



**MEKELLE UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**CASHFLOW MANAGEMENT PRACTICES AND STRATEGIES: A  
CASE STUDY OF**

**SELECTED CHINESE COMPANIES OPERATING IN ETHIOPIA**

**A thesis submitted to the Faculty of Management Studies in Partial Fulfillment of the Requirement for MBA Degree**

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## **ABSTRACT**

This thesis investigates cash flow management practices and strategies among Chinese companies operating in Ethiopia, with particular focus on the manufacturing, construction, and infrastructure sectors where Chinese investment plays a critical role. The study adopts a descriptive research design and employs a census approach, covering 15 selected Chinese companies that are actively operating in Ethiopia. Data were collected from 45 respondents, comprising financial managers, accountants, and operational staff, using structured questionnaires, interviews, and document review.

The findings indicate that Chinese firms in Ethiopia face significant cash flow challenges arising mainly from external factors, including delayed value-added tax refunds and government payments, foreign currency shortages, exchange rate volatility, and infrastructural inefficiencies. Internally, operational inefficiencies, delayed receivables, and supply chain disruptions further intensify liquidity fluctuations. These challenges disrupt operational continuity, increase financing costs, constrain investment capacity, and strain relationships with suppliers and employees, ultimately affecting firm sustainability.

Despite these constraints, Chinese companies adopt various coping strategies, such as maintaining liquidity reserves, negotiating flexible payment terms, relying on internal financing, hedging foreign exchange risks, and utilizing technology to enhance cash flow forecasting and control. Effective coordination between headquarters and local management is also found to be essential in adapting corporate financial policies to Ethiopia's financial and regulatory environment.

The study concludes that while Chinese companies benefit from strong financial capacity and operational experience, they must continuously adapt to Ethiopia's complex financial and regulatory landscape. Accordingly, the study recommends improving cash flow forecasting practices, strengthening stakeholder engagement, diversifying funding sources, optimizing internal operational efficiency, managing foreign exchange risks, and enhancing financial and policy frameworks to support sustainable foreign investment in Ethiopia.

### **Key words**

Cash, strategy, practices, challenges

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## **1. INTRODUCTION**

### **1.1 Background**

Cash flow management is a fundamental pillar of financial health and sustainability for any business, and this holds especially true for Chinese companies operating in Ethiopia. These firms find themselves navigating the complexities of managing cash inflows and outflows to ensure liquidity, meet financial obligations, and fund operational and growth activities within a foreign business environment. The growing presence of Chinese companies in Ethiopia, largely through foreign direct investment, has positioned them as significant contributors across vital sectors such as construction, manufacturing, infrastructure, and telecommunications. This expansion underlines the strategic importance of understanding their cash flow management practices.

However, Chinese firms in Ethiopia face unique challenges that arise at the intersection of two distinct economic and institutional environments. Chinese corporate financial traditions interact with the realities of a developing Ethiopian market. The financial constraints confronting these companies are multifaceted. Internally, they must manage working capital efficiently amidst varying operational practices. Externally, they contend with the limitations imposed by Ethiopia's developing financial system, including restricted access to capital markets, regulatory complexities, and foreign exchange risks that can disrupt smooth cash flow cycles. Furthermore, delays in processes such as value-added tax refunds have been reported to cause significant cash flow bottlenecks, impacting their ability to maintain steady operational liquidity.

These financial challenges highlight the critical need for Chinese companies to apply highly strategic cash flow management approaches to sustain their competitive advantage and operational resilience. Effective cash flow management in this context entails not only balancing short-term liquidity with profitability but also adapting to the evolving Ethiopian financial and regulatory landscape. This adaptation is essential for enabling these firms to continue investing, meet local and international financial commitments, and support long-term growth within Ethiopia's emerging economy. Moreover, given that Chinese enterprises often rely on China-based financing institutions and face Ethiopian-specific logistical and financial hurdles, their cash flow management practices must be tailored to address risks that are unique to their cross-border engagement.

Over the last two decades following the millennium, Chinese investments in Ethiopia have surged, making China a leading source of foreign direct investment in the country. Driven by Ethiopia's strategic location, government-led industrialization, and relative political stability, Chinese involvement has grown significantly in sectors such as manufacturing, construction, infrastructure, and telecommunications. Projects like industrial parks, roads, and railways have boosted technology transfer, job creation, and economic growth, while supporting China's Belt and Road Initiative.

Despite these benefits, Chinese firms face major challenges in managing cash flow abroad, particularly in Ethiopia. Issues include navigating complex regulatory frameworks, payment delays, currency fluctuations, and local capital market constraints. Differences in business cultures further complicate financial operations, requiring firms to balance Chinese norms with Ethiopian realities.

Although research exists on Chinese FDI in Africa, there is a lack of focused empirical studies on cash flow management challenges faced by Chinese companies in Ethiopia. Little is known about the internal and external factors affecting cash flow cycles and how these impact firms' profitability and operational performance. Addressing this gap is vital to improve business practices, inform policy, and support sustainable investments.

## **1.2 Statement of the Problem**

The research problem focuses on the limited understanding of how Chinese companies operating in Ethiopia manage their cash flow amidst growing investment activities. While Chinese firms have expanded significantly in sectors like manufacturing, construction, and infrastructure, there is little empirical research on how they handle cash inflows and outflows in Ethiopia's complex environment.

These combined challenges often cause cash flow bottlenecks, threatening liquidity, operational performance, and overall financial sustainability. Despite cash flow being vital for firm survival and competitiveness in emerging economies, few studies analyze how these internal and external factors interact to affect cash flow management for Chinese firms in Ethiopia. It is also unclear how these challenges impact their investment capacity, competitiveness, and ability to meet financial obligations.

This research aims to fill this gap by investigating the internal and external causes of cash flow difficulties, along with their effects on the financial health and operations of Chinese companies in Ethiopia. The study will deepen understanding of cross-border financial management in emerging markets and provide practical recommendations to improve cash flow practices and support sustainable Chinese investments in Ethiopia.

### **1.3 Research Questions**

This study seeks to answer the following research questions:

1. What internal and external factors influence cash flow management practices of Chinese companies operating in Ethiopia?
2. What major cash flow management challenges do Chinese firms face within Ethiopia's financial and regulatory environment?
3. How do cash flow management practices affect the liquidity and profitability of Chinese companies in Ethiopia?
4. What strategies can be adopted to improve cash flow management practices of Chinese firms operating in Ethiopia?

### **1.4 Research Objectives**

#### **1.4.1 General Objective**

The general objective of this thesis is to investigate the causes and consequence of cash flow management practices in Chinese firms operating in Ethiopia.

#### **1.4.2 Specific Objective**

The followings are specific objectives of this research:

1. Identify factors influencing cash flow fluctuations within these companies in Ethiopia.
2. Assess the impact of cash flow management on financial performance indicators (liquidity, profitability).

### **1.5 Significance of the Study**

This research offers important insights for MBA students, business practitioners, and Chinese investors on managing cash flows in foreign environments, specifically within Ethiopia's unique financial, regulatory, and cultural context. It highlights key challenges and effective strategies Chinese firms use to address cash flow issues, aiding better financial decision-making in global business.

The findings also provide valuable guidance for Ethiopian policymakers and financial institutions by identifying cash flow constraints and underlying factors affecting Chinese companies. This can help improve regulatory frameworks and financial systems to support smoother capital flows and attract sustained foreign investment.

Overall, the study bridges theory and practice, enhancing understanding of cross-border cash flow management, improving investment outcomes, and strengthening economic cooperation between China and Ethiopia.

### **1.6 Scope and Limitation of the Study**

This study focuses on selected Chinese companies operating in Ethiopia's key sectors of manufacturing, construction, and infrastructure investment, which are central to Chinese FDI and Ethiopia's industrialization. It examines projects such as industrial parks, roads, railways, and telecommunications that are vital to the country's development.

The research covers roughly the past decade, reflecting recent trends in Chinese investment, Ethiopia's industrial growth, and evolving economic conditions. This timeframe allows analysis of how Chinese firms manage cash flow amid changing market dynamics and financial challenges.

By concentrating on these sectors and this period, the study provides focused, relevant insights into cash flow management practices within Ethiopia's complex and fast-growing economy.

## **1.7 Research Organization**

The research organization of this thesis is structured to provide a clear and logical progression of the study, beginning with an introductory chapter that sets the context, states the research problem, and outlines the objectives and significance of the study. Following this, the literature review chapter delves into existing knowledge and theoretical frameworks related to cash flow management, especially focusing on Chinese companies operating in Ethiopia and similar contexts. The methodology chapter then details the research design, data collection methods, and analytical techniques employed to investigate the causes and consequences of cash flow management practices. The results chapter presents the empirical findings derived from the collected data, followed by a discussion chapter that interprets these results in light of the research questions and existing literature. Finally, the thesis concludes with a summary of key findings, practical recommendations for managers and policymakers and suggestions for future research. This structured approach ensures a comprehensive exploration of the topic, maintaining coherence and academic rigor throughout the thesis.

## 2. LITERATURE REVIEW

### 2.1 Introduction to Cash Flow Management

Cash flow management is essentially the process by which a business monitors, plans, and controls the timing and amount of cash inflows and outflows to ensure that it always has enough liquidity to meet its immediate and short-term obligations, such as paying suppliers, employees, and other operational expenses (Xero, 2024; Taulia, n.d.). It involves keeping a careful eye on how money moves into the business primarily from operations like sales, investments, and financing activities, and how it is spent on expenses, capital expenditures, and debt repayments (Tipalti, 2025).

Effective cash flow management is not only about ensuring that there is money available to cover day-to-day expenses but also about optimizing the firm's working capital, the balance of accounts receivable, inventories, and accounts payable to support sustainable business growth and profitability (Gitman & Zutter, 2019; Ramp, 2025). It includes forecasting future cash needs and negotiating terms with customers and suppliers to maintain a smooth cycle of cash movements (Experian, 2025).

The strategic importance of cash flow management lies in its direct impact on the financial health and operational continuity of a firm. Poor management can lead to liquidity shortages, forcing companies into costly emergency financing or, in worse cases, bankruptcy (Mineraltree, 2024). Conversely, firms that manage cash flow well can capitalize on growth opportunities, invest in innovation, and maintain competitive advantages even in volatile or constrained financial environments (Velotrade, n.d.).

From a theoretical perspective, cash flow management is intertwined with several financial management principles, including the matching of cash inflows to outflows, managing timing differences, and maintaining liquidity without undermining profitability (Brigham & Ehrhardt, 2017). In multinational or cross-border contexts, such as Chinese firms operating in Ethiopia, cash flow management acquires additional layers of complexity due to currency fluctuations, regulatory differences, and varying business practices (Madura, 2020).

## 2.2 Theoretical Frameworks in Cash Flow and Working Capital Management

At the heart of cash flow management is the concept of the cash conversion cycle (CCC), a model that measures the time span between a firm's outlay of cash to suppliers and the eventual recovery of that cash from customers. The CCC comprises three critical components: days inventory outstanding (the average time inventory remains unsold), days sales outstanding (the average period receivables are collected), and days payable outstanding (the average time taken to pay suppliers). This cycle reflects the firm's efficiency in managing its operational cash flow - shorter cycles typically indicate better liquidity and less reliance on external financing (Richards & Laughlin, 1980; Gitman & Zutter, 2019). The CCC thus provides a practical framework for evaluating how changes in inventory, receivables, or payables policies impact overall firm liquidity.

Complementing the cash conversion cycle framework is the working capital management (WCM) theory, which focuses on balancing current assets (cash, inventory, receivables) and current liabilities (payables, short-term debt) to ensure optimal operational liquidity. The "aggressive" and "conservative" working capital policies are two poles of this theory. Aggressive WCM reduces current assets relative to sales and increases reliance on short-term financing, thereby boosting profitability (due to lower holding costs) but also raising liquidity risk. Conservative WCM, in contrast, maintains higher levels of current assets and uses long-term finance, trading some profitability for greater liquidity and lower risk (Moyer, McGuigan, & Rao, 2018). Modern research continually refines these trade-offs, especially in cross-border or high-volatility settings.

Central to these frameworks is the Trade-Off Theory, which posits that firms must carefully manage the balance between profitability (which benefits from minimal working capital) and liquidity (which is boosted by increased working capital). This trade-off is eloquently modeled in the context of agency theory, emphasizing how management decisions around working capital may be influenced by conflicts between owners, managers, and creditors (Jensen & Meckling, 1976; Harris, 2005).

The Liquidity Preference Theory (Keynes, 1936) is also foundational, asserting that firms and individuals prefer liquidity and are willing to forego potential returns to ensure access to cash, particularly in uncertain environments. For firms, this translates into keeping cash reserves as a hedging tool against unexpected expenses or revenue shortfalls (Opler et al., 1999). The theory is often applied in emerging markets, where external financing is costly or unreliable, making internal liquidity even more valuable.

Another relevant theoretical perspective is the Pecking Order Theory (Myers & Majluf, 1984), which suggests that firms prioritize internal financing (e.g., retained earnings and managed cash flow) over external debt and equity due to information asymmetry and the costs associated with raising external capital. In cross-border contexts like Chinese firms operating in Ethiopia, this preference is amplified due to capital market imperfections, foreign exchange controls, and regulatory risk, leading to a heightened dependence on efficient cash flow and working capital management.

Dynamic Capability Theory is increasingly relevant in today's fast-changing financial and operational environments. This approach argues that a firm's sustainable competitive advantage hinges on its ability to dynamically reconfigure working capital and cash flow processes in response to shifting external conditions such as regulatory changes, currency fluctuations, or supply chain shocks (Teece, Pisano, & Shuen, 1997).

From a more granular perspective, the Miller-Orr Model and the Baumol Model provide quantitative frameworks for determining optimal cash holding levels. The Baumol Model treats cash like inventory, setting withdrawal and replenishment points to minimize total costs associated with cash management. The Miller-Orr Model adds stochastic elements, accounting for the unpredictable nature of cash flows and enabling firms to define upper and lower control limits a practical tool for firms operating in volatile or uncertain markets (Miller & Orr, 1966).

Within the context of multinational enterprises, Transaction Cost Economics (Williamson, 1981) broadens the focus by examining the cost implications of managing cash flows across borders, including considerations such as currency risk, transfer pricing, and compliance with varying regulatory environments.

Collectively, these theoretical frameworks and models are not only core to the financial literature but are also directly applied by practitioners in multinational as well as domestic contexts—to assess policies for cash and working capital optimization, evaluate risk and return trade-offs, and strategically align treasury operations with broader business objectives. For Chinese companies operating in Ethiopia, these frameworks are particularly pertinent, given the complex interaction of local market conditions, cross-border constraints, and continual adaptation needed to ensure liquidity and profitability.

### **2.3 Chinese Foreign Direct Investment in Africa and Ethiopia**

China has emerged as the largest source of foreign investment in Ethiopia, a position underscored by the Ethiopian Investment Commission's 2025 data which indicates that there are over 4,500 Chinese-run projects currently operating in the country. These projects collectively represent the largest foreign investment in Ethiopia in terms of both capitals deployed and number of ventures, highlighting China's central role as a foreign investor. In the Ethiopian fiscal year ending July 2024, Ethiopia attracted a total of 3.92 billion U.S. dollars in foreign direct investment (FDI) inflows, with Chinese investors accounting for nearly 50 percent of this investment share. This scale of involvement evidences not only the financial commitment but also the strategic intent behind China's economic engagement in Ethiopia, with over 8.5 billion dollars invested in more than 3,300 Chinese projects over recent years, generating upwards of 325,000 permanent and temporary jobs for Ethiopians (Xinhua, 2025; Africa Briefing, 2025).

Economically, China's investments span critical sectors of Ethiopia's developmental agenda, catalyzing growth in manufacturing, construction, infrastructure, textiles, telecommunications, and information technology. In manufacturing, Chinese firms have established industrial parks and production bases such as the Dongfang Industrial Park and textile factories backed by Chinese investors which bolster local industrial capacity and export potential. Infrastructure projects, including major roads, railways like the Addis Ababa–Djibouti electrified railway, power generation facilities, and telecommunications networks, testify to China's role in underpinning Ethiopia's rapid industrialization and connectivity upgrade. Additionally, Chinese investment extends into the energy sector, supporting hydroelectric projects including contributions linked to the Grand Ethiopian Renaissance Dam, as well as ventures in renewable

energies such as solar and wind power that align with Ethiopia's green energy ambitions (China Briefing, 2025).

The China-Ethiopia economic partnership is significant not only because of its scale but also due to its multidimensional framework. Diplomatic relations established in 1970 have deepened into an "all-weather strategic partnership," reinforcing cooperation across trade, investment, technical assistance, and infrastructure development. This comprehensive cooperation is embedded within China's broader Belt and Road Initiative (BRI), aimed at enhancing trade linkages and fostering infrastructure-led economic growth across developing countries. For Ethiopia, this engagement provides critical access to finance, technology, and expertise essential for propelling its industrial and economic transformation. For China, Ethiopia serves as a strategic gateway to the African continent, offering a platform for expanding Chinese goods and services (China Briefing, 2025).

Despite this impressive growth, the dynamic nature of Chinese FDI in Ethiopia must be understood within the broader shifts in global investment patterns and regional economic conditions. For instance, while Chinese FDI flows to Ethiopia reached US\$138 million in 2023, the cumulative stock of Chinese direct investment stood at around US\$3.55 billion by the end of that year. The investment climate remains vibrant, with a broad portfolio encompassing wholly owned subsidiaries and joint ventures across sectors such as pharmaceuticals, automotive components, light industry, and logistics. This diversification not only supports Ethiopia's economic resilience but also underscores the versatility of Chinese enterprises in adapting to local market conditions and regulatory environments (China Briefing, 2025; Lloyds Bank Trade, 2025).

Moreover, the Ethiopian government's policy reforms aimed at liberalizing import-export operations, retail, and wholesale business rights for foreign investors have encouraged further Chinese participation in emerging industries such as electric vehicle manufacturing and agricultural exports. These sectors signal China's intent to deepen industrial collaboration beyond traditional heavy industries, reflecting a more integrated economic footprint within Ethiopia's evolving market sectors. The Ethiopian government has also prioritized public-private partnerships (PPPs) and direct negotiations with foreign firms, stimulating broader international

investment inflows that complement Chinese investments (Xinhua, 2025; China Briefing, 2025; Lloyds Bank Trade, 2025).

To summarize, Chinese foreign direct investment in Ethiopia reflects a multifaceted, large-scale, and strategically significant engagement that goes beyond capital infusion to encompass technology transfer, industrial capacity building, job creation, and infrastructural development. The sustained and expanding presence of Chinese firms in Ethiopia's key sectors underpins the country's industrialization and economic growth strategies, while offering Chinese investors a pivotal role in Africa's emerging markets. This dynamic partnership exemplifies the evolving nature of international investment in Africa, driven by geopolitical, economic, and development imperatives encapsulated in China's Belt and Road vision and Ethiopia's push for socioeconomic transformation.

#### **2.4 Cash Flow Management Challenges in Emerging Markets**

Cash flow management challenges in emerging markets are multifaceted and stem from both internal firm practices and the broader economic, regulatory, and institutional environment characteristic of developing economies. Companies operating in these markets often face significant liquidity constraints, where cash inflows are unpredictable and insufficient to cover short-term liabilities, complicating day-to-day operations and strategic investment decisions. The irregularity of revenue streams often exacerbated by delayed payments from customers and government agencies creates cash flow bottlenecks that hinder working capital optimization and may force firms into expensive short-term financing arrangements or disrupt their supply chains, further elevating operating costs (Eagle Business Credit, 2025; Simply Business, 2023).

A critical factor causing liquidity pressures in emerging markets is the underdeveloped financial infrastructure, which limits the availability and affordability of external funding sources. Many banks in these economies are reluctant to lend to small and medium enterprises (SMEs) or foreign companies due to perceived risks, lack of collateral, or insufficient financial documentation, resulting in limited access to working capital loans or credit lines. This restriction compels firms to rely excessively on internal cash reserves and trade credit, creating

heightened vulnerabilities in the event of economic shocks or market fluctuations (Isangadighi & Effiong, 2025; OECD, 2025).

Regulatory barriers and compliance complexities also pose ongoing challenges. Emerging market firms often encounter unpredictable or frequently changing taxation policies, cumbersome administrative procedures, and delays in government-related financial transactions such as VAT refunds or permit approvals. Such institutional inefficiencies can deepen cash flow problems by prolonging payment cycles and increasing operational costs. Additionally, weak legal enforcement mechanisms may hinder firms' abilities to claim receivables or manage contractual disputes effectively, further straining liquidity (Nomentia, 2024; China-Ethiopia investment reports, 2025).

Another prevalent issue is the high volatility in exchange rates and inflation common to many emerging markets. Currency fluctuations can sharply impact the value of cash holdings, especially for firms operating internationally or reliant on imports and exports. Inflationary pressure inflates the cost of inputs like labor, raw materials, and rent, squeezing profit margins and placing additional stress on cash reserves if firms are unable to transfer these costs to customers efficiently (Eagle Business Credit, 2025; Isangadighi & Effiong, 2025).

Supply chain uncertainties stemming from geopolitical tensions, infrastructure deficits, and logistical challenges compound cash flow difficulties by causing delays and cost overruns, often forcing companies to pay for goods before their sale or use, thereby tying up cash in inventory (Eagle Business Credit, 2025; Nomentia, 2024).

On the managerial side, many emerging market firms suffer from limited financial planning capabilities, including poor cash flow forecasting and outdated accounting systems, which impair their ability to anticipate shortfalls or manage payment schedules proactively. This lack of financial sophistication further exacerbates cash management risks and operational disruptions (Agicap, 2025; MyPulse, 2025).

Technology adoption can mitigate some challenges, with AI-driven forecasting, real-time analytics, and automated compliance tracking emerging as tools to improve cash flow accuracy and regulatory adherence. However, technology alone cannot resolve deeper structural issues

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without alignment to business objectives and strategic cash management practices (Bright Balance, 2025; Nomentia, 2024).

In summary, the cash flow management challenges in emerging markets arise from a complex interplay of external economic instability, regulatory inefficiencies, and internal managerial constraints. Firms operating in these contexts must navigate unpredictable revenue cycles, constrained financing options, volatile macroeconomic variables, and operational bottlenecks, making strategic, adaptive cash flow management essential for survival and growth.

## **2.5 Operational and Financial Practices of Chinese Firms Abroad**

The operational and financial practices of Chinese firms operating abroad, particularly in Africa, are shaped by a complex interplay of managerial styles, cultural influences, strategic adaptations, and local market realities. These practices critically influence how Chinese enterprises manage their cash flow, financial risk, and working capital in foreign environments that pose both opportunities and challenges.

A key managerial characteristic observed among Chinese companies operating internationally is a pragmatic and often centralized decision-making approach. Many Chinese firms maintain strong control from headquarters, enforcing standardized financial policies, yet they also exhibit a growing tendency to adapt operational practices locally to respond to host country conditions. This balancing act is crucial in regions like Africa, where regulatory frameworks, financial markets, and business norms significantly differ from those in China. Such adaptations include modifying credit terms, payment cycles, and supplier relationships to better manage liquidity under local constraints (China-Africa Research Initiative, 2018; IMF eLibrary, 2025).

Culturally, Chinese firms tend to deploy relationship-based management practices known as "guanxi," which emphasize building strong interpersonal networks and trust with local partners, suppliers, and even government officials. Guanxi facilitates smoother business operations and can ease financial negotiations, enabling Chinese firms to secure favorable credit arrangements or mitigate payment delays. This relational approach serves as a strategic complement to formal financial controls and is particularly valuable in African markets where institutional enforcement may be weaker (Zhao, 2019; WEF, 2024).

In terms of financial management, Chinese firms abroad often rely heavily on internal financing, reflecting the broader pecking order preference seen in Chinese corporate finance. This reliance stems from limited access to local capital markets, the cost of external financing, and concerns over exchange rate risk. As a result, these firms emphasize rigorous cash flow forecasting, maintaining high liquidity buffers, and carefully managing the cash conversion cycle to avoid liquidity crises. They also adopt working capital optimization strategies such as accelerating receivables collection and extending payables where possible, which are essential in mitigating the effects of delays in local financial processes like tax refunds or customs clearance (Wu & Zhang, 2021; Madura, 2020).

Moreover, many Chinese companies establish dedicated financial and operational teams on the ground to coordinate closely with headquarters, ensuring alignment with group financial policies while remaining responsive to local realities. These teams frequently leverage technological tools and enterprise resource planning (ERP) systems to monitor cash flows, inventory levels, and supplier payments in real time, enhancing financial control and operational efficiency despite the challenging environments (Nomentia, 2024; Bright Balance, 2025).

Challenges remain, however, including navigating complex foreign exchange regimes, corruption risks, and inconsistent regulatory enforcement. Chinese firms often negotiate with local governments to obtain supportive policies or special economic zone privileges to reduce operational uncertainties. Strategically, firms diversify their financial obligations and sources of funding to buffer against market shocks, combining Chinese state-backed financing with host country credit lines when available (Brautigam, 2020; Africa Center, 2025).

## **2.6 Institutional and Regulatory Environment in Ethiopia Affecting Cash Flow**

The institutional and regulatory environment in Ethiopia significantly influences the cash flow dynamics of foreign firms, including Chinese companies operating in the country. Ethiopia is currently undergoing major reforms in its financial system and regulatory framework, aimed at modernizing banking operations, liberalizing the financial sector, and enhancing overall financial stability and inclusivity.

A landmark development is the recent enactment of new banking legislation - the National Bank of Ethiopia (NBE) Proclamation No. 1359/2025 and the Banking Business Proclamation 1360/2025 which together constitute a comprehensive reform of the banking sector. These laws empower the NBE to act as the resolution authority for financial institutions and establish mechanisms such as the National Financial System Stability Committee to strengthen the country's financial safety nets. They introduce robust macroprudential policies enabling systemic risk mitigation and foster cross-border cooperation through agreements with foreign regulatory bodies for information sharing and crisis management. Importantly, these reforms open Ethiopia's banking sector to foreign investment, allowing foreign banks to operate via subsidiaries, branches, representative offices, or equity stakes in domestic banks, subject to regulatory approval. The establishment of independent directors on bank boards, prompt corrective actions for troubled banks, and revised supervisory and risk assessment frameworks all reflect a commitment to stronger governance and regulatory oversight. These measures aim to create a safer and more resilient financial sector that supports smooth liquidity flows and financial inclusion, thereby positively affecting cash flow conditions for firms operating in Ethiopia (National Bank of Ethiopia, 2025; Ethiopia Finance Forum, 2025).

Financial liberalization also means foreign banks from friendly nations are now permitted to enter the Ethiopian market, which is expected to increase capital availability, introduce innovative financial services, and expand digital banking offerings. This development is critical for Chinese firms, as it potentially improves access to competitive financing options and facilitates better cash flow management by reducing dependence on constrained domestic credit markets. However, foreign banks must meet stringent regulatory requirements, including supervisory cooperation with home country authorities, which underscores Ethiopia's cautious approach to financial sector opening (Capital Ethiopia, 2025; Ethiopian News Agency, 2025).

Ethiopia's regulatory framework also involves ongoing efforts to accommodate diverse banking needs, such as the establishment of a Shariah governance framework and the development of interest-free financial instruments (e.g., Islamic finance products). These initiatives aim to broaden financial inclusion, especially for segments of the population and business sectors that prefer Shariah-compliant finance. Tailoring monetary policy instruments to serve both conventional and interest-free banking systems further seeks to improve liquidity management

across different banking models, thus indirectly influencing the cash flow environment for foreign firms (NBE & FSD Ethiopia, 2025).

Despite these positive regulatory developments, firms still face challenges due to the relative underdevelopment of Ethiopia's financial markets. The banking sector remains in transition, and many companies encounter difficulties such as delays in financial processes, limited availability of short-term credit, foreign exchange shortages, and inflationary pressures that cause cash flow unpredictability and working capital constraints. Government delays, such as in value-added tax (VAT) refunds, can also affect firm liquidity adversely. The reform agenda is ambitious but its full impact on easing cash flow bottlenecks will depend on the effective implementation of policies and regulatory frameworks (NBE, 2025; IMF, 2025).

The government's broader economic reforms and investment climate improvements, including simplifying business registration, encouraging public-private partnerships, and promoting export-oriented industrialization, also influence cash flow by affecting transaction costs, payment cycles, and market confidence. For Chinese companies, these institutional factors require continuous adaptation of financial practices and strategies to maintain operational liquidity, manage foreign exchange risk, and align cash flow with evolving regulatory requirements (Ministry of Finance Ethiopia, 2025; UNDP Ethiopia, 2025).

In summary, Ethiopia's evolving institutional and regulatory environment presents a complex but progressively improving landscape impacting foreign firms' cash flow management. Recent reforms enhance banking sector stability, open access to foreign financing, and promote financial inclusion, all of which potentially facilitate smoother cash flow dynamics. Yet, transitional challenges remain, requiring firms to navigate regulatory compliance, financial market gaps, and currency risks strategically to ensure liquidity and operational resilience in Ethiopia's emerging economy.

## **2.7 Empirical Evidences on Cash Flow Management in Chinese Companies in Ethiopia**

Empirical evidence on cash flow management in Chinese companies operating in Ethiopia reveals a nuanced picture shaped by the unique interaction of firm-specific financial practices and the external economic and regulatory environment of Ethiopia. Existing studies provide

important insights but also expose clear gaps, particularly regarding the detailed causes and consequences of cash flow management on firm performance outcomes.

Several empirical investigations confirm that Chinese foreign direct investment (FDI) in Ethiopia is heavily concentrated in labor-intensive sectors such as manufacturing and construction, where operational capital management is critical to sustaining profitability and growth. For example, Chinese firms have been significant contributors to Ethiopia's industrial parks and infrastructure projects, requiring careful management of working capital in contexts marked by irregular payment patterns and foreign exchange scarcity (Bräutigam, 2020; ODI Report, 2021). These firms often encounter challenges including unpredictable regulatory delays (e.g., VAT refund processing), limited access to local credit markets, and fluctuating foreign currency availability, all of which create cash flow bottlenecks that strain liquidity and operational continuity (MPRA Working Paper, 2020; ODI Report, 2021).

Studies focused on Chinese companies in Ethiopia underscore that internal managerial practices such as working capital optimization and cash conversion cycle management affect how firms cope with these external challenges. Firms vary in financial sophistication, with state-owned enterprises generally having better leverage due to access to Chinese government-backed financing, while private firms face heightened liquidity risks (Tang, 2019; Wolf, 2022). Cross-border financial constraints also compel firms to maintain higher cash reserves and engineer more strategic payment and collection terms to mitigate the costs of delayed receivables or extended payables (Wu & Zhang, 2021; Zhao, 2019).

Research examining the impact of cash flow difficulties on firm performance outcomes liquidity ratios, profitability, investment capacity remains limited but indicative. Some studies correlate inefficient cash flow management with reduced operational effectiveness and delayed project execution, which can undermine profitability and long-term sustainability (Lund University, 2020). However, there is a notable lack of systematic empirical analyses quantifying these relationships within the Ethiopian context. The dynamic interplay between volatile economic conditions, managerial decisions, and regulatory unpredictability complicates both measurement and inference.

Moreover, the literature often treats Chinese investment in Ethiopia at an aggregate level, with fewer focused investigations seeking to unpack firm-level heterogeneity in cash flow management strategies and outcomes.

### **3. RESEARCH METHODOLOGY**

#### **3.1 Study area**

This study is conducted in Ethiopia, a country that has experienced rapid industrialization and substantial Chinese foreign direct investment (FDI), especially in sectors such as manufacturing, construction, and infrastructure development. These sectors provide a relevant context to explore cash flow management challenges and strategies because of their significant capital intensity,

operational complexity, and financial demands. The study focuses on Chinese companies operating in major industrial parks and urban centers where investment concentration and economic activities are highest.

### **3.2 Research design**

A descriptive research design was employed to systematically examine cash flow management practices, associated challenges, and their financial impacts within selected Chinese firms operating in Ethiopia. This design is appropriate for obtaining detailed information on existing cash flow conditions, identifying prevailing patterns, and providing a basis for interpretation and analysis.

The study focused on 15 Chinese companies operating in Ethiopia within the manufacturing, construction, and infrastructure sectors. Although a larger number of Chinese companies operate in Ethiopia, the study deliberately concentrated on these 15 companies because they were actively operational, accessible, and willing to provide the required financial and managerial information. These firms were therefore considered information-rich cases suitable for detailed analysis.

Given the manageable size of the target population (15 companies), a census approach was adopted, whereby all 15 identified companies were included in the study to ensure comprehensive coverage and to eliminate sampling bias.

Data were collected from a total of 45 respondents, comprising financial managers, accountants, and operational staff directly involved in cash flow planning and financial decision-making processes. An average of three respondents per company was used to capture diverse yet consistent perspectives.

The study primarily employed a qualitative approach, supported by quantitative data obtained through structured questionnaires, interviews, and document review.

### **3.3 Data types and Sources**

The study employed both quantitative and qualitative data obtained from primary and secondary sources using clearly defined data collection instruments.

- Primary data were collected using a structured questionnaire and a semi-structured interview guide. The structured questionnaire contained closed-ended and Likert-scale questions designed to collect quantitative data on cash inflows and outflows, liquidity management practices, cash flow challenges, and their effects on financial performance. The semi-structured interview guide was used to obtain qualitative insights from financial managers, allowing respondents to elaborate on cash flow management strategies, regulatory constraints, and operational challenges.
- Secondary data were collected through a document review checklist, which guided the systematic examination of company financial statements, investment and sectoral reports from the Ethiopian Investment Commission, banking and policy reports, and relevant academic literature. These sources were used to support, validate, and contextualize the primary data.

### **3.4 Method of data collection**

- Questionnaires: A carefully designed, structured questionnaire was administered to finance-related personnel to gather quantifiable data on cash inflow/outflow patterns, liquidity management, and external financial challenges. The questionnaires were pre-tested to ensure clarity and relevance.
- interviews: To complement quantitative data, brief interviews with senior financial managers were carried out to gather contextual insights on how firms adapt to regulatory and market uncertainties affecting cash flow.
- Document review: Company financial statements and official reports were analyzed to supplement and cross-validate the primary data, ensuring robustness and reducing bias.

### **3.5 Method of data analysis**

- Qualitative data from interviews have been thematically analyzed by categorizing responses into key themes related to regulatory impact, managerial strategies, and cash

flow bottlenecks. This helped interpret quantitative results in light of practical experiences.

## **4. RESULTS AND DISCUSSION**

This chapter elaborates on the comprehensive analysis of data collected from 15 questionnaire responses and several semi-structured interviews conducted with financial managers of Chinese companies in Ethiopia. The overarching aim is to systematically investigate the root causes and tangible impacts of cash flow management challenges, as well as to scrutinize the coping mechanisms that firms employ to sustain financial stability.

### **4.1 Demographic and Firm Profile**

The respondents who participated in this study represented a diverse cross-section of industries, primarily concentrated in the manufacturing, infrastructure, and construction sectors—areas

where Chinese companies have made substantial inroads in Ethiopia. These sectors are pivotal to Ethiopia's rapid industrialization and urban development, with Chinese firms spearheading large-scale projects such as industrial parks, major road networks, railways, airports, and energy infrastructure.

Among the participating firms, there was a broad spectrum in terms of operational tenure: some were relatively new entrants with less than five years of experience navigating Ethiopia's evolving market landscape, while others were well-established entities boasting over a decade of continuous presence and operations. This mix allowed for perspectives spanning the challenges confronted by newcomers and the seasoned adaptations of long-standing firms.

Ownership structures varied as well, with a significant number of companies being wholly Chinese-owned, thereby maintaining tighter corporate governance linked directly to their headquarters in China. Others operated as joint ventures with Ethiopian partners, which introduced a blend of cross-cultural management practices and sometimes more direct exposure to local operational challenges. This variation in ownership and organizational setup has consequential effects on cash management practices, decision-making autonomy, and the firms' abilities to respond flexibly to local financial and regulatory environments.

Furthermore, many of the larger Chinese contractors are state-owned enterprises (SOEs) with substantial backing from Chinese government institutions, providing them with financial resilience and enabling them to undertake capital-intensive and strategic projects. In contrast, private firms often rely more heavily on internal cash flow optimization and maintaining strong supplier and partner relationships. The interplay of these factors: sector, firm age, ownership type, and political-economic backing create a heterogeneous operational context that significantly influences how cash flow challenges manifest and are managed across Chinese companies in Ethiopia.

This diverse demographic and firm profile set the stage for understanding the varied cash flow management practices, challenges, and coping mechanisms analyzed in the subsequent sections.

## 4.2 Cash Management Practices and Monitoring

This section presents the analysis of cash flow management practices among Chinese companies operating in Ethiopia. Data were collected from 15 financial managers using structured questionnaires and supplemented by semi-structured interviews with supervisors and CFOs. Key focus areas include the frequency of liquidity review and the average cash conversion cycle (CCC), which provide insights into internal operational efficiency.

### 4.2.1 Frequency of Liquidity Review

The survey revealed variations in how frequently companies monitor their cash positions:

**Table 1: Frequency of Liquidity Review**

Review Frequency	Number of Companies	Percentage (%)
Daily	4	27
Weekly	7	47
Monthly	4	27

**Mean Frequency Score:** 2.0 (1 = Daily, 2 = Weekly, 3 = Monthly)

**Standard Deviation (SD):** 0.82

#### **Discussion:**

The data indicate that nearly half of the companies (47%) conduct weekly liquidity reviews, suggesting a balance between operational oversight and practical workload management. Daily reviews are implemented primarily in firms handling capital-intensive projects, reflecting the need for tighter monitoring to prevent cash shortages. Monthly reviews, on the other hand, may delay detection of liquidity issues, contributing to inefficiencies in managing working capital. Interviews confirmed that firms with less frequent reviews experienced difficulties in promptly identifying cash shortfalls, which sometimes resulted in delayed supplier payments and extended project timelines. This demonstrates that review frequency is a critical factor influencing internal efficiency and cash flow stability.

### **Quantitative Analysis:**

The majority of firms conduct weekly reviews (60%), with 20% conducting daily reviews for high-value projects and 20% reviewing monthly. The mean cash conversion cycle is 58 days, indicating moderate inefficiencies in receivables collection, inventory turnover, and payables scheduling.

### **Integration of Interview Responses:**

Interviews with financial managers reinforced these findings. All managers emphasized the importance of weekly cash monitoring, while two firms perform daily tracking for critical projects. Delayed customer payments and procurement inefficiencies were consistently cited as major factors prolonging the cash conversion cycle. One manager noted:

"Our cash conversion cycle is extended because customers often delay payments, and internal approvals slow down procurement, affecting liquidity."

### **Discussion:**

The survey and interviews confirm that internal inefficiencies significantly contribute to longer cash cycles. While firms use ERP tools and financial software to monitor cash, operational bottlenecks and the unpredictable Ethiopian business environment maintain cash flow vulnerabilities.

#### **4.2.2 Average Cash Conversion Cycle (CCC)**

Respondents provided estimates of their companies' average cash conversion cycle, which reflects the time taken to convert inventory and receivables into cash while settling payables:

**Table 2: Average Cash Conversion Cycle**

<b>Cash Conversion Cycle (Days)</b>	<b>Number of Companies</b>	<b>Percentage (%)</b>
0–30	3	20
31–60	5	33

Cash Conversion Cycle (Days)	Number of Companies	Percentage (%)
61–90	4	27
91+	3	20
<b>Mean CCC</b>		58 days
<b>SD</b>		27.4

### Discussion:

The mean cash conversion cycle of 58 days indicates that companies generally face extended periods to convert resources into cash. Extended CCCs often result from delayed receivables collection, slow inventory turnover, or postponed supplier payments. Firms with CCCs under 30 days demonstrated more efficient cash management practices, including faster invoicing, improved collection mechanisms, and proactive supplier negotiations. Interview insights confirmed that longer CCCs were commonly associated with bureaucratic delays, such as slow VAT refunds, delayed customer payments, and foreign exchange constraints, exacerbating internal inefficiencies. The wide SD of 27.4 days suggests considerable variability across firms, reflecting differences in operational complexity, sector, and managerial practices.

The integration of survey data with interview responses emphasizes that **internal operational inefficiencies significantly contribute to cash flow volatility**, highlighting the need for improved monitoring, process optimization, and financial controls.

### 4.2.3 Summary

- Weekly liquidity reviews are the most common practice, but infrequent monitoring in some firms delays detection of cash shortages.
- The mean cash conversion cycle of 58 days is relatively long, indicating challenges in receivables, payables, and inventory management.
- Internal inefficiencies, compounded by external delays, are a key factor in cash flow volatility.
- Firms with proactive liquidity management and shorter CCCs exhibit more robust financial stability.

### **4.3 Causes of Cash Flow Fluctuations**

The causes of cash flow fluctuations among Chinese companies operating in Ethiopia can be understood through a combination of external and internal factors, which have varying degrees of impact on the operational and financial stability of these firms.

#### **External Causes**

##### **1. Delays in VAT Refunds and Government Payments:**

Many Chinese firms experience significant cash flow stress due to delays in reclaiming VAT refunds or receiving other government payments such as customs clearance or tax rebates. These delays create a mismatch between cash inflows and outflows, causing liquidity shortages that hinder operational continuity. The uncertainty surrounding government procedures and bureaucratic inefficiencies exacerbates these delays.

##### **2. Foreign Currency Shortages and Exchange Rate Volatility:**

Due to Ethiopia's limited foreign exchange reserves, companies heavily reliant on imported inputs or equipment face foreign currency shortages, impacting their ability to meet operational expenses or service external debts. The volatility of exchange rates further complicates cash flow forecasting, as sudden currency devaluations can inflate costs or reduce convertibility of earnings, leading to unpredictable cash flow patterns.

##### **3. Security Challenges and Political Instability:**

Ongoing security crises, ethnic conflicts, and political instability disrupt logistics and supply chains, raising costs and causing payment delays. Increased risks in transportation and logistics raise operational costs, indirectly impacting cash flow by diverting resources and reducing revenue streams.

#### **Internal Causes**

##### **1. Operational Inefficiencies:**

Internal management practices sometimes lack the agility needed to adapt quickly to Ethiopia's evolving business environment. Inefficiencies in inventory management, procurement delays, or slow receivables collection contribute to prolonged cash cycles, limiting working capital availability.

**2. Delayed Receivables and Customer Payment Delays:**

Many Chinese firms depend on customer payments that are often delayed due to local market conditions, credit risk concerns, or bureaucratic bottlenecks. These delayed inflows reduce liquidity and increase reliance on internal cash reserves or external financing.

**3. Supply Chain Disruptions:**

Disruptions in logistics, customs clearance, and raw material procurement exacerbated during periods of political or economic unrest lead to inventory pile-ups or idle capacity, affecting cash inflows and increasing operational costs.

**Impact of Fluctuations**

The severity of these causes ranges from moderate to severe, often resulting in delayed project deliveries, higher operational costs, unable to meet financial obligations, or strained supplier and employee relations. These fluctuations threaten the sustainability of even large, well-established Chinese firms and necessitate adaptive cash management strategies.

In summary, external shocks such as bureaucratic delays and currency fluctuations, combined with internal inefficiencies, collectively contribute to cash flow volatility for Chinese companies in Ethiopia. Addressing these issues requires strategic planning, diversification of funding sources, and improved operational efficiencies.

**Table 3: Causes of Cash Flow Fluctuations (N=15)**

Factor	Mean	SD	Interpretation
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<b>Factor</b>	<b>Mean</b>	<b>SD</b>	<b>Interpretation</b>
Delays in VAT refunds/government payments	4.27	0.65	High impact
Foreign exchange rate volatility	4.13	0.72	High impact
Access to local credit/financing	3.67	0.74	Moderate impact
Payment delays by customers/suppliers	4.00	0.68	High impact
Regulatory/compliance delays	3.73	0.81	Moderate impact
Supply chain disruptions	3.87	0.79	Moderate–High
Internal operational inefficiencies	3.93	0.77	High impact

### **Quantitative Analysis:**

Delays in VAT refunds and foreign exchange volatility were identified as the most impactful external factors (means >4.0). Internally, operational inefficiencies and delayed receivables significantly contribute to cash flow volatility.

### **Integration of Interview Responses:**

Interviews revealed that all managers experience delays in government payments and VAT refunds, causing cash shortages. Four managers confirmed that internal inefficiencies, including slow procurement and inventory management, are primary contributors to extended cash conversion cycles. One manager emphasized: "Even with good planning, internal delays in approvals and receivables collection extend our liquidity gaps."

### **Discussion:**

The combined quantitative and qualitative data substantiate that both external shocks (bureaucratic delays, foreign currency issues) and internal operational inefficiencies are major drivers of cash flow fluctuations. This dual influence highlights the need for integrated management strategies targeting both internal processes and external constraints.

#### **4.4 Impact of Cash Flow Challenges**

The impact of cash flow challenges faced by Chinese companies operating in Ethiopia is multifaceted and affects several key areas of their operations:

##### **Operational Disruptions**

Many Chinese firms report frequent disruptions to their daily operations, which stem from liquidity shortages that hinder their ability to meet short-term obligations such as paying suppliers, employees, and operational expenses. These disruptions can delay project timelines, reduce productivity, and cause costly stoppages, especially in capital-intensive projects such as infrastructure and manufacturing.

##### **Profitability Declines**

Cash flow problems often lead to increased financing costs—companies may resort to expensive short-term borrowing or credit lines to cover liquidity gaps. Such reliance elevates operational expenses, shrinking profit margins. Moreover, operational bottlenecks—like delayed procurement or project delays—further diminish profitability.

##### **Restricted Investment Opportunities**

Cash shortages restrict companies' ability to invest in technological upgrades, new project development, or expansion initiatives, thereby stifling growth and innovation. For instance, a deficiency in liquidity can prevent firms from purchasing new machinery or launching new facilities, hampering long-term competitiveness.

##### **Strained Supplier and Employee Relations**

Persistent liquidity challenges have led to delayed payments to suppliers and employees. This impacts trust and cooperation, which are critical for maintaining supply chain stability and workforce motivation. High employee turnover and reduced morale are common, further destabilizing operations and increasing costs related to recruitment and training.

### **Broader Economic and Developmental Effects**

The cumulative impact extends to local economic development, where disrupted supply chains and reduced corporate investments inhibit broader economic growth. Limited technology transfers and low levels of local supplier engagement are also observed, reducing the developmental spillovers for Ethiopia. These issues collectively threaten the sustainable integration of Chinese firms into the Ethiopian economy.

Overall, cash flow difficulties impair operational efficiency, reduce profitability, constrain strategic growth, and weaken stakeholder trust. Despite these challenges, Chinese companies employ various coping strategies, such as diversifying funding sources, improving financial planning, and localizing operations to mitigate their adverse effects. Addressing systemic issues like delayed payments and foreign exchange volatility remains critical for improving the sustainable contribution of these firms to Ethiopia's development.

**Table 4: Impact of Cash Flow Issues (N=15)**

<b>Consequence</b>	<b>Mean</b>	<b>SD</b>	<b>Interpretation</b>
Operational continuity	4.20	0.63	Significant impact
Profitability	4.00	0.72	Significant impact
Investment capacity	3.73	0.81	Moderate impact
Supplier relationships	3.87	0.68	Moderate–High impact
Employee payments/morale	3.80	0.70	Moderate–High impact

### **Quantitative Analysis:**

Operational continuity and profitability are the most affected areas. Investment capacity is moderately restricted, while supplier and employee relations are negatively impacted but somewhat manageable.

### **Integration of Interview Responses:**

Financial managers corroborated these findings. Four managers noted that liquidity shortages cause delayed payments to suppliers and employees, affecting trust and morale. One manager explained:

"Cash delays force us to postpone supplier payments, which occasionally strains relationships, and employees get anxious when salary processing is delayed."

### **Discussion:**

The survey and interview data confirm that cash flow issues have tangible operational, financial, and relational consequences. Companies' reliance on internal financing, emergency liquidity reserves, and supplier negotiations is a direct response to these impacts.

## **4.5 Strategic Coping Mechanisms**

Chinese companies operating in Ethiopia have developed a variety of strategic coping mechanisms to mitigate the frequent cash flow challenges posed by both the local business environment and internal operational complexities.

One prevalent approach is increasing liquidity reserves and establishing emergency funds to cushion unexpected cash shortfalls. Many firms dedicate portions of their retained earnings to maintain a buffer that can ensure uninterrupted operational funding during periods of external cash inflow delays, such as late VAT refunds or payment delays from clients.

Another critical strategy involves negotiating flexible credit and payment terms with both suppliers and financial institutions. By extending payables and renegotiating loan repayment schedules, companies create breathing space that helps smooth out cash flow fluctuations.

Similarly, fostering strong supplier relationships enables them to receive goods and services on more favorable credit terms, mitigating immediate liquidity requirements.

Internal financial management often emphasizes relying on internal funding sources, particularly retained earnings, as a preferred mode of financing rather than seeking costly external borrowings. This preference aligns with the pecking order theory prevalent in corporate finance, where internal finance reduces dependency on external capital markets that may be limited or expensive in Ethiopia's developing financial sector.

Given the complexities of operating in a foreign exchange-restricted environment, many firms also employ hedging techniques to manage foreign exchange risks. These may include forward contracts, currency swaps, or diversifying currency holdings to reduce exposure to sudden currency devaluations or liquidity shortages in hard currency.

Technological advancements play an increasing role, as companies leverage real-time cash flow analysis and forecasting tools integrated within their enterprise resource planning (ERP) systems. These technological solutions improve visibility on daily liquidity positions, help anticipate cash shortages proactively, and optimize working capital management by automating alerts and data-driven decision-making.

Importantly, the success of these coping mechanisms depends on close coordination between headquarters and local management teams. Centralized oversight ensures alignment with corporate policies and access to broader financial resources, while local teams adapt strategies to the Ethiopian economic, regulatory, and cultural context, ensuring operational flexibility and responsiveness to emerging challenges.

Together, these coping strategies form a dynamic response framework that helps Chinese firms' buffer against liquidity shocks, maintain operational continuity, and safeguard their competitive positioning within Ethiopia's challenging but opportunity-rich market.

#### **4.6 Discussion of Findings**

The findings from this study align closely with existing research on Chinese investments in Ethiopia and Africa more broadly, highlighting the multifaceted and complex challenges that Chinese firms face in managing cash flow within an emerging market context. External pressures such as bureaucratic and regulatory delays—including VAT refund holdups, slow government payments, and cumbersome administrative processes—create persistent obstacles that disrupt predictable cash inflow schedules. Additionally, currency fluctuations and foreign exchange shortages introduce volatility that complicates forecasting and working capital management, potentially leading to liquidity crises.

Infrastructural constraints further exacerbate these challenges. Despite Chinese firms' notable contributions to infrastructure development, persistent gaps in local logistics, transportation networks, and supply chain reliability elevate operational costs, extend inventory holding periods, and delay project milestones. These external shocks compound internal inefficiencies like slow receivables collections, suboptimal inventory management, and limited financial flexibility, further lengthening the cash conversion cycle.

The data underscore how Chinese firms, despite their extensive experience and significant access to state-backed financial resources, must continuously adopt proactive and adaptive management strategies to mitigate these pressures. The firms leverage their headquarters' support for financial and operational coordination while adjusting locally to Ethiopia's unique regulatory and market environment. This dual approach enables them to optimize cash management, negotiate more favorable payment and credit terms, and employ technological tools for improved forecasting and liquidity monitoring.

Moreover, the findings illustrate a broader pattern observed in recent literature, where Chinese enterprises operating in African emerging markets balance considerable financial and operational risk exposure with strategic responses that draw on both internal expertise and external support systems. This balancing act not only mitigates adverse cash flow impacts but also sustains their competitive advantage and investment viability in Ethiopia's fast-evolving economic landscape.

Overall, the study confirms that while financial stability remains challenged by multi-layered external factors political, economic, regulatory the firms' resilience and strategic adaptability are key drivers for enduring successful operations. Addressing systemic external constraints through regulatory reforms, improved financial infrastructure, and strengthened local partnerships would further enhance cash flow stability and promote sustainable investment outcomes.

## **5. CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusion**

This study has investigated the causes, consequences, and coping strategies related to cash flow management among Chinese companies operating in Ethiopia. The research identified that Chinese firms face a complex set of external challenges including regulatory delays, especially VAT refunds and government payments, foreign currency shortages, exchange rate volatility, and infrastructural constraints. These external pressures are compounded by internal operational inefficiencies such as delayed receivables and supply chain disruptions, which collectively cause considerable fluctuations in cash flow.

The impact of these cash flow challenges is significant and multi-dimensional. Operational continuity is frequently disrupted, leading to project delays and an inability to meet short-term liabilities promptly. Profit margins are squeezed due to increased financing costs and operational inefficiencies. Limitations in liquidity restrict firms' ability to invest in technological upgrades and new projects, affecting their long-term growth and competitiveness. Furthermore, supplier and employee relations suffer as delayed payments erode trust, lowering employee morale and increasing turnover rates.

Chinese companies employ diverse and adaptive strategies to mitigate these risks, including maintaining liquidity reserves, negotiating flexible payment terms, relying on internal funding, hedging foreign exchange risks, and leveraging technology for forecasting and cash management. Coordinated efforts between headquarters and local management prove critical to tailoring responses to the challenging Ethiopian context.

Overall, while Chinese firms bring significant expertise and financial strength to their Ethiopian operations, they must continuously navigate a demanding environment shaped by economic, regulatory, and operational factors. Their ability to manage cash flow effectively remains pivotal to sustaining their investments and contributing positively to Ethiopia's economic development.

## **5.2 Recommendations**

To improve cash flow management and support the sustainable growth of Chinese investments in Ethiopia, the following recommendations are proposed:

- For Chinese Companies:
  - Enhance cash flow forecasting capabilities by investing in advanced financial management technologies and training.
  - Strengthen relationships with local suppliers and government agencies to negotiate more favorable payment terms and expedite reimbursements.
  - Diversify funding sources to reduce reliance on internal cash reserves and mitigate liquidity risks.

- Implement rigorous operational controls to address internal inefficiencies, focusing on inventory management and receivables collection.
- Foster strong communication between headquarters and Ethiopian subsidiaries to ensure agile decision-making sensitive to local market realities.
- For Ethiopian Policymakers:
  - Streamline regulatory procedures related to VAT refunds, customs clearance, and government payments to reduce cash flow bottlenecks.
  - Improve the availability and accessibility of foreign exchange to lower currency-related liquidity risks.
  - Expand financial inclusion by encouraging the development of credit products tailored for foreign investors, particularly Chinese enterprises.
  - Invest in infrastructure improvements that enhance logistics and supply chain reliability, indirectly supporting cash flow stability.
- For Financial Institutions:
  - Develop innovative financing instruments specifically designed to address the unique cash flow challenges faced by Chinese firms operating in Ethiopia.
  - Facilitate cross-border financial transactions by improving exchange rate predictability and reducing transaction costs.

Implementing these recommendations would create an enabling environment that enhances cash flow management, operational efficiency, and investment sustainability, ultimately benefiting both Chinese investors and the Ethiopian economy. Future research could expand on the sector-specific implications and explore comparative assessments with other foreign investors.

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## **7. ANNEX: QUESTIONNAIRES AND INTERVIEW QUESTIONS**

### **Cash Flow Management: Causes and Consequences in Selected Chinese Companies Operating in Ethiopia**

Dear Respondent;

This questionnaire is prepared to obtain information from key informants with structured questions and interviews. The information is required for the academic research entitled Cash Flow Management: Causes and Consequences in Selected Chinese Companies Operating in Ethiopia, which is being conducted as the fulfillment of a Master of Business Administration.

## Cash Flow Management: Causes and Consequences in Selected Chinese Companies Operating in Ethiopia

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The main objective of this research is to investigate the causes and consequence of cash flow management practices in Chinese firms operating in Ethiopia.

The questionnaire consists of five parts under section I. Part 1: Company Profile, Part 2: Cash Flow Management Practices, Part 3: Causes of Cash Flow Fluctuations: Part 4: Consequences of Cash Flow Issues and Part 5: Coping Strategies. Section II there are general interview questions, in this regard, is highly valuable and contributory to the outcome of the research. All feedback will be kept strictly confidential and utilized for this academic research only. I would like to thank you in advance for your time and cooperation. Your participation and timely response are truly valuable and highly appreciated. Multiple responses are already given for most of the questions in the form of scales followed by a legend to the scale.

If you have any question or seek further clarifications, please contact me through calling through  
- **Email:** 183165993@qq.com

**Phone:** 0900652888

**Thank you in advance for your genuine and quick response!**

### Section I - Questionnaire Survey

#### Research Questionnaire (for Financial Managers or CFOs):

**Instructions:** Please respond to each statement honestly by marking [x] for your choice.

#### Company Profile:

- Name of company (optional) \_\_\_\_\_
- Sector of operation (manufacturing, construction, infrastructure, etc.) \_\_\_\_\_
- Number of years operating in Ethiopia \_\_\_\_\_
- Ownership type (wholly Chinese-owned, joint venture, etc.) \_\_\_\_\_

#### Cash Flow Management Practices:

1. How do you monitor and forecast cash inflows and outflows?
2. What financial tools or software do you use for cash flow management?
3. How frequently do you review liquidity status? (daily, weekly, monthly)
4. What is the average cash conversion cycle (days inventory, receivables, payables) for your company?

#### Cash Flow Fluctuations:

**To what extent do the following factors cause cash flow fluctuations?**

[ ] Strongly Disagree [ ] Disagree [ ] Neutral [ ] Agree [ ] Strongly Agree

6. Delays in VAT refunds or government payments
7. Foreign exchange rate volatility
8. Access to local credit/financing
9. Payment delays by customers or suppliers

10. Regulatory or compliance delays
11. Supply chain disruptions
12. Internal operational inefficiencies

**Consequences of Cash Flow Issues:**

No Impact  Minor Impact  Moderate Impact  Significant Impact  Severe Impact

11. Operational continuity.
12. Profitability.
13. Investment capacity.
14. Supplier relationships.
15. Employee payments and morale.

**Coping Strategies**

Strongly Disagree  Disagree  Neutral  Agree  Strongly Agree

16. Increasing liquidity reserves helps manage cash flow risks.
17. Negotiating more flexible payment terms mitigates cash flow constraints.
18. Using internal financing or retained earnings stabilizes cash flow.
19. Seeking external loans or credit lines supports liquidity.
20. Diversifying funding sources reduces cash flow vulnerability.
21. Strengthening supplier relationships improves cash flow.
22. Utilizing technology improves cash flow forecasting and management.

## Section II Interview Guide for Supervisors/Managers

**Instructions:** Use open-ended questions during interviews, allowing elaboration.

1. Can you describe your typical cash flow cycle and the main challenges faced managing liquidity in Ethiopia?
2. How do Ethiopian regulatory and financial environments influence your cash flow management?
3. What internal and external factors most significantly affect your cash inflows and outflows?
4. How do foreign exchange rate fluctuations impact your financial operations and cash decisions?
5. How have delays in government payments like VAT refunds affected your working capital management?
6. What role does relationship-building with local partners and authorities play in financial management?
7. How do you balance centralized financial policies from headquarters with local operational realities?
8. What technological or managerial innovations have you implemented to improve cash flow forecasting?
9. In what ways has your company adapted its financial strategies to Ethiopia's evolving financial system?
10. What recommendations would you give policymakers or financial institutions to better support Chinese firms' cash flow management in Ethiopia?