odds of less intermediaries are 58% ( $= 1 - 0.42$ ) lower challenges of FCY generation than those which have many intermediaries, keeping all other covariates fixed.

Not only CBE but also the commercial banks that work on the rule and regulation of NBE are all suffered with existence and increasing the foreign exchange black market both within the bank industry and outside. Inside the bank some malpractice employee of the banks involving the exporters' proceeds to sell some other importer and even worst pointing to exchange hard currency in the parallel markets. The outsiders, official out of the bank premise individuals and institutions who are illegally formed engaged in exchange hard currency and illegal hawalla. This finding has supported by so many evidences including ENACT and eye witness.

### **II. Less working with development partners (GOV)**

$H_0$ : Less working with development partners has no significant effect on the challenges of FCY generation

Less working with development partners has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{less working with development partners}) = \exp(3.725762) = 41.50$ . This indicates that a one unit increases less working with development partners will leads to a 41.50 times more likelihood of the challenges of generation of FCY, keeping all other covariates fixed.

While CBE relation in this concern is fragile and unorganized and only branches nearby to EIC relation to FDI earnings. Besides, Ministry of women and Social Affairs, and Ministry of Labour and Skills (MoLS) institutions branches work only to fulfil customer base expansion plan but not properly addressed how foreign currency generate from employees who are go to abroad for work purpose, mostly Gulf countries.

### **III. Weak Employees' knowhow**

$H_0$ : Weak employees' knowhow has no significant effect on the challenges of FCY generation

Weak employees' knowhow has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{Weak employees' knowhow}) = \exp(1.995888) = 7.36$ . This indicates that a one unit increases employees' knowhow and skill will leads to a 7.36 times more likelihood of the challenges of FCY generation, keeping all other covariates fixed.

While in different degrees there are gaps of skills to providing customer service in generating of foreign exchange of which as per incoming export division officer said that bank-wide the awareness on the essentials of FCY earning and its importunateness as not give equal focus as local deposit mobilization, during branches mystery shopping a lot of gaps are found among them; it is confirmed that performers don't have awareness about the cascaded branch's FCY plan, insufficient or no dedicated branded window/s, have no adequate user access of MTOs to serve customers, missing of access for the major MTOs; users' access management practice of the branch including the functionality of the user accesses, long waiting MTOs user customers are handling, availability of the service during shifting and skeleton hours (not fully work in working hour of the bank), has no FCY customers' database with their address and telephone number and weak customer relationship, lack of knowhow that alternative FCY earnings methods such as ATMs and POSs, international mobile banking to cash pickup, direct deposit to customer account. Furthermore bank's training department has no adequately and constructively providing on international banking are major gaps.

#### **IV. Appropriate NBEs directives**

$H_0$ : Appropriate NBE directives has no significant effect on the challenges of FCY generation

Appropriate NBEs directives has a negative significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(-2.374658) = \exp(-.8640662) = 0.42$ . The interpretation is that the odds appropriate NBEs directives are 58% ( $= 1 - 0.42$ ) lower challenges of FCY generation than the others which have no appropriate directives of the Central Banks, keeping all other covariates fixed.

Directives of foreign currency earning surrender to NBE are resulting decline the number of exporters share seriously affected CBE's share of export earnings. In the former share of percentage of exporters were well but NBE's directives only permitted to business related goods and service accordingly only few exporters have gone from CBE; again recent directive declare that exporters amount of FCY that can bring to be used by them become only 20 percent. As a result, only very few exporters are work with CBE those who export agricultural commodities. NBE only issued directives but lack of implementing and controlling other illicit commercial banks and exporters. For instance, 20 percent share of FCY amount directly credit for exporters' account along with 10 percent bank's own share. Again illegal currency trading are found at private commercial banks; that is if the exporter not involved in importing, those malpractice commercial banks allow to sell the foreign currency to some other importer or others who seek FCY; even though the country has no official money, capital and stock markets. There are also malpractices that are exchanging FCY in to home currency above the daily buying rate set by NBE to other entities such as hard currency purchase from hotels, other brokers, and even foreign remit fund receivers like NGOs.

In other aspect some few exporters are not interested to export abroad because of their profit margin is less than in domestic market like coffee. Hence, they closely work with ECX to reject or disqualify the commodity for foreign market while under evaluating.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 SUMMARY

When we see the demographic/socioeconomic characteristics of respondents, the average age and experience are 32.56 and 7.88 years respectively. From this we can say that the Bank has young employees and have medium working experiences. 224(59.10%) are males while the rest 155(40.90%) are females. Even if the male employees are higher in number than female employees, the number of female employees is not as such small. 10(2.64%) respondents are Diploma holders, 300(79.16%) are Degree holders and the rest 69(18.21%) are Masters and above holders.

**In the trends of FCY generation in CBE;** CBE's FCY earning mainly emanates from exports of textile & garment and leather products, which are the prime victim of the decision of AGOA suspension of the country. Textile and garment and leather products represented 48.5 percent and 9 percent of CBE FCY earning from export in 2020/21, respectively. The SWFIT (the Society for Worldwide Inter Bank Financial Telecommunication) transfers have had contributed beyond a lion's share of foreign currency earnings for consecutive years, but its contribution in absolute figure (US dollars) time to time declined.

**When we see the challenges of FCY generation;** it is analyzed by using econometrics model. Before going to econometric estimation the existence of MC among explanatory variables were assessed using different methods. Variance inflation factor (VIF) was used to test the presence of strong MC problem among all the explanatory variables hypothesized. As a rule of thumb: if the VIF is less than 10, then there is no MC problem and the model will be ready for estimation (Gujarati, 2004). Based on the result of VIF, the data has no MC problem.

The researcher has used binary logistic regression model to estimate the challenges of FCY generation. The dependent variable is the challenges of FCY generation in CBE. The explanatory variables are Private Banks prize, Few export destination, Not devaluation of home currency, Internal conflict, Absence of FCY deposit, Few industrial parks, Participated in AGOA, Faire charges of MTOs, Increment of private Banks, Few agriculture dominated export, Crowded

service in CBE, Intermediaries, Less interested to export in CBE, Less working with development partners and Working with NGOs.

The Pseudo  $R^2$  indicates how well the covariates explain the participation probability. The Pseudo  $R^2$  is found about 0.7362. This Pseudo  $R^2$  indicates that 73.62% of the model is explained by the explanatory variables.

Internal conflict, Absence of FCY deposit, Worked with few industrial parks, Participated in AGOA, Reasonable charges of MTOs, Few agriculture dominated export, Illegal Intermediaries, Less working with development partners, Poor employees' knowhow and Appropriate NBEs directives are the significant determinants of the challenges of FCY generation while the other explanatory variables like Increment of private Banks, Crowded service in CBE Less interested to export in CBE, Private Banks prize, Few export destination, Not devaluation of home currency and Working with NGOs are not the significant determinants of foreign currency earnings in CBE.

Internal conflict has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ) and makes low generation of FCY. The odds ratio is calculated as  $\exp(\text{internal conflict}) = \exp(.6897704) = 1.99$  which indicates a one unit increases in internal conflict will leads to 1.99 times more likelihood of the challenges of FCY generation, keeping all other covariates fixed. Therefore, if there is internal conflict, it will be challenged to generate the FCY.

The absence of FCY deposit has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{The absence of FCY deposit}) = \exp(2.458699) = 11.69$ . This indicates that a one unit increases in the absence of FCY deposit will leads to 11.69 times more likelihood of the challenges of FCY generation, keeping all other covariates fixed. Therefore, in the absence of FCY generation, it will be challenged to generate the FCY.

Few industrial parks has a positive significant effect on the of challenges of FCY generation at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{industrial parks}) = \exp(.5237921) = 1.69$ . This indicates that a one unit increases in few industrial parks will leads to a 1.69 times more likelihood of the of challenges of FCY generation, keeping all other covariates fixed.

Participated in AGOA has a negative significant effect on the generation of challenges of FCY at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{Exit AGOA}) = \exp(-.7270767) = 0.48$ . The interpretation is that the odds of AGOA members are 52% ( $= 1 - 0.48$ ) lower challenges of FCY generation than Non-AGOA members, keeping all other covariates fixed.

Fair charges of MTOs has a negative significant effect on the challenges of generation of FCY at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{Faire charges of MTOs}) = \exp(-.609003) = 0.54$ . The interpretation is that the odds of faire charges of MTO are 46% ( $= 1 - 0.54$ ) lower challenges of FCY generation than those which charges high amount, keeping all other covariates fixed.

Few agriculture dominated export has a negative significant effect on the challenges of generation of FCY at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{Few agriculture dominated export}) = \exp(-.3.808953) = 0.02$ . The interpretation is that the odds of few agricultural dominated export are 98% ( $= 1 - 0.02$ ) lower challenges FCY generation than other sectors, keeping all other covariates fixed.

Less intermediaries has a negative significant effect on the challenges of generation of FCY at 5% level of significance ( $P < 0.05$ ). The odds ratio is calculated as  $\exp(\text{Intermediaries}) = \exp(-.8640662) = 0.42$ . The interpretation is that the odds of intermediaries are 58% ( $= 1 - 0.42$ ) lower challenges of FCY generation than those which have more intermediaries, keeping all other covariates fixed.

Less working with development partners has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{less working with development partners}) = \exp(3.725762) = 41.50$ . This indicates that a one unit increases less working with development partners will leads to a 41.50 times more likelihood of the challenges of generation of FCY, keeping all other covariates fixed.

Weak employees' knowhow has a positive significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(\text{Weak employees' knowhow}) = \exp(1.995888) = 7.36$ . This indicates that a one unit increases employees'

knowhow and skill will leads to a 7.36 times more likelihood of the challenges of FCY generation, keeping all other covariates fixed.

NBE's directives has a negative significant effect on the challenges of FCY generation at 1% level of significance ( $P < 0.01$ ). The odds ratio is calculated as  $\exp(-2.374658) = \exp(-.8640662) = 0.42$ . The interpretation is that the odds appropriate NBEs directives are 58% ( $= 1 - 0.42$ ) lower challenges of FCY generation than the others which have no appropriate directives of the Central Banks, keeping all other covariates fixed.

## **5.2 CONCLUSION**

This study was interested to examine the challenges of foreign currency generation in CBE. It is also intended to evaluate the trends of the FCY generation. Data were collected from 379 sample employees each used for the analysis of the research by employing both descriptive and econometric analysis.

The demographic and socio-economic characteristics of the sample employees' are age, gender; education and working experience are analyzed by descriptive analysis.

The researcher has used binary logistic regression model to estimate the challenges of FCY generation. The dependent variables are the challenges of FCY generation. The explanatory variables are private banks prize, few export destination, not devaluation of home currency, internal conflict, absence of FCY deposit, few industrial parks, participated in AGOA, fair charges of MTOs, increment of private banks, agriculture dominated export, crowded service in CBE, intermediaries, less interested to export in CBE, less working with development partners and working with NGOs.

Internal conflict and political instability, absence of FCY deposit, few industrial parks works with CBE, banned in the participated in AGOA, fair charges of MTOs, few agriculture dominated export, high illegal intermediaries in the market (black market), less working with development partners, weak employees' knowhow and appropriate NBES directives are the significant determinants of the challenges of FCY generation while the other explanatory variables like increment of private banks, crowded service in CBE less interested to export in

CBE, private banks prize, few export destination, not devaluation of home currency and working with NGOs are not the significant determinants of the challenge of FCY generation.

### **5.3 RECOMMENDATION**

Based on the overall result and conclusion of the study, the following policy recommendations are forwarded.

Since the internal conflict has a significant effect on the challenges FCY generation, disputes between Ethiopian government and some rebel groups are still active, once close or settle another problem outbreak. Social unrest, ethical and religious conflicts are going on. These political instability and internal conflicts threats and weaken the hard-won economic growth has recorded in recent years. Thus the government plays vital role in reducing internal tension and settles conflicts and disputes by talking and reaching common consciousness among different claiming parties. This would directly enable to expand the export sector and other sources of FCY earning.

The bank's top management should visit firms that work in IPs that traditionally targeted the US market for export and other stakeholders (such is IPDC, EIC etc.) support the firms to mitigate the damage. In addition, CBE needs to consider waving or reducing service charges, mainly LC commission & service charge to import input, to such firms (mainly firms operating at FOB payment term instead of CMT) that are affected by the decision of the US government to partly compensate their market loss.

As a corporate social responsibility, the bank needs to collaborate with stakeholders to enhance socio economic status of IPs employees that may get sacked following firms' operation downscale or cease. Furthermore the government shall search alternative marketing destination so as to diverse and increase sales regions.

The NBE should consider establishing deposit FCY account so as to legalize illegal money trafficking outside of the bank by setting different incentives; this would increase FCY generation of commercial banks.

The bank should strengthen alternative channels direct to remit beneficiary's account and easily pick up the cash. One of the ways is that developing international mobile banking (digitalize)

now currently the bank's applied without fee directly deposited from abroad where Ethiopian communities densely found in. This is not only earning FCY but also control illegal undergraduate forex marketers in collaborating with the concerned government law enforcing departments.

The researcher also recommended that CBE in collaboration with stakeholders should work with export sectors such as supporting on research and developments for agricultural export commodities. Government as well as CBE support agro-processing industries to add value on commodities to more worthwhile instead of export raw materials. If the plants are erect in the country, the country's products are more competitive in the international market, besides the produces will able to earn more foreign currency for the country and CBE can earn more FCY.

The bank needs to enhance its export sales activity towards other traditional and small export items so as to reduce its dependence on export earnings of few items such as textile, leather and coffee. Due to country's export dominated by agricultural commodities and having bulk volume, this create high transportation costs, thus the government facilitate well supply chain logistics in order to minimize cost of shipping in turn entertain the exporters to export more.

The NBE's foreign currency generation directives frequently amended and appealed after one another; especially in recent three years. This indicates that the need of FCY reserve by the country is highly increased. These amendments victim the CBE; because of the bank obeying and apply country's rules, regulation and directives thus significance number of international banking customers are journeyed to elsewhere. Therefore, the NBE closely monitors all banks whether they are operated as per the directives as well as try to minimize even dry out illegal money trading activities which are held secretly. Unless or otherwise NBE should give license to informal parallel market to join the right track to be formal and benefit the country.

Moreover to encourage the exports to export more and more volume, the share of proportionate incoming FCY proceeds among the actors (NBE, exporter and export facilitate bank) in exporting could increase share of proceeds for exporter as volume of export increases. These would foster the exporting sector and more legalize the international trading activities. Ultimately CBE could benefit by approaching more exporters as the area become lawful.

The bank management should create awareness of CBE's employees about FCY performance and its progress. Knowing the bank's current performance may motivate them to work towards performance improvement.

Relationship management is one strategic themes of CBE FCY mobilization strategy. In this regard, refer FCY customers' data base and striving to create long lasting relationship with customers through assigning employees with outstanding skills and make them create frequent contact with them especially with lost customers. Closely follow performer's service delivery practice and ensure the bank's service excellence in FCY earnings. In addition there should be extensive trainings and sessions given for concerned employee of the bank on international banking in particular focusing on ways of earning foreign currency for the bank.

Finally, the bank should strongly work with potential development partners both governmental and private sectors which are directly and indirectly connected with foreign currency earnings.

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## APPENDIXES

### I. QUESTIONNAIRES

#### ADDIS ABABA UNIVERSITY

#### COLLEGE OF BUSINESS AND ECONOMICS

#### DEPARTMENT OF FINANCIAL SERVICES (MBA PROGRAM)

**Dear Respondent,**

I am Tofik Rahmeto, Master of Business Administration of Addis Ababa University. I will conduct a research project on the topic “the challenges of foreign currency generation in Commercial Bank of Ethiopia\_ Central Region” as part of the requirement for the MA program. To this effect, I greatly need your help in completing this questionnaire. This questionnaire will take about 20 minutes to complete. Your participation in this survey is completely voluntary and you may skip any question if you wish. The study is basically for academic purposes; thus, I guarantee that your responses will be kept strictly anonymous and confidential. If you have any inquiry or something not clear, please feel free to contact me.

Thank you very much for your anticipated consideration.

TofikRahmeto

E-mail: [gunnerto@gmail.com](mailto:gunnerto@gmail.com) or [TofikRahmeto@cbe.com.et](mailto:TofikRahmeto@cbe.com.et)

Tell: + 251921339192/+251920248761

#### **PART ONE: PERSONAL AND DEMOGRAPHIC INFORMATION**

**Please write the answer for blank questions and put a tick mark (√) on “□” in front of the following items indicate your choice for those items that have alternative responses.**

1.1. Age\_\_\_\_\_

1.2. Gender Male  Female

1.3.Education

Diploma  Degree  Masters and above

1.4.Working experiences\_\_\_\_\_

**PART TWO: Information about foreign currency generation in Commercial Bank of Ethiopia, Central region**

1. Does the region generate sufficient foreign exchange? Yes  No
2. Does your region has challenged on foreign currency generation

**PART THREE: The challenges of foreign currency generation in Commercial Bank of Ethiopia-Central Region**

Please indicate the extent to which you agree to the following statements by ticking (✓) the appropriate response.

**0 = STRONGLY DISAGREE**

**3 = AGREE**

**1 = DISAGREE**

**4 = STRONGLY AGREE**

**2 = NEUTRAL**

No	Statement	Response				
		0	1	2	3	4
	<b>I. EXPORT RELATED QUESTIONS</b>					
1	Agricultural and raw materials exports dominate make low foreign currency generation.					
2	Due to few destinations of export the Bank's has not enough foreign currency generation.					
3	Due to not devaluation of Birr in terms of foreign currencies makes less on foreign currency generation in the bank.					
4	The outbreak and continuing internal conflict have negative impact on FCY generation in the bank.					
5	The exporters are less interested export through CBE than other banks such as insufficiency loan and advance providing, speculation on FCY transactions other					

	private banks.					
<b>6</b>	CBE has strongly work with few industrial parks shades to earn export proceeds.					
<b>7</b>	Ethiopia's' participated from AGOA have affects the FCY earning of the bank.					
	<b>II. REMITTANCES RELATED QUESTIONS</b>					
<b>8</b>	Faire charges (costly)of Money Transfer Organizations (MTOs) than other private commercial banks make less on challenges of foreign currency generation in the bank					
<b>9</b>	Intermediaries or brokers /illegal money transfer agents/ have impact on foreign currency generation in the bank.					
<b>10</b>	The other private commercial banks prize linking scheme on foreign currency exchange makes less on foreign currency generation in the bank.					
<b>11</b>	Very crowded with other conventional banking services makes less on foreign currency generation in the bank.					
<b>12</b>	The increment in the number of banks (scrambling) makes less on foreign currency generation in the bank.					
<b>13</b>	Not making direct foreign currency deposits on the customers' account makes less on foreign currency generation in the Bank					
<b>14</b>	Due to bank's does not work with closely Foreign Employment agencies CBE has not generate sufficient FCY.					
<b>15</b>	The bank's failure to do work with development partners such as ministry of labor and social affairs, Ethiopian Airlines affects FCY generation of the bank.					
	Workings with NGOs have impact on foreign currency					

16	generation in the bank. Such as providing/ fulfilling the needs of mortgage and other loans, periodically visit NGOs, searching for new NGOs					
<b>III. OTHERS</b>						
17	The Bank's weak employee's knowhow regarding to the foreign currency mobilization, training, honesty makes challenge on foreign currency generation.					
18	The appropriate National Bank of Ethiopia directives and regulations related to export and other foreign currency generation ways restricted on the foreign currency holdings makes less on foreign currency generation in the bank					

## II. INTERVIEW QUESTIONS

Dear sir/madam, I am an MSc student at Addis Ababa University, School of Post Graduates. Now I am conducting a research on the topic entitled on "the challenges of foreign currency generation in Commercial Bank of Ethiopia". The main purpose of this interview is to obtain a reliable and accurate data for the study. Hence, I need your response to successfully accomplish this study. Your response will be used for academic purpose and kept confidential. On the basis of this ground, I would humbly request you to response the interview and honest response will be appreciated.

Date of interview \_\_\_\_\_ Name of interviewer \_\_\_\_\_ Signature \_\_\_\_\_

Institution name \_\_\_\_\_ Place located \_\_\_\_\_

1. How do you describe the challenges of foreign currency generation in Commercial Bank of Ethiopia?

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2. What are the most affected challenges of foreign currency generation in the bank?

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3. What is your opinion and what should be done to be boost/increase of foreign currency generation?

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## I. STATA OUTPUTS

. vif

Variable	VIF	1/VIF
-----+-----		
Less_work_~s	9.58	0.104411
Appropriat~s	8.37	0.119535
Working_NGO	3.41	0.293033
Not_devalu~n	2.59	0.385707
Abscence_F~d	2.51	0.397912
Few_gricul~d	2.49	0.402069
Weak_emplo~w	2.49	0.402082
Crowded_se~e	2.28	0.438994
Less_inter~s	2.26	0.442102
Few_destin~n	2.06	0.485332
Less_inter~d	1.97	0.508541
Few_indust~s	1.76	0.568677
Faire_char~s	1.68	0.596616
Participat~A	1.62	0.618434
Increment_~k	1.58	0.631045
Internal_c~t	1.41	0.708097
Privatee_B~e	1.23	0.811973
-----+-----		
Mean VIF	2.90	

```

logit      FCY_challenge      Privatee_Bank_prize      Few_destination
Not_devaluation      Internal_conflict      Abscence_FCY_deposited
Few_industrial_parks      Participated_AGOA      Faire_charges_MTOs
Increment_Bank      Few_griculture_dominated      Crowded_service
Less_intermediaries      Less_intersted      Less_work_evelopment_partners
Working_NGO      Weak_employee_knowhow      Appropriate_BE_s_directives

```

Logistic regression

Number of obs = 379

LR chi2(17) = 386.82

Prob > chi2 = 0.0000

Log likelihood = -69.290561

Pseudo R2 = 0.7362

FCY_challenge	Coefficient	Std. err.	z	P> z	[95% conf. interval]	
Privatee_Bank_prize	-.0448511	.1961138	-0.23	0.819	-.4292271	.3395248
Few_destination	.5880084	.3022984	1.95	0.052	-.0044855	1.180502
Not_devaluation	-.848323	.5841863	-1.45	0.146	-1.993307	.2966612
Internal_conflict	.6897704	.2396702	2.88	0.004	.2200255	1.159515
Abscence_FCY_deposited	2.458699	.6373827	3.86	0.000	1.209452	3.707946
Few_industrial_parks	.5237921	.2671938	1.96	0.050	.0001018	1.047482
Participated_AGOA	-.7270767	.3196172	-2.27	0.023	-1.353515	-.1006385
Faire_charges_MTOs	-.609003	.2987141	-2.04	0.041	-1.194472	-.0235341
Increment_Bank	.4341996	.307614	1.41	0.158	-.1687127	1.037112
Few_griculture_dominated	-3.808953	.6587889	-5.78	0.000	-5.100155	-2.51775
Crowded_service	.1492644	.3585047	0.42	0.677	-.5533918	.8519207
Less_intermediaries	-.8640662	.3739257	-2.31	0.021	-1.596947	-.1311853
Less_intersted	.0594202	.3132447	0.19	0.850	-.5545282	.6733685
Less_work_evelopment_partners	3.725762	.9812313	3.80	0.000	1.802584	5.64894
Working_NGO	-.2310668	.3183619	-0.73	0.468	-.8550447	.3929111
Weak_employee_knowhow	1.995888	.5285054	3.78	0.000	.9600366	3.03174
Appropriate_BE_s_directives	-2.374658	.7894995	-3.01	0.003	-3.922049	-.8272679
_cons	-.8596058	1.012487	-0.85	0.396	-2.844043	1.124832