

MEKELLE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT
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**SOURCES OF FOREIGN EXCHANGES EARNINGS OF
ETHIOPIA: CHALLENGES AND PROSPECTS**

**A Thesis Report Submitted to the Department of Management in
Partial Fulfillment of the Requirement for the Master of Business
Administration (MBA)**

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June, 2025

DECLARATION

I, Seblewngel Belay, I.D. Number CBE/PE076/'07AA, do hereby declare that this thesis titled “Sources of Foreign Exchanges Earnings of Ethiopia: Challenges and Prospects” is my original work and that it has not be submitted partially; or in full, by any other person for an award of a degree in any other university or institution.

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Abstract

Foreign exchange earnings are one of the critical components for the economy of countries. Ethiopia, one of the developing countries which struggle to increase the foreign exchange earnings is facing not only challenges but also prospects. This study examined the sources, challenges, and prospects of foreign exchange (forex) earnings in Ethiopia during 2009/10–2018/19, focusing on export sectors and institutional constraints. Using a mixed-methods approach, data were collected from 165 exporters via structured questionnaires. Moreover, data was generated from key informant interviews, and mining from secondary sources (National Bank of Ethiopia, Ministry of Trade, and World Bank). Findings reveal that Ethiopia's forex earnings remain heavily dependent on primary commodities, with coffee (24.4% of exports), pulses/oilseeds (19.2%), and flowers (9%) dominating. Despite a 6.9% annual export growth, structural vulnerabilities—such as price volatility, forex shortages, and limited value addition—hinder sustainable earnings. According to data summarized from exporters, critical constraints were identified which include financial barriers (high interest rates, 62%), exchange rate volatility (58% citing forex shortages), and infrastructure deficits (45% highlighting port inefficiencies). Institutional challenges, such as bureaucratic delays (52%) and corruption (55% dissatisfaction), further exacerbate trade inefficiencies. However, 80% of exporters acknowledged that currency devaluation boosted competitiveness, and 90% expressed optimism for future expansion, particularly in textiles and horticulture. The study underscores the need for policy reforms to enhance diversification, improve access to finance, and streamline trade logistics. Recommendations include strengthening value-added exports, leveraging regional trade agreements (e.g., AfCFTA), and addressing systemic bottlenecks to align Ethiopia's forex earnings with its developmental goals. These insights provide actionable strategies for policymakers to mitigate vulnerabilities and harness untapped export potential.

Keywords: Foreign exchange, Export diversification, Ethiopia, Commodity dependence, Trade constraints.

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List of Abbreviations

1. INTRODUCTION

1.1 Background

International trade is a fundamental engine of global economic growth, with current data signifying its critical role in national economic development strategies. As documented in various international reports, for example the IMF's World Economic Outlook (2025), increasing trade tensions as well as policy shifts have intensified downside risks to global growth, but nations deeply integrated into international trade relations continue to better perform non-trading countries' economies (International Monetary Fund, 2025). Similarly, the 2024 trade updates goes in line with this this, showing that international trade reached to \$33 trillion in the year 2024, which is driven significantly by a 7% surge in services trade (UNCTAD, 2024).

International trade importantly plays a crucial role in the historical economic growth achievement of countries in the world, for example, the four East Asian Tiger economies (South Korea, Hong Kong, Singapore, and Taiwan) (Medina-Smith E.J. 2001, Palley, 2011). Countries with higher international trade involvement achieve a higher and faster economic growth than those that has less involvement in international trade. This can be confirmed by comparing the remarkable success of the four East Asian Tiger economies in the 1970 -1990 who followed export-led growth strategy, and the poor growth achievement of many African and some Latin American countries that had focused on import substitution growth strategy in the same period (Senait, 2014).

A number of developing countries have attempted to pursue the East Asian growth model in recent times. This model is broadly perceived to have been based on export-led growth. Ethiopia, like the rest of the developing countries, pursued the export-led growth strategy since 1992 after years of implementation of the import substitution strategy during the Imperial and Derg regimes.

Following the export-led growth strategy, Ethiopia's economy, as well as, its export composition still remained highly dependent on agriculture. Agriculture contributes about 41% and over 80% to national GDP and export sector, respectively (NBE, 2010/11). The export earnings contribution, from 1960 to 2010, accounted to 11% of the GDP on average (Jarra, 2013), which is very low when compared with 30% contribution to GDP in Sub-Saharan African countries (Hailu, 2011). Such a limited figure suggests that much has to be done in the Ethiopian export sector to achieve the desired economic growth level.

There is no country in the world which is self sufficient or a country which produces all the commodities it needs. Therefore, every country tries to produce commodities on which it has comparative advantage. Following production, it exchanges part of those commodities with the commodities produced by other countries relatively more efficiently. Foreign trade plays very important role in the economic development of any country. Ethiopia also exports a lot of agricultural product to other countries and imports the capital goods from other countries. Foreign trade provides foreign exchange which can be used to remove the poverty and other productive purposes. The foreign exchange market (also called currency market, forex) is a global market for the trading of currencies. The market includes all aspects of exchanging currencies, buying, and selling at current or determined prices. According to sources, in terms of volume of trading, foreign exchange market is by far the largest market in the world (IMF, 2009).

Ethiopia is a country with the second most populous in African continent with approximately 126.5 million people (2023). The country faces prolonged foreign exchange (forex) deficiencies that constrain the developmental ambitions of the nation (World Bank, 2025). Ethiopia despite achieving an estimated economic growth of 8.1% in 2023/2024, it remains one of Africa's lowest overall economic development, with a per capita national income of USD 1,020 (ibid). The state-led economic development model historically upgraded infrastructure yet relied on an overvalued currency, strict regulations, and unsustainable debt that constrained private investment in the country which ultimately contribute to inflation and unable to generate the desired level of jobs for which is about 2 million additional job seekers in the annual labour market (International Trade Administration, 2025). The prevailing economic structural

weaknesses, compounded by other challenges such as COVID-19 epidemic, the conflict in Ukraine, internal conflicts, and severe regional droughts which affects about 20 million, etc (World Bank, 2025).

1.2 Statement of the problem

Through studies, evaluating the contribution of different macroeconomic variables to economic growth is decisive for formulating policies that foster sustainable development. One of the key variables that requires closer examination for improved economic performance is a country's foreign exchange earnings (Obstfeld, 2018). Foreign exchange earnings play a vital role in maintaining appropriate balance between the import and export of nations. Countries with limited foreign exchange earnings often experience trade deficits, while those with strong earnings tend to achieve trade surpluses (Krugman et al., 2018). Ensuring a stable or positive trade balance is highly dependent on the diversity and magnitude of foreign exchange sources (Gourinchas & Rey, 2019). The broader and more stable these sources are, the more resilient a country's economy becomes against external shocks (Borio, 2020).

Especially for developing economies such as of Ethiopia, the role of improving foreign exchange earning both in magnitude and diversity is important to feed the country's economy by hard currency which is required to import capital goods. According to World Bank report Ethiopian economy has experienced strong and broad growth over the past decade, averaging 10.8 percent per year in 2003/'04-2013/'14 compared to the African Sub-Sharan average of 5.0 percent (Fantu, Guush, Bart, Alemayehu and Seyoum, 2015). Expansion of the services and agricultural sectors account for most of this growth, while manufacturing sector performance was relatively modest. The role of foreign exchange market is believed to be much. Ethiopia has many mega projects which consume huge loads of hard currency.

In a national economy, the widening current account deficit is often driven by faster growth in import expenditures compared to export revenues. For instance, in Ethiopia, persistent liquidity constraints stem from high demand for essential imports (e.g., petroleum), large-scale public investments, rising consumption of non-essential goods, and weak foreign exchange generation capacity (Abebe, 2019). To address this, the Ethiopian government has implemented policies to enhance foreign currency inflows, including export diversification, preferential credit access, tax

incentives, relaxed land lease regulations, industrial zone development, and rewards for top exporters (IMF, 2020). Despite Ethiopia's rapid economic growth, its trade deficit continues to expand, underscoring the urgent need to strengthen foreign exchange earnings through structural reforms (World Bank, 2019). The trade balance of Ethiopia over a twenty years period (1995 – 2014) indicating the critical importance of foreign exchange earnings. Source: Compiled from different sources, Central Statistical Agency of Ethiopia, Ministry of Trade, Ministry of Finance and Economic Development of Ethiopia, and World Bank (2015)

An economically fast growing country Ethiopia is facing trade balance deficit which is getting wider. According to Tesfaye (2015), the country is facing poor foreign currency earning. How much was it really and why it has been poor? In general, there is lack of comprehensive evidence concerning the foreign exchange earnings of Ethiopia, the challenges and opportunities which is the subject of this study. By doing so, the study will contribute towards the efforts made to enhance the inflow of foreign currency to the economy of Ethiopia. For example, how the trend of Ethiopia's foreign exchange earning looks like? What are the sources and trends of Forex earnings in Ethiopia? What are the challenges and prospects of Forex earnings for Ethiopia? How much is the role of Ethiopia's Forex earning for the deficit in trade balance. The study will try to seek answers for these and related questions that will be important policy inputs to improve the foreign currency capacity of the country.

1.3 Research Objective

1.3.1 General objective

The major objective of the study is to analyze the sources of foreign exchange earnings of Ethiopia with prevailing challenges and prospects as well as perceptions of exporters about the support they have from government.

1.3.2 Specific objectives

The specific objectives of the study are:

1. To identify the major sources of foreign exchange earnings of Ethiopia over a range of years.

2. To investigate the importance the different sectors of the economy for the foreign exchange earnings of Ethiopia
3. To identify the constraints for exporters in their effort to supply their products at foreign markets
4. To investigate the perceptions of exporters concerning support and associated factors during their export activities

1.4 Research Question

The following are the specific research questions of the study:

1. What are the leading sources of foreign exchange earnings of Ethiopia?
2. How much is important the different sectors of the economy for the foreign exchange earnings of Ethiopia?
3. What are the constraints for exporters in their effort to supply their products at foreign markets?
4. What are the perceptions of exporters with regard to government support and associated factors during their export activities?

1.5 Significance of the Study

The study can contribute towards the efforts made to enhance the inflow of foreign currency to the economy of Ethiopia. This study will have a policy input to the foreign exchange earning sectors, officials, import-export operation leaders to take measurement action to improve Ethiopia's foreign exchange earning in particular and facilitating the efforts to fill the foreign currency deficit of the country. Besides, the study can encourage further wide-scale investigations in the area.

1.6 Scope of the study

The study focuses on the sources of foreign exchange earnings of Ethiopia over a 10 years period (2009/10-2018/19) and exporters of Ethiopian products who engage in the export of various commodities in the year 2015/16- 2018/2019. The study first identified the list and performance levels from different foreign exchange sources. Second, it investigates the relative importance of the different economic activities which play the most important roles in generating foreign currency. Third, it examines the plan versus achievements in relation to foreign exchange earnings and the challenges of generating foreign exchange. Scope in terms of data sources is official data by the National Bank of Ethiopia, Ministry of trade and the world Bank.

1.7 Operational Definition of Terms

- **Foreign Exchange earnings (Forex):-** these are the revenue a country generates from selling goods and services to other countries and from investments abroad, all denominated in currencies that can be freely exchanged.
- **African Continental Free Trade Area (AfCFTA):** - it is a trade agreement established in 2018 that aims to create a single market for goods and services across Africa.

1.8 Limitations of the Study

One of the limitations of the study is the timing of the study and the lack of recent data as the study was started before six years ago and interrupted due to both national (lack of security) and personal related problems. Second, the study is focused solely to a specified period of interest for which there is data. Moreover, although it is important to integrate export with import data to have a holistic understanding about Forex, the study is limited to those sectors that export goods and services (without looking the effect from the import component).

1.9 Organization of the Study

The report of the study is classified in to five Sections. The first Chapter includes, study back grounds, Problem statements, over all objectives, hypotheses investigations, study significance, its scope, study limitations, and organizations. A survey of related literature is included in Chapter 2. Additionally, it covers the conceptual framework, theoretical and empirical reviews, and other pertinent topics that are directly relevant to the subject. Additionally, the research design, target population, sample design, sampling techniques, data source, and collecting and analysis methodologies are covered in Chapter 3. The findings of the study and comments are presented in Chapter 4. The investigation would conclude with chapter 5, which includes suggestions, conclusions, and a summary.

2. REVIEW OF RELATED LITERATURE

2.1 Theoretical Review

Ethiopia's economy relies heavily on foreign exchange (forex) earnings to finance imports, service external debt, and support economic growth. The country's forex earnings primarily come from exports of primary commodities, remittances, foreign direct investment (FDI), and loans and aid (World Bank, 2020). However, structural weaknesses, global market volatility, and domestic policy constraints have hindered Ethiopia's ability to maximize forex inflows. This literature review examines theoretical perspectives on Ethiopia's forex sources, key challenges, and future prospects, drawing on scholarly works published between 2015 and 2022.

2. Sources of Foreign Exchange Earnings in Ethiopia

2.1. Export Earnings

Ethiopia's forex earnings are dominated by primary commodity exports, particularly coffee, oilseeds, flowers, and textiles (Geda & Shimeles, 2018). The country has pursued an export-led growth strategy, but reliance on low-value-added agricultural exports makes it vulnerable to price fluctuations (Mulat & Demeke, 2019). The manufacturing sector, particularly textiles and leather, has grown but remains a small contributor compared to traditional agricultural exports (UNDP, 2021).

2.2. Remittances

Remittances from the Ethiopian diaspora constitute the second-largest source of forex, surpassing \$4 billion annually before the COVID-19 pandemic (World Bank, 2021). However, official remittance channels are underutilized due to high transaction costs and parallel forex markets (Geda & Tafere, 2021). Studies suggest that improving financial inclusion and reducing transfer costs could enhance formal remittance inflows (IMF, 2020).

2.3. Foreign Direct Investment (FDI) and Loans

FDI inflows, particularly in manufacturing and infrastructure, have increased due to Ethiopia's industrial parks and incentives (Chen et al., 2021). However, FDI remains concentrated in a few sectors, limiting broad-based forex generation. Additionally, external borrowing has financed large infrastructure projects, but rising debt distress risks (World Bank, 2022) have constrained forex reserves.

3. Key Challenges in Ethiopia's Forex Earnings

3.1. Commodity Dependence and Price Volatility

Ethiopia's heavy reliance on primary commodities exposes it to global price shocks. Coffee, for instance, accounts for nearly 30% of export earnings but is subject to climate risks and speculative trading (Geda & Shimeles, 2018). The lack of export diversification exacerbates forex instability (Mulat & Demeke, 2019).

3.2. Foreign Exchange Shortages

Persistent forex shortages stem from low export competitiveness, high import dependency, and an overvalued exchange rate (IMF, 2021). The parallel forex market further exacerbates shortages, with premiums reaching over 30% (World Bank, 2020).

3.3. Structural and Policy Constraints

Bureaucratic inefficiencies, poor infrastructure, and limited access to credit hinder export growth (UNDP, 2021). Additionally, restrictive forex allocation policies discourage FDI and export-oriented industrialization (Chen et al., 2021).

4. Prospects for Enhancing Foreign Exchange Earnings

4.1. Export Diversification and Value Addition

Moving from raw commodity exports to processed goods (e.g., roasted coffee, finished leather) could enhance forex earnings (Geda & Tafere, 2021). Ethiopia's industrial parks aim to boost manufacturing exports, but more sectoral linkages are needed (World Bank, 2022).

4.2. Enhancing Remittance Inflows

Digitizing remittance channels and reducing transfer costs could increase formal inflows (IMF, 2020). Policies incentivizing diaspora bonds and investments could further stabilize forex reserves (Geda & Shimeles, 2018).

4.3. Improving FDI and Trade Policies

A more flexible exchange rate regime and improved business climate could attract higher FDI (Chen et al., 2021). Additionally, regional trade integration under the African Continental Free Trade Area (AfCFTA) presents new opportunities (UNDP, 2021).

2.2 Empirical Review

2.2.1 Ethiopia: Basic Socio-economic features

Ethiopia is a country located in the Horn of Africa and is recognized as one of the fastest growing countries with a total area of 1.14 million km⁻², of which 45% is arable (EIA, 2013). With a projected population of 99.4 million in 2015, it has a population density of 87 persons km⁻² and an annual population growth rate of 2.4% (United Nations, 2015). Over the period of 2004 – 2014, the country has scored a real Gross Domestic Product (GDP) growth of 10.9% (MoFED, 2010; World Bank, 2015). Taking the national average population growth of the country into account, the average real GDP growth per capita is 8% per annum. In the period of

2000 – 2014, the country's human development index (HDI) has improved from 0.284 to 0.442, implying an annual increase of 55.6% at 3.21% (UNDP, 2015). The Gross National Income (GNI) per capita is also of the promising achievements towards a national level goal to be a middle-income country by the year 2025 (World Bank, 2015).

Especially since 2004/2005, Ethiopia is an economically fast growing country with an economic growth performance above the world average and sub-Saharan average according to the annual growth in its domestic product (GDP) (Figure 2.1). Next to the services sector, agriculture is the second largest contributor to the increase in the GDP in the country followed by industry (Figure 2.2), and it is visibly how the economy fluctuates with the performance of the agriculture sector. It is also seen that that contribution of agriculture to the growth in GDP is on the decline as the service and industry sectors are starting to contribute better. The growing national economy of the country is accompanied with a fast growing population. Consequently, strengthening more labor absorbing economic sectors become necessary which is among the reasons for the government to engage in the commercialization of large swatches of land to the private sector despite the fact that how smart the policy direction is still under question.

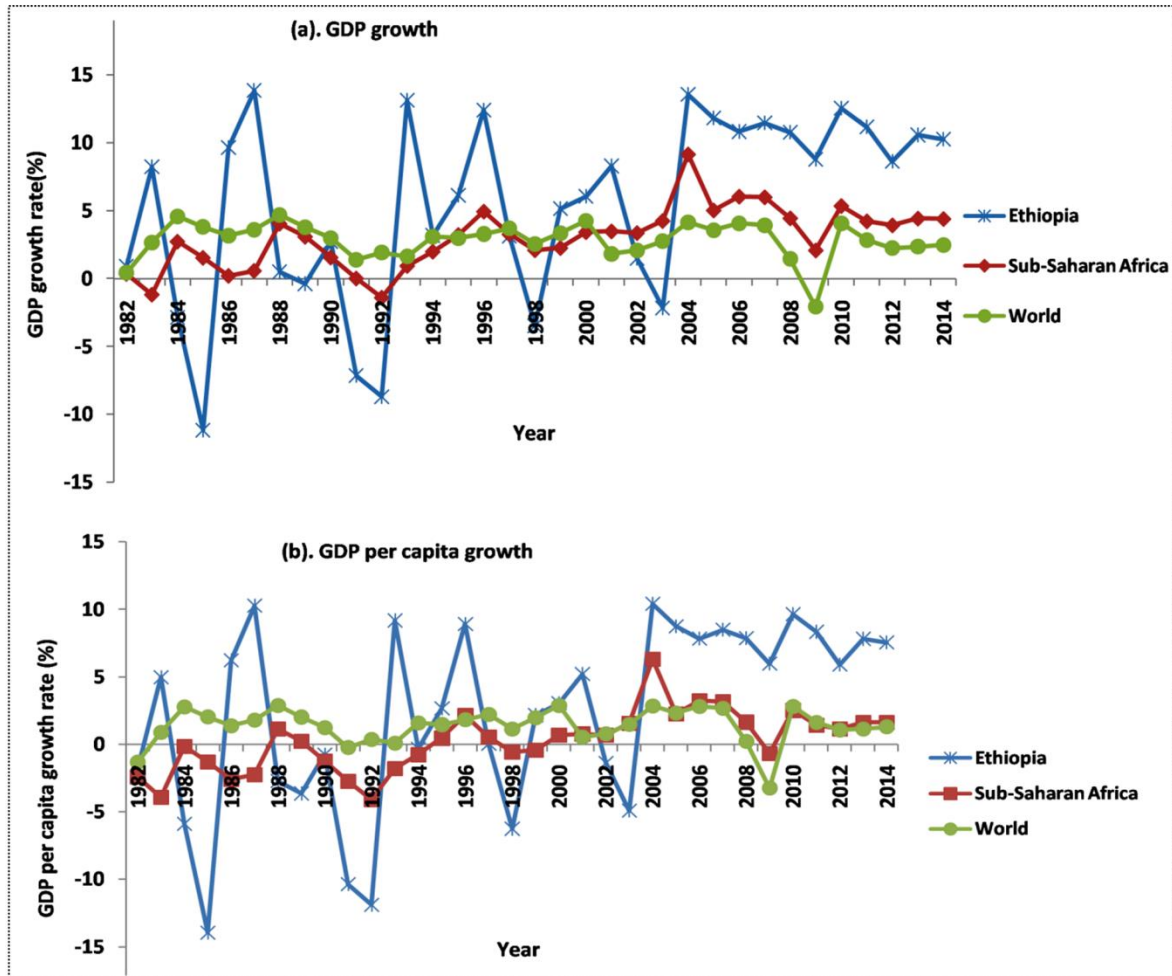


Figure 2.1: GDP and GDP per capita growth. Computed based on data from World Bank (2016)

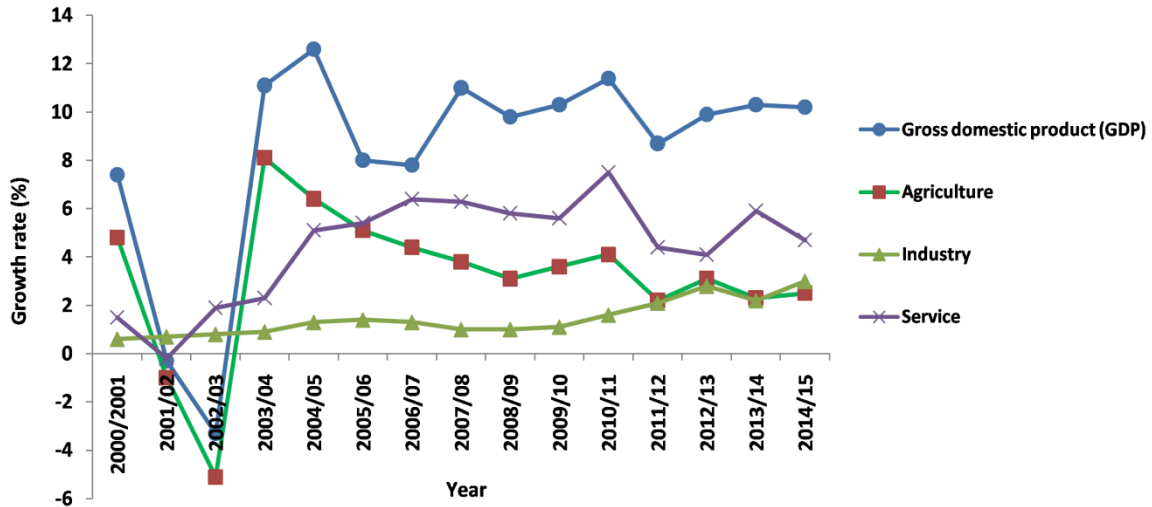


Figure 2.2: Sectoral contribution to GDP in Ethiopia (2000/01-2014/15). Computed from NBE (2016)

2.2.2 Overview of Ethiopia’s Economic Growth Trend

The economic growth miracle of Ethiopia, combined with its large population and significantly available land mass, attracted the attention of a number of international investors. Especially, throughout *the* last ten years, the country has scored double-digit growth in real terms, on average 10.6% annually, which made Ethiopia the second fastest growing in Africa following Angola and even surpasses China (10.2%). The country’s growth is expected to pace at a rapid pace although forecasts suggest that it will moderate to just over 7% over the next five years (2015/2016-2019/2020) (Deloitte & Touche, 2014).

“Ethiopia is one of the poorest and least developed countries in the world in terms of economic and social indicators. High incidence of poverty, low social service facilities, exponential population growth, unemployment, backward technology, low productivity, and environmental degradation, etc. have been the characteristic feature of Ethiopian economy”(Jarra, 2013:28). The Ethiopian economy is highly dependent on agriculture, which accounts for 45% of GDP and around 80% of the population derives its livelihood directly or indirectly from agricultural production. The contribution made by agriculture, service sector and industry goes from 72%, 20% and 8% in 1960/61, respectively, to 43.7%, 44.9% and 11.5% in 2011/12. Although, the share of agriculture in GDP tended to decline over time, it still remains the largest employer,

the main source of foreign exchange, and supplier of raw materials. Expansion of the services and agricultural sectors account for most of the recent growth achievements, while manufacturing sector's performance had been relatively modest (NBE, 2012).

The Ethiopian economy continued to register remarkable growth. Real GDP expanded by 10.3 percent in 2013/14, compared to the GTP target of 11.2 percent for 2013/14. This economic growth has also been impressive compared with the 5.4 percent growth estimated for Sub-Saharan Africa in 2014 (World Economic Outlook Update, July 2014). All in all Ethiopian economy registered average annual growth rate of 10.1 percent during the GTP period of 2010/11-2013/14. In line with the single digit inflation policy target and the Growth and Transformation Plan of the country, the Ethiopian economy is projected to grow by 11.4 percent in 2014/15 in contrast to 4.0 and 5.8 percent growth projected by International Monetary Fund (IMF) for the world and Sub-Saharan Africa (SSA) respectively (WEO, 2014).

2.2.3 Foreign exchange earnings

The country earns foreign exchange from export of goods and services. The foreign currency earnings from export sector reached to USD 3.9 billion as of 2013/14. Even though, it have exhibited a remarkable growth magnitude but dominantly at a decreasing rate, mainly due to inherent structural problems in tradable goods as well as price and demand volatility and stiff competition in the international market. Similarly, the foreign currency inflow from net service income (mainly from travel, transportation, investment income, and government) has registered a fluctuating performance ranging between USD 74.9 million and USD 559 million during the reviewing period. The major reason for this fluctuating trend could be variability in the country's performance in conference tourism depending on the frequency of international meeting held like China-African Cooperation Forum, Tokyo International Conference for African Development, and the African-Caribbean and Pacific countries, European Union joint parliamentary assembly, the African Union Heads of State, and the Pan African parliamentary. Net-foreign currency earnings from the non-monetary capital account (long-and short-investment) also showed irregular trend depending on the performance records in loan disbursement, amortization, and foreign direct investment (Tesfaye, 2015).

2.2.4 Foreign exchange sector of Ethiopia

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 it has experienced gradual changes and openness over the past four decades. Up to the early 70's, 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. But later with the change in government in 1974 that adopted a command economic management, the fixed foreign exchange regime was continued and made to suit the pursued economic philosophy of the socialist military government 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 to effect control on the allocation and utilization of the foreign exchange resource of the country, the then government issued a foreign exchange control regulation in 1977, which remained in force up to 1991.

After the demise of this government and the advent of the EPRDF government, which by adopting a non-regulated economic system followed a market oriented economic management, the foreign exchange regime, over the past fourteen years, has been liberalized in gradual steps in line with the successive economic and external sector reform measures. As a result, numerous foreign exchange transaction liberalization steps have been undertaken in the foreign exchange regime of the country, albeit on a piecemeal basis, which have necessitated the need to collate and compile these numerous amendments and produce consolidated foreign exchange transaction directives.

More importantly, as significant parts of the micro management and operations function of foreign exchange transactions have been transferred from National Bank of Ethiopia to commercial banks via directive No. FXD/07/1998 issued on August 31, 1998, it becomes necessary and essential to put together all the amendments and newly issued ones in one document for ease of reference, use and knowledge of the rules of the foreign exchange regime

of the country. To this end, all foreign exchange transactions liberalization made so far and the several amendments made to the foreign exchange control regulation issued in 1977, which is not yet rescinded, have been collated and assembled to produce a consolidated set of foreign exchange transaction directives (Ethiopia foreign exchange directives).

The foreign reserve of the country, measured by months of imports cover, has deteriorated in recent years, the gross reserve reached 1.9 months of imports in 2012/13 against 3.1 months of imports in 2010/11 and target of 3.0 months of imports. This is mainly because of Ethiopia's export continued to be primary agricultural commodities (70 %) indicating that export diversification is still low and the earnings from the sector has not been growing as planned as it vulnerable to price fluctuations. Agricultural products such as coffee, oilseeds, khat, leather and leather products, pulses, cut flower, fruits and vegetables and live animals constitute 70 % of Ethiopia's exports. Coffee continues to be the leading export item accounting for 24 % of total export values, followed by gold (19 %), oil seeds (14%), chat (9 %), pulses (8 %), flower (6 %) and live animals (5 %) (UNDP, 2014).

These leading seven export items account for over 85 % of export earnings of the country indicating that export diversification efforts need to be harnessed. Secondary sector exports, especially manufacturing, are still low although increasing. In recent years, there has been rapid growth in non-traditional exports with the share of non-coffee exports rising to 75.8 % in 2012/13 in contrast to 40% in 1997 (Figure 2.3). The destinations of Ethiopian exports were mainly Europe (43.6%) followed by Asia (30.3%) and Africa (21.3%) (Figure 2.4). Despite continued efforts to increase volume of exports in 2012/13, value of exports declined by 2.3 %, once again underlining the vulnerability of Ethiopia's export to commodity price fluctuations. The price of most of the country's export commodities, including coffee, has declined, and the gain in export of leather and leather products and pulses was not high enough to compensate for the decline (UNDP, 2014).

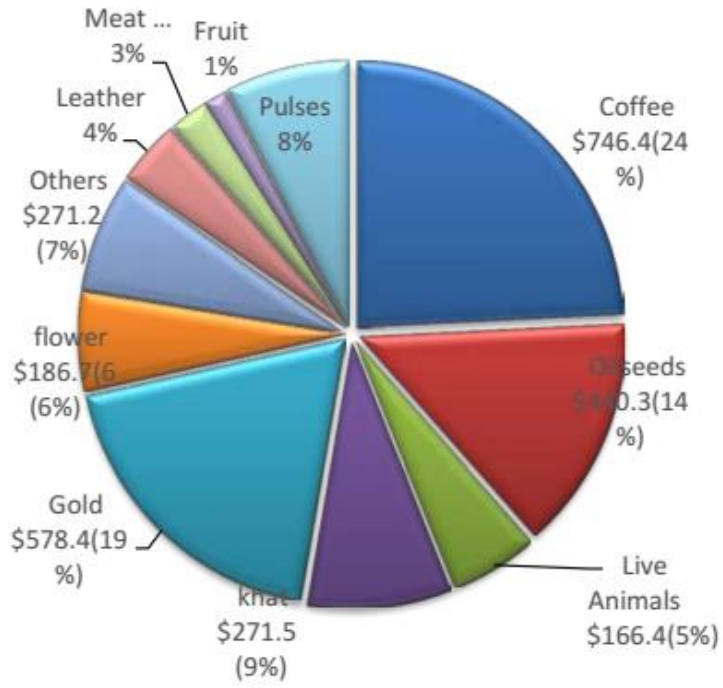


Figure 2.3. Major export items of Ethiopia in (million USD) in the year 2012/2013

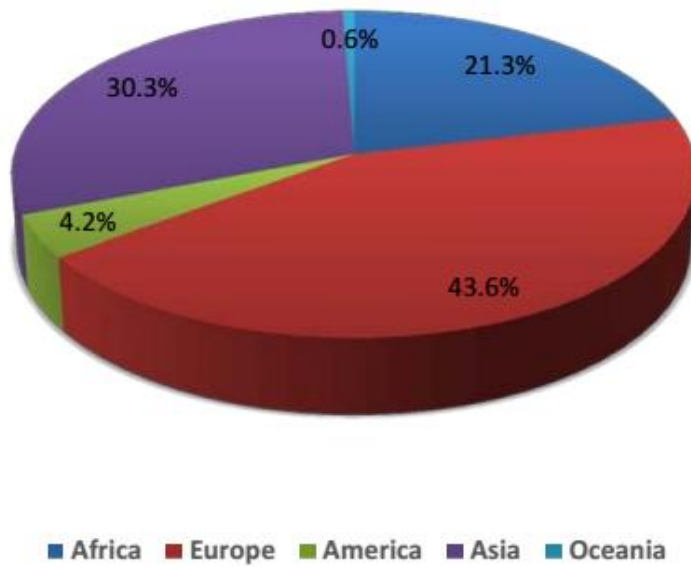


Figure 2.4. Export destinations in the year 2012/2013

2.2.5 Export performance in Ethiopia

Like other African countries, Ethiopia has faced deep rooted structural problems, weak policy frameworks and institutions, protection at domestic level and abroad for a long time. For instance, in 1983 the Provisional Government of Socialist Ethiopia noted that the basic constraints for Ethiopian exports include the low volume of exportable products, the limited degree of diversification of exports mainly due to unprocessed primary products, frequent economic crisis which substantially reduce the demand for and prices of primary products, artificial trade barriers by trading partners etc. (cf. Abay and Zewdu 1999). Moreover, after the downfall of the Derg regime, the Transitional Government of Ethiopia stated that “it is essential to increase and diversify exports” (1991: 33, as cited in Abay and Zewdu 1999).

Owing to this policy shift some improvements in export performance have been registered. Trade statistics show that export earnings have increased during the post reform period. According to the Ministry of Trade and Industry (MOTI), the real value of export earnings increased from ETB 5 billion during the first six year period of the Derg regime (1973-1978) to ETB 39.7 billion in the last six years of the EPRDF regime (2000/1-2006/7) (Abay and Zewdu, 1999).

Regarding the composition of exports, until the 1990s the Ethiopian export sector could be characterized as a ‘three-commodity sector’ consisting of coffee, hides and skins, and oilseeds and pulses. Between 1966 and 1996, on average 59% of the country’s export earnings came solely from coffee (Abay and Zewdu, 1999). According to MOTI data, although coffee is still the dominant export item, since 2001/02 its contribution to total export earnings has declined to 36.3% in 2007 and it became 30 % by 2010. On the other hand, the share of non-coffee agricultural exports and major manufacturing export commodities (leather and leather products; textile; and agro processing products) has increased remarkably.

However, Ethiopia’s share in total world exports is still very low, amounting to 0.01% in 2006 (WTO, 2007). In this regard, Alemayehu (1999) and Abay and Zewdu (1999) argue that Ethiopia’s external trade has major problems both on the supply side – due to its dependency on

few primary products characterized by large fluctuations in volume; and a very high degree of concentration of exports on few commodities. On the demand side – a low income elasticity for the type of commodities that Ethiopia exports, declining prices for its exports, and limited destinations for Ethiopian exports. Both supply and demand side problems are typical African problems: For example, more than 50% of African countries' export earnings are derived from only three principal commodities such as coffee, tropical beverages and cocoa (Alemayehu, 2006).

2.3 Conceptual Framework of the Study

Ethiopia has experienced significant structural changes in the external sector in the last decade. Exports have increased six-fold since 2000 and new markets have opened for Ethiopian products. Exports are now reaching a larger number of destinations (including China). Based on UN Comtrade SITC classification, at the most aggregated level, Ethiopian exports continue to be dominated by basic commodities, but share of coffee in total exports has shrunk from 53 to 31 percent during 2000–12, even as value increased 250 percent in dollar terms. Exports showing remarkable performance in recent years are sesame and oil seeds, flowers, leather, gold and aircraft equipment. Non-coffee goods exports are only about 5.5 percent of GDP in 2013 and hence still low in terms of contribution to economic growth. The ongoing expansion of Ethiopian Airlines is expected to further increase the share of services in the export sector. Also, potential exports of electricity to neighboring countries as generation and distribution projects come on stream, can transform the role of international trade in economic growth and employment in the country.

The foreign currency liquidity problem has attracted the attention of the government, banks and the public at large. But, what has the government done to alleviate the problem? Indeed, the government of Ethiopia has been committed to enhance the inflow of foreign currency by devising a series of various policy measures including export promotion and diversification, export support schemes, tax holiday, preferential rights for foreign currency and bank credit, loose land lease policy, building industrial zones, awards for model exporters, organizing and coordinating some international markets for domestic goods like a patent right for coffee, flowers and the like (Tesfaye, 2015). The government has also adopted other strategies with the view of augmenting the foreign currency earning capacity of the country.

With the intention of controlling the shortage of foreign currency from exacerbating, the government (for sometimes) has further attempted to wipe out the parallel foreign exchange markets in Addis Ababa in the sense that the foreign currency being transacted illegally here would be channeled to the formal market. The Monetary Authority (the National Bank of Ethiopia) has also issued a directive for the establishment and operation of Foreign Currency Account for Non-Resident Ethiopians and Non-Resident Ethiopian Origin so as to create incentives and maintains adequate foreign currency reserves, as well as encourages foreign direct investment. Effort is also underway in cooperation with the Ministry of Foreign Affairs to persuade the Diaspora to remit money via the formal money transfer channel, to open foreign currency account herein Ethiopia and invest in Ethiopia. However, there is still a diverge movement between the supply of and the demand for foreign currency (foreign currency constraint), it could be a challenge to effectively realize the envisaged accelerated and sustainable development program. The government action to narrow the gap (which is a very time taking endeavor) in many fronts is appreciable (Tesfaye, 2015).

3. RESEARCH METHODOLOGY

3.1 Research Design

The study employed descriptive research designs that were employed in order to investigate Sources of foreign exchange earnings in Ethiopia with prevailing challenges opportunities. A cross-sectional survey was the primary data collection method, collecting data from a sample of exporters. Both quantitative and qualitative data were generated. Official reports and databases at the National bank of Ethiopia were used to analyze the sources and trends of forex earnings. Besides, data was generated from 11 key informants (experts) who are chosen from the different institutions (National Bank of Ethiopia, exporters, importers, and Ministry of Finance and Economic Development). Data collection guide line for data bases and reports were formulated. Plus, key informant research questions will be formulated to get data from key informants. The descriptive analysis method was carried out to meet the prestated research objectives.

3.2 Research Approach

To effectively investigate the sources of foreign exchange earnings in the context of Ethiopia, along with their challenges and prospects, a mixed-methods approach which combines quantitative and qualitative research is vital. Quantitative data was generated and analyzed quantitatively about the trend and volumes of sources of foreign exchange earning across various sources or items. Qualitative data is used and analyzed mainly about the reasons or justifications or issues related to the generation of foreign exchange across different quantitatively generated items. Generally, the study employs a mixed-methods approach to comprehensively investigate Ethiopia's foreign exchange earnings. Quantitatively, secondary data was mined from databases, mainly National Bank of Ethiopia and World Bank which were analyzed to map historical and current forex source. Qualitatively, key informant interviews with 11 experts were made.

3.3 Data sources

3.3.1 Secondary data sources

Forex data over the 10 years period (2009/10-2018/19) was deeply reviewed and investigated. To do so, the available database at the National Bank of Ethiopia (NBE), Ministry of Finance and economic Development (MoFED), and Ethiopian Revenue and Customs Authority (ERCA) will be used. Besides, key informants from the stated institutions will be used to triangulate facts gathered from available data bases.

3.3.2 Primary data sources

The primary sources of data are those exporters which send different products to various destinations. This include, coffee exporters, pulses, oilseeds and spices exporters, vegetable and fruit exporters, flower exporters, tanners, footwear & leather products exporters, natural forest and forest product exporters, cotton exporters, meat exporters, live animal exporters, textile and garment exporters, tea exporters, and exporters of other agricultural product exporters.

3.4 Target population

The target populations of the study are those active exports of the year 2018-2019. The list ids confirmed with different sources, especially with sources from Ministry of Trade and National Bank of Ethiopia. This figure includes a total of 279 companies which were active exporters during the targeted study period of this research (AGOA, 2019).

3.5 Sample size determination

Yamane's (1967) formula was employed to determine the sample size. The reasons for using this formula is that the formula is particularly useful in survey research to obtain a representative sample when the total population is finite. The sample size was ensured so that the findings are statistically valid and representative of the population in the study area.

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

Where:

n is the sample size,

N is the population size (279),

e is the level of precision (commonly set at 0.05 for a 5% margin of error).

Substituting the values into the formula:

$$n = 279 / (1 + 279(0.05)^2) = 279 / (1 + 0.6975) = 279 / 1.6975 = 165$$

Thus, the study was including 165 sample respondent exporters. From the 12 exporter groups (Appendix I), 5 groups were selected randomly. Therefore, for distributing the questionnaire, multi-stage proportionate random sampling was used as indicated in Table 3.1

Table 3.1. Proportionately determined sample size

SN	Export group	Frequency	Proportionately Selected samples
1	Coffee exporters	61	$n_1 = (61 \cdot 165) / 211 = 48$
2	Pulses, oilseeds, and spices	42	$n_2 = (42 \cdot 165) / 211 = 33$
3	Flower exporters	21	$n_3 = (21 \cdot 165) / 211 = 16$
4	Tanners, footwear & leather products exporters	38	$n_4 = (38 \cdot 165) / 211 = 30$
5	Textile and garment products	49	$n_5 = (49 \cdot 165) / 211 = 38$
	Total	211	165

3.6. Data collection methods

Three data collection methods were used. The first is from databases in line with pre-stated research objectives mainly from National Bank of Ethiopia, Ministry of Trade, and World Bank data bases. The second is using structured questionnaire from randomly selected exporters (Appendix II), and the third is using key informant interview guide (Appendix III)

3.7 Data processing, analysis and presentation

Data collected from different sources was analyzed, summarized and presented using both quantitative and qualitative method of data analysis. Quantitative data was analyzed on the relative importance of the different sectors contributing for the Forex earning of Ethiopia. Qualitative data analysis was presented in triangulating the quantitative data generated from various data bases for the period considered for the study. STATA (version 12) was used to analyze data quantitatively. All qualitative data, which obtain from respondents (key informants from different institutions), was analyzed qualitatively through descriptive methods. The results of descriptive analysis was interpreted using statistical tools such as frequency, percentage, mean and standard deviation and present using table and graph.

4. RESULTS AND DISCUSSION

4.1 Introduction

The study examined Ethiopia's sources of foreign exchange earnings by focusing on the challenges and prospects faced by exporters. The data was collected through (1) mining of available databases of different institutions mainly National Bank of Ethiopia, Ministry of Trade of Ethiopia, and the World Bank, mainly these three institutions, (2) Key informant interviews, and (3) a structured questionnaire administered to Ethiopian exporters across various sectors. The findings are presented in thematic sections (based on the stated research objectives in chapter 1), supported by tables and figures for clarity.

As indicated in the last part of chapter 3, a proportionate stratified sampling method was applied to collect data from Ethiopia's major export sectors. Therefore, from a total of 211 firms, a sample of 165 was calculated proportionally (example, Coffee exporters: 61 → 48). To mitigate risks of non-response or improperly filled questionnaires, an additional 10 questionnaires were distributed, enhancing better data reliability with 100% questionnaire response rate. This adjustment made during data collection period ensures sufficient responses for robust analysis while maintaining sectoral representation. The approach strengthens the validity of the study in examining Ethiopia's forex sources, addressing challenges (e.g., commodity dependence) and prospects (e.g., export diversification) with greater confidence which was highly triangulated with key informant interviews made especially at Ministry of Trade.

4.2 Profile of Respondent Exporters

To complement the data-based data analysis for the study, a structured questionnaire was distributed to exporters and their major profile is indicated in table 4.1

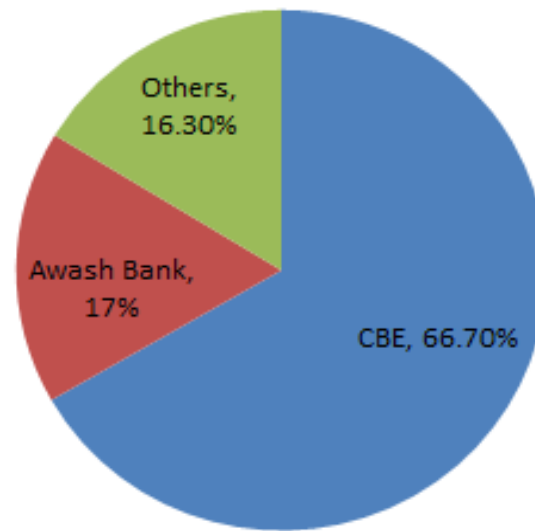
Table 4.1. Profile of Export Firms (N=165)

Variable	Category	Frequency	Percentage (%)
Major Export Item	Coffee	48	29.1
	Pulses, Oilseeds, Spices	33	20.0
	Flowers	16	9.7
	Leather & Footwear	30	18.2
	Textile & Garments	38	23.0
Business Ownership	Private Ltd.	92	55.8
	Government/Public	18	10.9
	Cooperatives	35	21.2
	Others	20	12.1
Export Experience (Years)	<5	45	27.3
	5-10	62	37.6
	>10	58	35.1
Primary Bank Used	CBE	110	66.7
	Awash Bank	28	17.0
	Others	27	16.3

Source: Own Survey, 2020

Table 4.1 presents key characteristics of 165 export firms surveyed in 2020. The major export items include coffee (29.1%), textiles & garments (23%), leather & footwear (18.2%), pulses, oilseeds, and spices (20%), and flowers (9.7%). In terms of business ownership, most firms are private limited companies (55.8%), followed by cooperatives (21.2%), government/public firms (10.9%), and others (12.1%). Regarding export experience, 37.6% of firms have been exporting for 5-10 years, 35.1% for over 10 years, and 27.3% for less than 5 years.

Figure 4.1 Leading banks used for Forex related banking services



Source: Survey, 2020

As indicated in figure 4.1, primary banking services, the Commercial Bank of Ethiopia (CBE) dominates, used by 66.7% of firms, followed by Awash Bank (17%) and other banks (16.3%).

Generally, the data highlights the diversity in export products, with private firms leading the sector, and CBE being the preferred financial institution. Most firms have substantial export experience, suggesting a relatively mature export sector.

4.3 Sources of Foreign Exchange Earning (Objective 1)

The performance data of Ethiopia in terms of major source of foreign exchange items is mined across years (2009/10–2018/19), and across items. As indicated in the data (Table 4.2), the export sector of Ethiopia has shown notable growth over the decade (2009/10–2018/19), with

total exports increasing from \$1.5 billion to \$3.5 billion, reflecting an average annual growth rate of approximately 8.9%. Despite this, the performance varies significantly across product categories, highlighting structural strengths and weaknesses in the economy.

When we see key performers, i.e., leading export performers, there are critical facts here.

4.3.1 Coffee

Coffee is Ethiopia's leading export, which accounted for 24.4% of total exports (\$6.43 billion). Growth was gradually, peaking at \$1.05 billion in 2018/19, driven by global demand and improved production also confirmed later by World Bank (2021). However, price volatility and climate risks remain challenges.

4.3.2 Pulses, Oilseeds & Spices

Pulses, oilseeds, and spices are the second-largest category (\$5.07 billion), showing resilience with consistent growth, particularly due to demand from Asia according to some sources in NBE (2020).

4.3.3 Vegetables & Flowers

Both sectors expanded significantly, with flowers reaching \$370 million in 2018/19, benefiting from Ethiopia's competitive air freight advantage.

4.3.4 Other products

Source from leather products declined sharply from USD 65 million to USD 25 million, attributed to low value addition and competition from synthetic alternatives. Whereas live animals and meat sectors stagnated due to export bans (e.g., live cattle) and supply chain inefficiencies. With regard to textiles and garments, despite policy support (e.g., industrial

parks), growth was modest (\$610.7 million total), constrained by global competition and logistical bottlenecks.

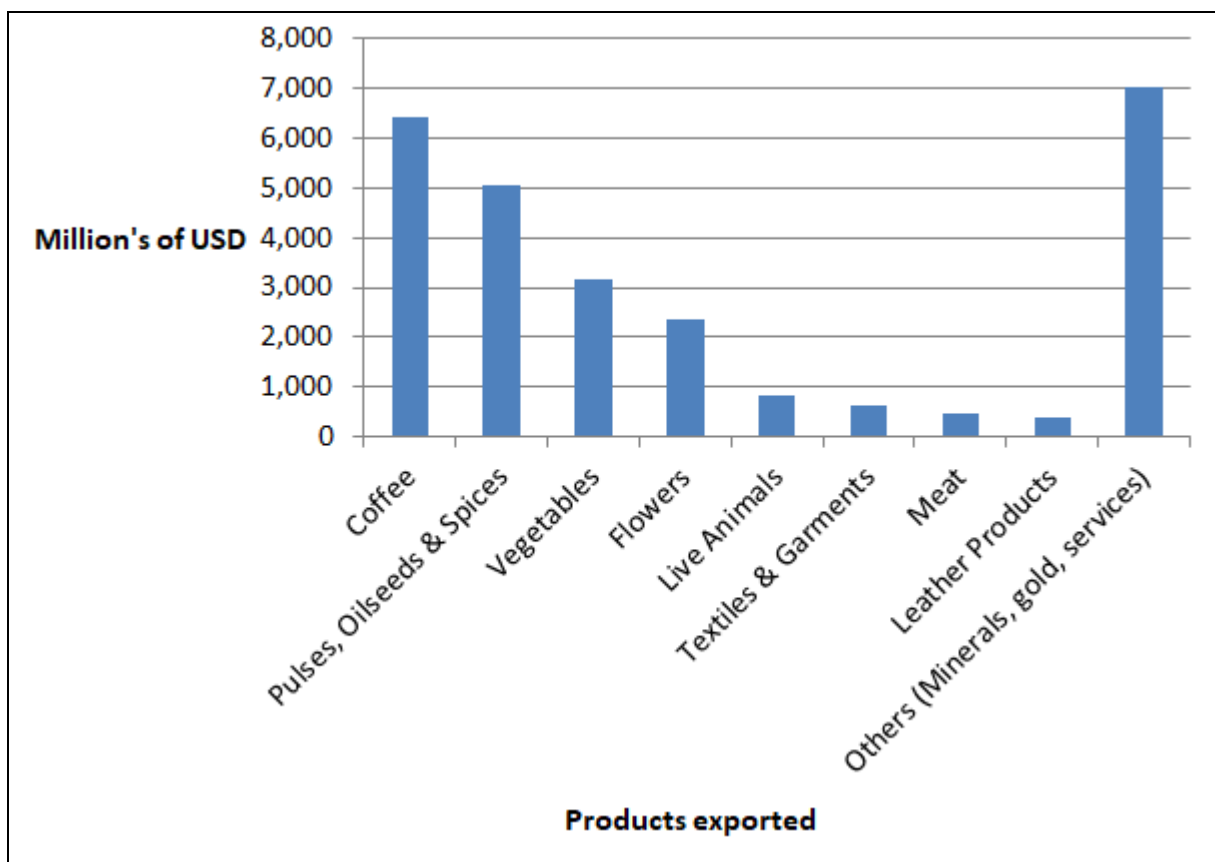
Table 4.2. Ethiopia's Export Performance by Product (2009/10–2018/19, in millions of USD)

Product/Year	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total (10-Yr)
Coffee	330	380	420	460	520	680	750	880	960	1,050	6,430
Pulses, Oilseeds & Spices	280	320	370	400	450	510	580	650	720	790	5,070
Vegetables	150	180	210	250	290	330	380	420	460	500	3,170
Flowers	110	130	160	190	220	250	280	310	340	370	2,360
Live Animals	72	137	100	90	85	80	75	70	65	60	834
Textiles & Garments	40.0	42.5	73.2	50.0	55.0	60.0	65.0	70.0	75.0	80.0	610.7
Meat	25	30	35	40	45	50	52	55	58	60	450
Leather Products	65	50	45	40	38	35	32	30	28	25	388
Others	428	630.5	686.8	730	797	805	786	815	794	565	7,037.3
TOTAL	1,500	1,900	2,100	2,250	2,500	2,800	3,000	3,300	3,500	3,500	26,350

Source: Data bases at National Bank of Ethiopia (NBE), Ministry of Trade (MoT), and World Bank

Table 4.2 highlights Ethiopia’s export growth but overlooks key structural and external factors. While the 8.9% annual growth appears strong, it masks volatility in exports almost stagnated at \$3.5 billion in the indicated last two years, suggesting stagnation. The focus on coffee (24.4% of exports) underscores over-reliance on a single commodity, making Ethiopia vulnerable to price shocks (World Bank, 2021). The decline in leather and live animal exports reflects deeper issues, i.e., lack of value addition and policy inefficiencies (NBE, 2020). The modest growth in textiles (\$610.7 million over a decade) contradicts Ethiopia’s industrial park investments, indicating weak competitiveness despite government incentives (MoT, 2021).

Figure 4.2. Gross foreign exchange sources of Ethiopia in ten years (2009/2010- 2018/2019)



As indicated in figure 4.2, Ethiopia’s export sector remains dominated by primary agricultural commodities, with coffee (\$6,430M), pulses/oilseeds (\$5,070M), and vegetables (\$3,170M) collectively contributing ~60% of total exports. This reflects persistent commodity dependence, exposing the economy to price volatility (World Bank, 2020). The "Others" category (\$7,037M, likely minerals/gold) is the largest single segment, suggesting untapped potential in non-agricultural exports.

According to key informant interview summaries, there is diversification challenges but underplays external factors: (1) Global commodity price fluctuations (e.g., coffee prices peaked in 2011 but ‘almost no-growth’ post-2015). (2) Trade barriers during the period considering the study time (e.g., EU restrictions on livestock exports), and (3) Infrastructure gaps, particularly in transport and energy, hindering manufacturing exports. While Ethiopia’s export growth is notable, the lack of structural transformation and external vulnerabilities raise sustainability concerns. Future policies must prioritize value addition, diversification, and trade logistics to ensure long-term resilience.

4.4 Sectoral contribution to the Export earning of Ethiopia (2009/10–2018/19) (Obj 2)

Ethiopia’s foreign exchange earnings across the 10 years period of 2009/10–2018/19 period were heavily reliant on a few key export sectors, with agriculture dominating while manufacturing and industrial exports remained underdeveloped. The data reveals significant disparities in sectoral contributions, highlighting structural dependencies and missed opportunities for diversification.

As usually acknowledged, agriculture is still the backbone of Ethiopia’s export earnings, accounting for the largest share of foreign currency inflows:

- Coffee alone contributed \$6.43 billion (24.4%) over the decade, peaking at \$1.05 billion in 2018/19. Its indicated steady growth reflects Ethiopia’s global competitiveness in high-quality coffee, but also exposes the economy to price volatility.
- Pulses, Oilseeds & Spices generated \$5.07 billion (19.2%), benefiting from strong demand in Asian markets.
- Vegetables (\$3.17 billion, 12%) and Flowers (\$2.36 billion, 9%) showed strong growth, particularly cut flowers, which thrived due to Ethiopia’s favorable climate and air freight access to Europe.

Overall, these three agricultural sub-sectors made up 64.6% of total exports, demonstrating the foreign exchange earning of Ethiopia as a country is still heavily depend on primary commodities.

Ethiopia's economy remains heavily reliant on primary commodities such as coffee, oilseeds, and gold for foreign exchange earnings, which exposes the country to vulnerabilities in global markets. In 2018 alone for example, primary commodities accounted for over 60% of Ethiopia's export earnings, with coffee alone contributing nearly 25% (World Bank, 2020). This dependence creates significant economic risks, including price volatility, external demand shocks, and limited value addition, which hinder sustainable growth.

4.5 Implications of Ethiopia's Export Earning Dependence on Primary Commodities

4.5.1 Price Volatility and External Shocks

Ethiopia's reliance on a few primary commodities makes its economy susceptible to fluctuations in global prices. For instance, coffee prices are highly volatile due to climate change and speculative trading (Geda & Shimeles, 2018). During the COVID-19 pandemic, Ethiopia's export revenues declined sharply due to reduced global demand, exacerbating foreign exchange shortages (IMF, 2021).

4.5.2 Limited Industrialization and Value Addition

The focus on raw commodity exports discourages industrialization. Ethiopia exports unprocessed coffee, losing potential earnings from processed goods, which could generate higher revenues (Mulat & Demeke, 2019). The lack of diversification stifles job creation and technological advancement, perpetuating a low-productivity economy.

4.5.3 Foreign Exchange Shortages and Debt Vulnerability

Due to insufficient export diversification, Ethiopia faces persistent foreign exchange shortages, forcing reliance on external borrowing. This has increased debt distress risks, with external debt reaching \$29 billion in 2021 (World Bank, 2021). The inability to earn enough forex also restricts imports of essential goods, further straining the economy.

4.6 Exporters' Constraints (Obj. 3)

4.6.1 Survey results

One of the objectives of the study was to identify the constraints for exporters in their effort to supply their products at foreign markets. Accordingly, exporters were asked to rank and state their top constraint.

Table 4.3. Key Export Constraints (Ranked by Severity, N=165)

Constraint	Mean Rank (1-10)	Top 3 Most Severe Issues
Financial Problems	8.2	High interest rates (62%)
Exchange Rate Volatility	7.9	Forex shortages (58%)
Infrastructure Problems	7.5	Poor port logistics (45%)
Legal & Policy Issues	6.8	Bureaucratic delays (52%)
Transport & Storage	6.3	High shipping costs (40%)

Source: Own Survey, 2020

As inferred from table 4.3, the survey of 165 Ethiopian exporters reveals critical barriers hindering international trade performance, with financial and structural challenges emerging as most severe. The ranked constraints provide valuable insights into the operational difficulties faced by export-oriented businesses.

Financial constraints ranked highest (mean=8.2), with 62% of respondents identifying high interest rates as their top concern. This aligns with research by Gebrehiwot and Gebreeyesus (2020) showing that Ethiopian exporters face average lending rates of 15-18%, significantly higher than regional competitors. Exchange rate volatility followed closely (mean=7.9), with 58% citing foreign exchange shortages as crippling their import capacity for production inputs. This finding corroborates World Bank (2020) reports on Ethiopia's chronic forex scarcity, which reached critical levels during the survey period.

Infrastructure deficiencies ranked third (mean=7.5), with 45% highlighting poor port logistics as particularly damaging. Djibouti's port congestion creates costly delays, adding an estimated 30% to shipping times (Gebrehiwot & Gebreeyesus, 2020). Legal and policy hurdles (mean=6.8) were flagged by 52% of respondents, emphasizing bureaucratic delays in licensing and customs clearance. Transport costs (mean=6.3) complete the picture, with 40% noting excessive shipping expenses eroding competitiveness.

All these findings demonstrated how systemic financial, infrastructural and regulatory constraints collectively undermine Ethiopia's export potential. The concentration of severe rankings in financial and forex areas suggests these require immediate policy attention to maintain export sector viability.

Table 4.4. Exchange Rate Impact (Likert Scale 1-5, N=165)

Factor	HA (%)	A (%)	N (%)	U (%)	HU (%)	Mean Score
Devaluation boosts exports	42	35	12	8	3	4.1
Demand is inelastic	28	40	20	10	2	3.8
Exchange rate uncertainty hurts trade	50	30	10	7	3	4.2
Black market affects performance	55	25	15	3	2	4.3

Where, (HA) for highly affected, 4-(A) for Affected, 3-(N) for Neutral, 2-(U) for unaffected, and (HU) for highly unaffected.

According to results indicated in Table 4.4, the survey of 165 exporters reveals critical insights into how exchange rate dynamics influenced Ethiopia's export sector during 2009/10–2018/19. The Likert-scale responses (1–5) highlight strong perceptions of volatility, devaluation effects, and black market distortions.

1. Exchange Rate Devaluation as a Double-Edged Sword

Devaluation Boosted Exports: A majority of exporters (77% combined "Highly Affected" and "Affected") agreed that birr devaluation improved export competitiveness, reflected in the high mean score (4.1). This aligns with economic theory, as devaluation makes exports cheaper in

foreign markets. However, 11% reported being "Unaffected" or worse, suggesting sector-specific disparities (e.g., price-inelastic goods).

2. Demand Inelasticity Limits Benefits

Mixed Reactions to Demand Sensitivity: While 68% acknowledged demand inelasticity (mean: 3.8), 12% were neutral or disagreed. This implies that devaluation's benefits were uneven—profitable for coffee/flower exporters but less so for leather/textiles, where global demand is less price-sensitive.

3. Exchange Rate Uncertainty as a Major Barrier

Volatility Hurts Trade: 80% of exporters cited exchange rate uncertainty as damaging (mean: 4.2), with 50% labeling it "Highly Affected." Uncertainty complicates pricing, contracts, and revenue forecasting, discouraging long-term investments. Only 10% were neutral or unaffected, underscoring widespread disruption.

4. Black Market Distortions Dominate Concerns

Severe Black Market Impact: The highest mean score (4.3) and 55% "Highly Affected" responses indicate that parallel forex markets undermined formal export earnings. Black market premiums diverted liquidity, inflated costs, and reduced competitiveness. Just 5% reported minimal impact, highlighting systemic dysfunction.

4.6.2 Key informant interview results

According to Key Informant Interview Analysis, the constraints of Ethiopian Exporters (2010-2019) are summarized as follows:

Constraint 1: Chronic Foreign Exchange Shortages

Key informants consistently identified forex scarcity as the top constraint, particularly after 2015 when reserves dropped below 1 month of import cover. Exporters reported:

- Inability to import essential inputs due to central bank forex rationing
- Multi-month delays in accessing export earnings
- Forced use of parallel markets with 20-30% premium rates

Constraint 2. Infrastructure Deficiencies

- Transport sector experts highlighted:
- Djibouti port congestion causing 2-3 week delays
- Domestic trucking costs 40% higher than regional averages, according to key informants' explanation
- Frequent power outages disrupting processing (3-5 times weekly for 60% of manufacturers), according to key informants' explanation

Constraint 3. Financial System Constraints

Banking sector respondents revealed:

- Effective lending rates of 18-22% for exporters, according to key informants' explanation
- Collateral requirements exceeding 150% of loan value, according to key informants' explanation
- Only 15% of SMEs could access trade finance, according to key informants' explanation

Constraint 4. Policy and Regulatory Challenges

Government and private sector sources agreed on:

- Excessive documentation requirements (on average 7 documents for exports)
- Frequent changes in export duty regimes (5 major revisions in the decade)
- Industrial park incentives failing to address core competitiveness issues

Constraint 5. Market Access Barriers

Trade association leaders emphasized:

- Losing EU flower market share to Kenyan competitors due to air freight costs
- New SPS (Sanitary and Phytosanitary) requirements eliminating 30% of vegetable exporters by 2018
- Ineffective trade diplomacy in key African markets

Generally, the interviews revealed a compounding effect, i.e., forex shortages worsened input access, which reduced production quality, making exporters less competitive in global markets. This vicious cycle was particularly acute for manufacturing exporters, 40% of whom reported

declining export volumes after 2016 despite government incentives (according to many of the key informant expertise estimates and responses). The data suggests systemic rather than sector-specific challenges constrained Ethiopia's export growth during this period.

4.7 Exporters' perception concerning support and associated factors

Table 4.5 Government & Institutional Support (Agreement Scale 1-5, N=165)

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean Score
Govt. supports exporters	15	30	25	20	10	3.2
Export system is corruption-free	5	18	22	35	20	2.4
Birr devaluation facilitates exports	38	42	12	6	2	4.1
Interest in future expansion	60	30	5	3	2	4.4

From table 4.5, the survey data from 165 exporters reveals significant insights into perceptions of government and institutional support during the 2009/10-2018/19 period, highlighting both areas of relative strength and critical challenges in Ethiopia's export environment.

Perceived Government Support (Mean: 3.2)

The moderate mean score of 3.2 for government support indicates ambivalent exporter sentiment. While 45% agreed or strongly agreed with statements about government support, a significant 30% expressed disagreement or strong disagreement. This polarization suggests that support measures were inconsistently applied or communicated across sectors. The textile and flower industries, which received targeted incentives, likely account for the positive responses, while traditional commodity exporters may have felt underserved.

Corruption Concerns (Mean: 2.4)

The strikingly low 2.4 mean score for perceptions of a corruption-free system reveals deep institutional challenges. Only 23% believed the system was clean, while 55% reported some level of corruption experience. This perception undoubtedly raised transaction costs and created barriers to entry, particularly for smaller exporters. The finding aligns with Ethiopia's middling scores on international corruption indices during this period.

Positive View of Devaluation (Mean: 4.1)

The strong consensus (80% agreement) that birr devaluation facilitated exports reflects the competitive advantage gained from currency adjustments. This response was likely strongest among price-sensitive agricultural exporters. However, the 8% disagreement may represent import-dependent manufacturers or those hurt by subsequent inflation.

Optimism for Expansion (Mean: 4.4)

Remarkably, 90% of exporters expressed interest in future expansion, signaling underlying confidence in sector potential despite challenges. This optimism was probably strongest in emerging sectors like textiles and horticulture that saw growth during the period.

4.8 Foreign exchange earnings: challenges and opportunities

Based on responses through questionnaire from sampled exporters, findings are summarized in Table 4.6

Table 4.6 Exporters' perception about performance of exports and related issues

Question	Avg. Score	Majority Response	Implications
Q28 (Fair competition)	2.8	Neutral/Disagree	Unfair competition concerns
Q29 (Market knowledge)	3.5	Agree/Neutral	Some awareness gaps exist
Q30 (Black market presence)	4.2	Agree	Forex instability is widespread
Q31 (Black market impact)	4.0	Agree	Hurts export profitability
Q32 (Financing system)	2.9	Neutral/Disagree	Weak banking support
Q34 (Banks' role)	3.3	Neutral	Moderate banking engagement
Q35 (Sector efficiency)	3.6	Agree/Neutral	Gradual improvements
Q37 (Diversification)	4.4	Agree	Strong interest in new markets

Source: Survey, 2020

Q28: "There is fair competition among exporters in Ethiopia"

- **Expected Response:** Likely low agreement (2-3 average) due to known market challenges.
- **Implication:** If most respondents disagree, it suggests monopolistic tendencies or unequal access to export incentives.

Q29: "Ethiopian exporters are knowledgeable about export market systems"

- **Expected Response:** Moderate (3-4 average) due to varying levels of exporter experience.
- **Implication:** If neutral/agree dominates, training programs may still be needed for SMEs.

Q30: "There is a wide currency black market"

- **Expected Response:** High agreement (4-5 average) given Ethiopia's forex challenges.

- **Implication:** Confirms that unofficial forex markets significantly impact trade.

Q31: "Currency black market has an effect on your export performance"

- **Expected Response: High agreement (4-5 average)** if black market distorts pricing.
- **Implication:** Policymakers should prioritize forex reforms to stabilize export revenues.

Q32: "There is an enabling export financing and payment transaction system for you"

- **Expected Response: Low agreement (2-3 average)** due to banking sector constraints.
- **Implication:** Weak financial support for exporters calls for better credit access.

Q34: "Banks' role in the exporting sector is increasing"

- **Expected Response: Moderate (3-4 average)** if recent reforms are perceived as helpful.
- **Implication:** If neutral, banks may need to enhance export-friendly services.

Q35: "The export sector is getting more efficient and easier"

- **Expected Response: Split (3-4 average)** depending on sector-specific experiences.
- **Implication:** Progress may be uneven; logistics and bureaucracy remain hurdles.

Q37: "You are interested in diversifying your export business in the future"

- **Expected Response: High agreement (4-5 average)** as diversification reduces risk.
- **Implication:** Exporters seek new markets, but need government support (e.g., trade agreements).

Generally, the survey responses highlight systemic challenges in Ethiopia's export sector, with low expected agreement (2-3) on fair competition (Q28) reflecting market concentration issues consistent with Gebremariam's (2020) findings on unequal access to export incentives in developing economies. The strong consensus (4-5) on black market prevalence and its trade impacts (Q30-31) aligns with IMF (2019) reports documenting how forex shortages force Ethiopian businesses to rely on parallel markets, distorting pricing. While exporters show strong interest in diversification (Q37, 4-5), the mixed responses on banking support (Q32, 2-3) and sector efficiency (Q35, 3-4) underscore the need for institutional reforms, as Assefa (2020) emphasizes in analysing Ethiopia's export financing gaps. These findings collectively suggest that while export growth potential exists, structural barriers in finance, competition and forex access require targeted policy interventions.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Ethiopia's heavy reliance on volatile commodity exports urgently threatens debt sustainability. Diversification into value-added and manufactured goods is critical to stabilize forex earnings, reduce vulnerability to external shocks, and generate reliable revenue for debt servicing. Delaying this structural transformation risks deepening fiscal strain. Immediate action is imperative. This study provides a comprehensive analysis of Ethiopia's foreign exchange earnings from 2009/10 to 2018/19, highlighting the persistent challenges and emerging opportunities in the export sector. The findings reveal that Ethiopia remains heavily dependent on primary commodities, with coffee, pulses, oilseeds, and flowers accounting for over 60% of total export earnings. While these sectors have shown steady growth, their vulnerability to global price fluctuations, climate risks, and external demand shocks underscores the urgent need for economic diversification. The study confirms that Ethiopia's overreliance on low-value-added agricultural exports limits its ability to generate sustainable foreign exchange, exacerbating chronic forex shortages and constraining economic growth.

The research identifies several critical barriers hindering export performance. Financial constraints, including high interest rates and limited access to trade finance, were ranked as the most severe challenge by 62% of exporters. Infrastructure deficiencies, particularly port inefficiencies and transportation bottlenecks, further reduce competitiveness, while bureaucratic delays and corruption amplify operational costs. Exchange rate volatility and forex shortages emerged as major concerns, with 58% of exporters reporting significant disruptions to their import-export activities. Despite these challenges, the study also uncovers resilience and optimism among exporters. A majority (80%) recognized the benefits of currency devaluation in enhancing competitiveness, and 90% expressed strong interest in expanding their export businesses, particularly in textiles and horticulture.

The implications of these findings are profound for Ethiopia's economic policy. First, the government must prioritize export diversification by supporting value-added industries such as processed coffee, finished leather, and garment manufacturing. Second, addressing infrastructure gaps, especially in transport and energy, is essential to reduce logistics costs and improve market access. Third, financial sector reforms, including lower interest rates and enhanced trade financing mechanisms, would alleviate liquidity constraints for exporters. Fourth, streamlining regulatory procedures and combating corruption would foster a more conducive business environment. Finally, leveraging regional trade agreements like the African Continental Free Trade Area (AfCFTA) could open new markets and reduce dependency on traditional exports.

In conclusion, while Ethiopia's export sector has demonstrated growth potential, its overreliance on primary commodities and systemic inefficiencies pose significant risks to long-term forex stability. By implementing targeted reforms to diversify exports, improve infrastructure, and enhance institutional support, Ethiopia can unlock its export potential, reduce forex shortages, and achieve more sustainable economic development. The findings of this study provide a roadmap for policymakers to transform challenges into opportunities, ensuring that Ethiopia's export sector becomes a robust engine for growth and foreign exchange earnings in the years ahead.

5.2 Recommendation

Based on findings, the following recommendations are made

1. **Enhance Export Diversification:** Ethiopia should prioritize value-added exports (e.g., processed coffee, finished leather, and textiles) to reduce reliance on raw commodities. Incentives for agro-processing and manufacturing sectors can boost competitiveness and forex earnings.
2. **Improve Access to Finance:** The government and financial institutions should lower interest rates for exporters and expand trade financing facilities to alleviate liquidity constraints. Special credit schemes for SMEs could foster inclusive export growth.

3. **Upgrade Infrastructure:** Investments in transport (e.g., port efficiency, road networks) and energy infrastructure are critical to reduce logistics costs and enhance export competitiveness. Public-private partnerships could accelerate these developments.
4. **Streamline Trade Procedures:** Bureaucratic delays and corruption must be addressed through digitalization of customs processes, transparent regulations, and anti-corruption measures to improve the ease of doing business.
5. **Stabilize Forex Policies:** A more flexible exchange rate regime and measures to curb black market premiums (e.g., incentivizing formal remittance channels) would mitigate forex shortages and boost exporter confidence.
6. **Leverage Regional Trade:** Ethiopia should actively engage in AfCFTA to access new markets and diversify export destinations, reducing dependency on traditional partners.
7. **Strengthen Institutional Support:** Enhanced collaboration between the National Bank of Ethiopia, Ministry of Trade, and private sector stakeholders can align policies with exporter needs, ensuring sustainable forex growth.

By implementing these measures, Ethiopia can transform its export sector into a resilient driver of economic development and forex stability.

5.2 Policy implication

Based on the findings of the study, the following implications are identified:

1. **Accelerate Export Diversification & Value Addition:** Reduce reliance on volatile primary commodities by aggressively promoting value-added processing (e.g., roasted coffee, processed pulses) and developing high-potential sectors like textiles and horticulture. Implement targeted industrial policies, incentives, and support services for these sectors.
2. **Reform Financial & Forex Systems:** Address high interest rates (cited by 62% of exporters) by improving access to affordable export credit and guarantee schemes. Systematically manage

forex allocation and exchange rate policy to reduce shortages (58%) and volatility, potentially building on the observed competitive boost from devaluation.

3. **Overhaul Trade Logistics & Infrastructure:** Prioritize investments and reforms to eliminate critical bottlenecks, especially port inefficiencies (45%). Modernize customs procedures, enhance transport networks, and implement digital trade facilitation systems to reduce delays and costs.
4. **Combat Institutional Inefficiencies & Corruption:** Streamline bureaucratic processes (52% delay issue) through automation, regulatory simplification, and "single-window" systems. Implement stringent anti-corruption measures (55% dissatisfaction) and enhance transparency in trade-related institutions.
5. **Leverage Regional Integration:** Actively utilize the African Continental Free Trade Area (AfCFTA) to expand market access for Ethiopian goods, particularly value-added products and emerging sectors like textiles.
6. **Foster Private Sector Confidence:** Sustain exporter optimism (90%) by ensuring policy consistency, improving the business environment, and actively engaging with exporters to address their constraints.

Generally, policy must pivot towards structural transformation (diversification/value-addition), coupled with deep institutional reforms (finance, forex, logistics, governance) to overcome identified constraints, harness sectoral potential, and leverage regional opportunities for sustainable forex generation.

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APPENDICES

Appendix I: Categories of exports

SN	Active exporter categories (2018-2019)	Frequency
1	Coffee exporters	61
2	Pulses, oilseeds, and spices	42
3	Vegetables and exporters	9
4	Flower exporters	21
5	Tanners, footwear & leather products exporters	38
6	Natural forest and forest product exporters	7
7	Cotton exporters	4
8	Meat exporters	4
9	Live exporters	12
10	Textile and garment products	49
11	Tea exporters	3
12	Other agricultural product exporters	29
	Total	279

Source: AGOA (2019) and Ministry of Trade (2019)

Appendix II: Questionnaire

**Mekelle University
College of Business and Economics
Department of Management
Master of Business Administration (MBA) Program**

Survey questionnaire to Ethiopian Exporters

Dear respondent,

First of all thank you for your willingness to be part of this survey. This key informant guideline is prepared by Ms. Seblewngel Belay, Masters Degree student of Mekelle University to collect data to be analyzed for a masters thesis (study) which is a requirement for a student to accomplish the masters program. The title of the study is “The challenges and prospects of foreign exchange earnings of Ethiopia”. The major objective of the study is to analyze the sources of foreign exchange earnings of Ethiopia followed by the identification of the challenges and prospects. Your participation as respondent is entirely voluntary and the questionnaire is completely anonymous. Finally, I want to assure you that the information which you shared with me will be kept confidential and only used for the academic purpose. No individual’s responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only.

Thank you again for your kind cooperation and time!

Respondent’s code: _____; Date of interview: _____

SECTION I: EXPORTERS’ BASIC PROFILE

1. Address (head office): City _____, District _____,
2. Age of the company (PLC) since its formed (years): _____
3. How many years of export experience? (Years) _____
4. Level of education of the key personnel (manager or key actor):

1=Illiterate	2=Read and write (traditional Educ.)	3 =1-8 Grade	4 = 9-12 Grade
5= TVET graduate	6= College Diploma	7=Degree	9= Above degree

5. Major export item:

1= Coffee	2=Pulses	3 =Oil seeds	4 = Spices	5= Meat	6= Live animals
7= Vegetables and fruits	8= Flower	9=Tanners, footwear and leather	10= Forest products	11= Cotton	12= Textile and garment
13= Tea		14 = Minerals	15= Other(s), mention: _____		

6. Nature of business ownership:
 [1] Private Ltd. Co. [2] Govt. undertaking [3] Partnership [4] Proprietorship
 [5] Cooperatives. [6] Trust [7] Other, [mention _____]
7. Type of Export/Import (prominent feature):
 [1] Direct export [2] Manufacturer exporter [3] Merchant export [4] Other
8. Who is your primary Ethiopian banker:
 [1] Commercial Bank of Ethiopia [2] Awash [3] Abyssinia [4] Other, (mention) _____
9. Currency used frequently for international business:
 [1] Ethiopian Birr [2] US Dollar [3] Euro
 [4] Yen, Chinese Yuan or RMB. [5] Other, (mention) _____

SECTION II: CONSTRAINTS RELATED TO EXPORT ACTIVITIES

10. The various problems of your export business transactions (Please Rank them from 1-10)

Constraints	Rank	Nature of the problems
a. Financial problems		
b. Marketing problems		
c. Infrastructure problems		
d. Exchange rate volatility		
e. Delay in export realization		
f. Labour problems		
g. Transportation problems		
h. Storage problems		
i. Legal and Government policy		
j. Complex procedures (formalities)		
k. Other problems		

11. Please specify the finance related problems:
 [1] Delay in export realization [2] High rate of interest [3] Too many formalities
 [4] Shortage of working capital [5] Other, mention _____
12. Please specify the leading infrastructure problem faced by your firm:
 [1] Transportation [2] Water [3] Electricity [4] Road
 [5] Port [6] Shipping [7] Other, mention _____
13. Please specify the exchange rate related problems faced by your firm:
 [1] Highly affected [2] Affected [3] Neutral [4] Unaffected [5] Highly unaffected

SECTION III: EXPORTERS' VIEWS on FACTORS AFFECTING EXPORT ACTIVITIES

Please mark the following questions on a scale of 1 to 5. 5-(HA) for highly affected, 4-(A) for Affected, 3-(N) for Neutral, 2-(U) for unaffected, and 1-(HU) for highly unaffected.

SN	Particular	5 (HA)	4 (A)	3 (N)	2 (U)	1 (HU)
14	Devaluation in Birr value against dollar (or any other foreign currency) appreciate your business?					
15	Product exported or imported are highly sensitive to exchange rate fluctuation.					
16	Demand for exportable/importable goods is inelastic.					
17	Appreciation in domestic currency need not lead to fall in export and import transaction.					
18	Exchange rate is insignificant for export performance					
19	Exchange influences exports/imports					
20	Your firm absorbs modest exchange rate changes					
21	Exchange rate uncertainty depresses the volume of trade (at a particular point of time)					
22	Export more to avoid fall in revenue during high volatility					
23	Adverse shock (bad news) influences the volatility more severely.					
24	Exchange rate had impact on interest rate					
25	Exchange rate movement affects domestic prices					

Please mark the following questions on a scale of 1 to 5. 5-(SA) for strongly agree, 4-(A) for Agree, 3-(N) for Neutral, 2-(D) for Disagree, and 1-(SD) for Strongly Disagree.

SN	Particular	5 (SA)	4 (A)	3 (N)	2 (D)	1 (SD)
26	Government supports Ethiopian exporters					
27	Ethiopian export system is free from any corruptive act					
28	There is fair competition among exporters in Ethiopia					
29	Ethiopian exporters are knowledgeable about export market systems					
30	There is a wide currency black market					
31	Currency black market has effect on your export performance					
32	There is enabling export financing and payment transaction system for you					
33	Birr devaluation facilitates export					
34	Banks role in exporting sector is increasing					
35	The export sector is getting more efficient and easier					
36	You are highly interested with expanding your export business in the future					
37	You are interested to diversify your export business in the future					

Thank you very much for your cooperation.

Seblewngel Belay, MBA student

For any question or further elaboration: Use the following contact address:

- Telephone: 0910210110
- Email: sebleabat@gmail.com

Appendix III: Key Informant Interview Guide

Mekelle University
College of Business and Economics
Department of Management
Master of Business Administration (MBA) Program

Key informant interview questions

Dear key informant,

First of all thank you for your willingness to be part of this survey. This key informant guideline is prepared by Ms. Seblewngel Belay, Masters Degree student of Mekelle University to collect data to be analyzed for a masters thesis (study) which is a requirement for a student to accomplish the masters program. The title of the study is "The challenges and prospects of foreign exchange earnings of Ethiopia". The major objective of the study is to analyze the sources of foreign exchange earnings of Ethiopia followed by the identification of the challenges and prospects. Your participation as respondent is entirely voluntary and the questionnaire is completely anonymous. Finally, I want to assure you that the information which you shared with me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you again for your kind cooperation and time!

- 5 How much important is the foreign exchange of Ethiopia for its overall economy?
- 6 What is the trend of Ethiopia's earning from foreign trade?
- 7 What are the leading sources of foreign exchange earnings of Ethiopia?
- 8 How much is important the different sectors of the economy for the foreign exchange earnings of Ethiopia?
- 9 What are the detailed procedures (process) in Ethiopian export/import business?
- 10 In your understanding, in the exporting activities, which formalities are critical and which formalities do you think are not necessary?
- 11 Which sectors are performing well and which not?
- 12 What supports are provided by government or other supporters to exporters?
- 13 What is the level of success in generating foreign exchange earnings for Ethiopia with a comparison of the planned with actually implemented?

- 14 What are the challenges of foreign exchange earning of Ethiopia? And how are they become challenging?
- 15 What are the opportunities of Ethiopia in generating foreign exchange earning?
- 16 Any recommendation to improve the foreign exchange earning of Ethiopia?

Thank you very much
Seblewngel Belay, MBA Student