International Journal of Economics and Business Administration
Volume XII, Issue 1, 2024

pp. 99-117

The Effect of Availability of Foreign Exchange and Devaluation of BIRR on the Performance of Companies in Ethiopia (Instance of Sample Company)

Submitted 18/01/24, 1st revision 10/02/24, 2nd revision 24/02/24, accepted 15/03/24

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Abstract:

Purpose: *When a country devalues its currency, some firms benefit from any resulting changes in relative prices, while other firms are relatively unaffected or suffer a loss in competitiveness. By taking a sample of import and export firms, this study assessed the effect availability of foreign currency and devaluation of BIRR (the Ethiopian national currency) on performance of firms in Ethiopia in general.*
Design/Methodology/Approach: *The study used both primary (collected through questionnaire) and secondary data collected from financial statements of the companies. The study applies both the descriptive and inferential analysis.*
Findings: *After detail analysis, the increase in private driven business, informal channels of inflow of foreign currency, increased population and corruption will worsen appropriate use of FOREX and aggravate challenges of shortage of it. And also it is found that the foreign currency shortage has affected the firms in many ways such as profit loss, lay off employees and discourages new investment.*
Practical Implications: *Devaluation of BIRR against the foreign currencies makes Ethiopian commodities to be competitive in international markets. And it can also attract new investments and increase exports.*
Originality/Value: *The study intended to assess the main challenges to access foreign currencies, assess the effects of foreign currency shortage on import/export firms, assess the effects of devaluation of BIRR on import/export firms and assess company-specific factors.*

Keywords: *Devaluation of BIRR, foreign exchange (FOREX), Ethiopia, Import and Export.*

JEL Classification: *G0, E0, E5.*

Paper type: *Research article, case study.*

Acknowledgment: *We would like thank the editor and anonyms reviewers for the supportive comments and suggestions.*

Funding information: *The authors received no direct funding for this research.*

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1. Introduction

In order to perk up the economic activities of countries, governments employ an assortment of measures. Among those measures, devaluation of domestic currencies assumed to enhance the economic growth of countries. In particular, the conventional treatment is based upon the proposition that devaluation improves competitiveness, heighten exports and switches demand towards domestically produced goods, ultimately escalating the production of tradable.

Moreover, countries that experience real depreciations are believed to have better chances in the journey toward more open economies and sustained growth, because a more depreciated exchange rate will likely prevent destabilizing financial crises (Oskooee and Miteza, 2006).

It is obvious that firms engaged in foreign trade cannot perform their business with a single currency. Their business depends not only on the currency of their country but also on its relative price in relation to other foreign currencies. BIRR is nowadays continuously depreciating in relation to dollar and other foreign currencies. This devaluation has a great impact on import/ export firms.

The private sector is being severely affected by the shortage of foreign currency, which is affecting competitiveness. Retailers, wholesalers and import substituting firms are most affected. Businesses that are more affected by the shortage of foreign exchange are also more likely to use innovative solutions to access foreign currency. These include non-resident (diaspora) foreign currency accounts and the parallel market. There are indications that the foreign currency shortage will ease slightly as exports grow and private transfers increasingly flow through formal channels.

After a decade of double-digit economic growth, the Ethiopian economy is at an important point in its transition to a middle-income economy. Rates of economic growth are slowing, and authorities are seeking to shift the engine of economic activity to the private sector. While the public sector consolidates.

Therefore, it is worthy a consideration of the constraints and opportunities facing businesses. The availability of foreign currency is seen as a severe constraint on the growth and operation of the private sector. The BIRR vs US dollar exchange rate is closely managed to maintain the purchasing price of the BIRR. While depreciating, the overvalued currency has contributed to a trade deficit (IMF, 2018).

The exchange rate has been closely managed to achieve a depreciation path of 5-6% annually relative to the United States (US) dollar in recent years (IMF, 2018). After the US dollar strengthened the BIRR became increasingly overvalued in real effective terms. In response, the NBE devalued the BIRR by 15% in October 2017, the first devaluation since 2010. The devaluation resulted in a 17.3% nominal depreciation in the year to June 2018.

The real effective exchange rate however only depreciated by 5.9% in the same period because of inflation differentials with trading partners. Overvaluation has encouraged demand for imports. The overvaluation has acted as a subsidy to imports and repayments of foreign debt, which has been directed to fund infrastructure.

The foreign currency imbalance has been aggravated by a fall in the international price of and supply constraints in Ethiopia's primary commodity exports, and further magnified by an expansion in public investment in infrastructure which has increased imports. The foreign currency shortage is reducing competitiveness and hampering the growth and operation of businesses in Ethiopia. Unit production costs are increasing as production stalls.

It is resulting in businesses laying off workers (especially temporary workers), becoming dormant and ceasing expansion. Businesses that can hold large stocks of inputs due to the lack of clarity of when they will get forex. This affects cash flow; increases warehouse storage costs and risks product loss when inputs expire. These problems reduce investment, employment, value added, revenue generation and return on equity. However, these affects are not being felt evenly across segments of businesses (NBE, 2018).

Thus, this study is inspired to gain more insight into assess the effect of availability of foreign exchange and devaluation of BIRR on the performance of companies in Ethiopia (Instance of Sample Company).The contribution of the study to the existing literature has some points. First, some studies focused only on the Impact of Currency Devaluation on the Ethiopian Economy.

For instance Devaluation brought high inflation rate which adversely affected both domestic and international market of the country. Moreover, it increased the rate of growth of imports and decreased the rate of growth of exports; this indicated that devaluation does not have a significant impact on Ethiopian economy (Beakal, 2019). And also Tewabe (2010) found that the devaluation has affected the firms in many ways such as requirement of large amount of capital, decrease in profitability, decrease in reliability of customers, etc.

Gross profit margin on sales has decreased for both case study firms in the years between 2007 and 2009. Second, some studies also focus only on the impact of foreign currency reserve and exchange rate on manufacturing sector performance in Ethiopia.

For instance Tewodros (2020) concludes manipulating foreign currency reserve is more effective than manipulating foreign exchange rate to enhance manufacturing sector performance in Ethiopia. Third, most studies does not include the concept of forex availability and company specific factors specifically, that may have an effect on firms performance.

Therefore, the objective of this study is to assess the effect of availability of foreign exchange and devaluation of BIRR on the performance of companies in Ethiopia (Instance of Sample Company).

2. Literature Review

The generally accepted view on the exchange-rate growth is the relationship that a more depreciated exchange rate is conducive to higher growth (Goncalves and Rodrigues, 2017; Jędrzejowska-Schiffauer *et al.*, 2019; Thalassinos *et al.*, 2013; 2015a; 2015b). However, for countries at the early stage of structural change, like Ethiopia, case studies show that the exchange rate is not the primary determinant to increasing manufacturing and exports. This conforms to the literature on Ethiopia.

Those economies that expanded manufactured exports have tended to move towards more competitive exchange rates and a liberalized trade regime as exports took off, but these changes did not precede a take-off in exports. It can also be said that devaluations to increase competitiveness can be contractionary if not adequately sequenced with an increase in the capability of firms to expand price sensitive exports and substitute imports (Ferrand, 2018).

The Transitional Government of Ethiopia introduced an auction system for foreign exchange in May 1993 in an effort to liberalize the foreign exchange market so as to achieve market determined exchange rate. The belief at the center of the adoption of the auction system is to attract foreign exchange in the parallel market back to the official line and thereby strengthen official reserves.

Elimination of the foreign exchange surrender requirement is an important aspect of exchange market liberalization. In this regard, exporters are able to sell their foreign exchange receipts to any commercial bank at freely negotiated rates over an extended conversion period of four weeks, and they can retain the remaining 10 percent in a foreign currency deposit account.

Exporters are also free to use the foreign exchange remitted to the country for any imports of goods and services within the conversion period. From May 1993 up to the unification of the official and the auction exchange rates on 25 July 1995, the exchange rate was partly determined by government decree (applicable to the official rate) and partly by quasi-market forces (applicable to the auction rate) as represented by auctions. Since the date of unification, the exchange rate of the BIRR against the US dollar and the resultant cross-rate has been determined only through the auction system (Degefa, 2001).

When a country devalues its currency, some firms and countries generally benefit from any resulting changes in relative prices, while other firms and countries are relatively unaffected or suffer a loss in competitiveness. Immediately after devaluations, firms in the devaluing country have higher rates of output growth than

competitors in other countries; immediately after devaluations, firms in that country have higher rates of operating-profit growth than competitors in other countries (Amihud and Richard, 1994; Jindřichovská *et al.,* 2020).

In some previous researches, it is found that the impacts of currency depreciation are mixed among different types of firms, industries and countries. Forbes (2001) differentiates several channels by which currency depreciations affect firm performance.

First, depreciation could downgrade firm competitiveness since the cost of imported inputs rises relatively to foreign competitors. Second, depreciation may provide exporters with a relative cost advantage relative to foreign competitors. Third, depreciation could generate higher borrowing costs and a contraction in lending.

Forbes (2002) pioneered another strand of research by linking directly currency depreciation and firm performance. She found that firms with greater foreign sales exposure have significantly better performance after depreciations.

A variation in the exchange of a currency in relation to a foreign currency can affect the competitiveness of certain products, making them more or less expensive for foreign purchasers depending on the country devaluing or revaluing his currency. Similarly a positive or negative variation in the exchange rate can affect the price of imports of raw materials, in this way, influencing the cost price of final products.

The depreciation of real exchange rate is expected to encourage exports by raising payment for exports in terms of the national currency. It is also expected to discourage imports by keeping the payments for imports higher. While exerting a positive impact on the balance payments by stimulating exports and restraining imports, devaluation also influences the cost of living, the government budget and production.

Increasing prices of essential goods such as fertilizer fuel and certain basic consumer goods consequent upon the devaluation may put extra cost on the economy. Although learning to manage exchange rate risk is just one of a myriad of skills that new exporters need to come to grips with, exchange rate fluctuations can have substantial impacts on the incentives firms face to engage in international trade.

Exchange rates affect both the cost of imported intermediate inputs, and the prices that firms receive for their export goods. For a firm that has entered into a contract to supply or purchase goods at an agreed foreign currency price, exchange rate volatility can create risk since the firm may find that its country currency value of the transaction has changed by the time payment is made. In the longer-term, real appreciation of a certain currency raises the relative price of goods for foreign consumers, inhibiting export opportunities, while long-term real depreciation raises

the real cost of imported inputs, increasing production costs (Lynda Sanderson, 2009).

There are also others supporting this issue, Aguiar (2005) concluded that exporting firms outperform non exporting firms in both sales and profits in the year following the devaluation which confirms the traditional prediction that the tradable sector (relatively) benefits from a real devaluation. He also argued that exporting firms posted relatively high growth rates without increasing relative capacity. A standard argument justifying devaluations is that they should reduce the relative cost of exports on international markets and therefore improve performance of export firms.

There are, however, a number of reasons why devaluations may not have this desired effect; such as if demand for exports is relatively inelastic or imported inputs are a large component of production. Ghei and Pritchett (1999) (cited in Agustinus, 2005) provide a detailed summary of why devaluations may or may not improve performance of exporting firms, as well as why it is difficult to measure these effects. After a review of the empirical work on this subject, they conclude that exports typically increase after devaluation, and that most of this response occurs rapidly.

In Korea the exchange rate was only used to incentivize exports during the latter phases of the economy's transformation. The exchange rate became more competitive in 1964 and 1965, and exchange controls were partially liberalized (Kim, 1991). From the 1950s to the early 1960s however the focus was on import substitution, with significant investment in human and physical capital initially coupled with high aid flows and not overly, overvalued exchange rate (Frank 1975).

Even in the 1970s the exchange rate was considered at a less than optimal level to incentivize exports as the government also wanted to lower its costs for investments in infrastructure. However foreign currency was allocated to companies that performed well in export markets. This trade-off has similarities to Ethiopia's context. In Korea, the government chose to identify sectors and champions, while directing rent-based wealth creation towards productive investment. Exchange rates increasingly became part of the incentive structure as exports took off.

Vietnam has mostly operated fixed and pegged exchange rates, with long periods of overvaluations. The parallel market has played an important part in Vietnam's history, reflecting disequilibrium in the formal foreign exchange market, the inflow of remittances and exchange controls (Hoang Thi *et al.*, 2022).

This parallel market has been tolerated, providing access to foreign exchange that could not be funded formally while allowing for the transfer of assets during times of crisis. The real effective exchange rate was said to play only a very limited role in incentivizing exports in the short run. This was because of the high import content of exports, with value adding limited to labor.

The same is currently largely true in Ethiopia; this will change as the capability of import substituting firms increase. In the long run, the exchange rate was found to not affect imports, but had strong growth effect on exports (Hoang 2016). Vietnam moved towards a more competitive exchange rate as it side stepped the global financial crisis.

These were complemented by ambitious stabilization policies, such as a fiscal injection of 5% of GDP (IMF 2010). Since then further outward, market orientated reforms have resulted in a boom in the scale and sophistication of exports.

During the late 1980s and early 1990s it became recognized that widespread exchange and trade restrictions were ineffective in preserving reserves or supporting overvalued exchange rates in many African economies (Agenor, 1992). Evasion became endemic and illegal markets for goods and foreign currency expanded, defeating the purpose of controls. Many sub-Saharan African economies liberalized their economies in response to foreign currency shortages. The countries that reformed successfully made rationing and wide parallel market spreads a thing of the past (Maehle *et al.*, 2013).

In Ghana, reforming the exchange rate occurred gradually, accompanied by fiscal tightening. A unified exchange rate system was achieved. Exports and imports picked up quickly. Kenya liberalized its foreign exchange market in the early 1990s, exports increased sharply, and the current account improved markedly.

Holders of foreign exchange abroad responded favorably to the liberalized exchange regime, increased interest differential, economic stability and exchange rate expectations and bought their currency back. Exports of agricultural produce, such as French beans, also responded positively to the devaluation.

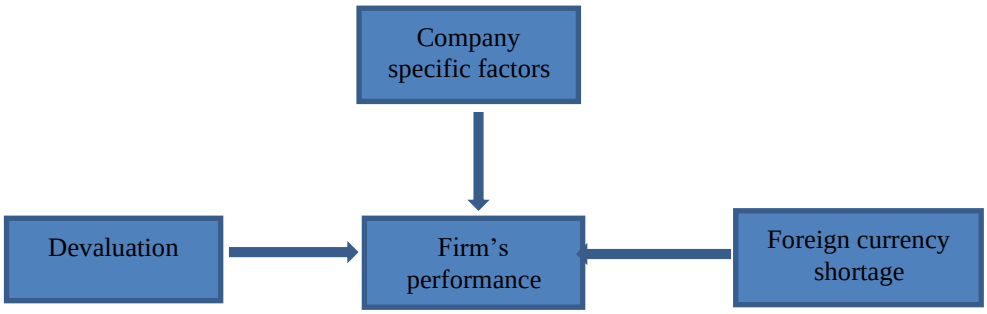
Mwangi *et al.* (2014) partly due to this, the current account was in surplus in 1993. Growth also recovered. The experience of successful reformers in this period shows that exchange control liberalization was a fundamental element of reform, but so were structural reforms, reduced fiscal deficits and monetary expansion, and external assistance. Not all reforms were successful, however. Malawi's adoption of a managed float and removal of current account restrictions resulted in rapid inflation. This was because the exchange rate was substantially overvalued, fiscal and monetary policy was overly loose and a drought reduced exports. Malawi reverted back to a heavily controlled regime as a result.

Since the mid 1990's, industrializing economies have been wary of the adverse effects of premature exchange control liberalization. Rodrik (1998) and Stiglitz (2002) having been overlooked, the literature has now begun to investigate the collateral damage of foreign exchange controls on trade. Wei and Zhang (2017) identify three types of exchange controls, i) controls on the proceeds of exports and

payments for imports, ii) controls on capital transactions and iii) controls on foreign exchange transactions.

Wei and Zhang (2017) in their analysis found statistically significant negative effects of exchange controls on trade. A one standard deviation in the controls on foreign exchange transactions reduces trade by the same amount as a rise in tariffs of 10.8 to 11.3 percentage points. Exchange controls operate therefore as a non-tariff barrier to trade, and the damage to trade from imposing exchange controls is found to be sizable. The authors confirm that the delivery of exchange controls will also matter. Corruption in the implementation of controls could primarily weaken the exchange controls, or exacerbate the burden of complying.

Figure 1. *Conceptual Framework*



Source: *Tewabe (2010) with modification.*

3. Materials and Methods

3.1 Description of the Study Area

The study area of this paper entitled with the 'effect of availability of foreign exchange and devaluation of BIRR on the performance of companies are firms those are engaged in import and export trading in Ethiopia.

3.2 Research Design and Approach

In this research, both descriptive research and explanatory/Inferential statistics research design were employed based on a mainly cross-sectional design. The choice of the design is because descriptive design helps to expose and uncover the existing conditions based on the research formulated research hypothesis.

Explanatory/Inferential statistics research design, on the other hand, helps to determine the impact relationship of various independent variables with the dependent variables and allows the manipulation of one or more independent variables (Malhotra and Birks, 2007). These two designs are conclusive and help to make a conclusion and inferences about the general population based on the sample

drawn. The study uses both qualitative and quantitative research methods to collect and analyze data, which the research had been, use a qualitative approach of research.

Quantitative research design is used in situations where there are predetermined instrument based questions, performance data, attitude data, observational data. Qualitative methods are used for emerging methods, open ended questions, interview data, observation data, document data, and audio visual data (Creswell, 2003).

3.3 Sample Size Determination

The study took sample from a population of various companies engaged in import and export trading in Ethiopia. Those respondents were the owners and CEO‘s or responsible body of the companies. But the exact numbers of the population is unknown because of lack of data that was stated in the limitation part.

Therefore, the researcher takes the sample size determination based on unknown population sampling techniques which is called Cochran Formula to calculate the sample size when the population size is unknown, i.e., Cochran’s correction formula of proportion, was used because the Cochran formula allows you to calculate an ideal sample size given a desired level of precision (± 5), desired confidence level (95%), and the estimated proportion of the attribute present in the population (Cochran, 1977).

$$SS = Z^2 \frac{p\,(1-p)}{e^2}$$

$$SS = 1.96^2 * \frac{0.5(1-0.5)}{0.05^2}$$

SS = 384

3.4 Data Source and Types

The study used both primary and secondary data. And this study uses a cross sectional type of data. For collecting the primary data, questionnaire and interview was found to be appropriate. The main source of the primary data was the owner of the firm through a questionnaire and an intensive/open interview was undertaken with them.

The secondary data was used to collect the profit margin of the companies that measures the firm’s performance after the effect of the availability of foreign exchange and devaluation of BIRR against the foreign currency.

3.5 Method of Data Analysis

This study employed the statistical software called STATA version 12 to analyse the data. In this study, descriptive and inferential statistics were used. Descriptive statistics were used to analyse the socio-demographic and economic data of the respondents. And in the inferential statistics like correlations matrix, multiple linear regression, multicollinearity test and heteroscedasticity test were used.

Table 1. *Summary table*

Variables	**Expected sign**
Firm's performance	Dependent Variable
FOREX shortage	-ve
Devaluation	-/+ ve
Company specific factors	**+ve**

Source: *Own survey (2023).*

4. Results and Discussion

4.1 Descriptive Statistics

4.1.1 Demographic characteristics of the respondents

Table 2 shows that among the sample from the target population of import and export companies, 44.5 % of the respondents are females and 55.5 % of the respondents are males.

Table 2. *Characteristics of the respondents based on sex*

Group	Frequency	Percent
Female	171	44.5
Male	213	55.5
Total	384	100.0

Source: *Own survey (2023).*

Table 3 shows that 20.6 % of the respondents are at the age of 26-30, 29.4 % of the respondents are at the age of 31-35, 15.4 % of the respondents are at the age of 36-40, 15.9 % of the respondents are at the age of 41-45 and finally 18.8 % of the respondents are greater than the age of 45.

Table 3. *Characteristics of the respondents based on age*

Group	Frequency	Percent
>45	72	18.8
26-30	79	20.6
31-35	113	29.4
36-40	59	15.4
41-45	61	15.9
Total	**384**	**100.0**

Source: *Own survey (2023).*

Table 4 shows that most of the respondents have a master's degree level with 25.8%, 20.1% of the respondents have BA or BSc degree level. 24% of the respondents have Diploma. 24.2% of the respondents have a secondary school and finally the least is respondents who have a PhD level with 6%.

Table 4. *Characteristics of the respondents based on educational level*

Group	Frequency	Percent
BA/BSc	77	20.1
Diploma	92	24.0
MA/MSc	99	25.8
PhD	23	6.0
Secondary	93	24.2
Total	384	100.0

Source: *Own survey (2023).*

4.1.2 Challenges to access foreign currencies

Table 5 show discuss the first objective of the study which is the challenges to access the foreign currencies. According to the responses of the respondents the increase in private driven business economy increased the challenge to access to forex on having the mean 3.99. The other challenge which is informal channels of inflow of foreign currency very highly contributes to the shortage of forex for the business with the average 4.39.

Increased population will result in increased consumer, higher inflation and finally strongly increase the demand for forex that causes directly the shortage of the foreign currency with the mean of 4.43. The last variable in this part is corruption. According to the respondents Corruption will worsen appropriate use of forex and aggravate challenges of shortage of forex with the mean value of 3.94.

Table 5. *Challenges to access foreign currencies*

Descriptive Statistics							
	N	Range	Minimum	Maximum	Sum	Mean	Std. Dev.
Private driven business	384	3	2	5	1531	3.99	1.121
Informal channels	384	3	2	5	1686	4.39	.823
Increase in Population	384	3	2	5	1700	4.43	.836
Corruption	384	3	2	5	1512	3.94	1.092

Source: *Own survey (2023).*

4.1.3 Effects of foreign currency (FOREX) shortage

Table 6 discuss the second objectives of the study that is the effects of foreign currency shortage on import/export firms. According to the respondents the Retailers and Wholesalers for imported goods are the most affected sectors by shortage of foreign currency with the average value of 4.36.

The availability of technologies highly affects the demands of foreign exchange in search for oversees technologies and services with the mean value of 4.07. According to the firms informal channels to access foreign exchange will lead to importing through under invoicing and tax evasion with the mean values of 4.12.

Running business operations under the economy with lack of forex and devaluation will be also very expensive and lead to lower profits with the mean value of 4.04. Firms sometimes believe that export businesses and agricultural businesses are less impacted by lack of forex availability and devaluation of BIRR with the average values of 3.83.

Therefore Lack of foreign exchange will highly discourage new investments with the mean values of 4.52. And also finally this shortage of foreign currencies will result in a massive lay off employees from the companies by the owner of the company with the mean value of 4.51.

Table 6. *Effects of foreign currency shortage*

Descriptive Statistics							
	N	Range	Minimum	Maximum	Sum	Mean	Std. Dev.
Most affected sectors	384	3	2	5	1676	4.36	.853
Technology	384	3	2	5	1564	4.07	1.037
Tax evasion	384	3	2	5	1584	4.12	1.032
Lower profit	384	3	2	5	1550	4.04	1.061
Export sector & agriculture	384	4	1	5	1471	3.83	1.032
Discourage in New investment	384	2	3	5	1737	4.52	.555
Lay off employees	384	2	3	5	1733	4.51	.569

Source: *Own survey (2023).*

4.1.4 Effects of devaluation

Table 7 discuss the third objectives of the study that is the effects of devaluation of BIRR on import/export firms. According to the firms overvalued exchange rates sometimes adversely affect in attracting foreign investments and competitiveness of Ethiopian export commodities with the mean value of 3.73. Mean value of 4.24 indicates that devaluing BIRR against foreign currencies will make Ethiopian export commodities to be highly competitive in the international market.

Firms in this study area believes that even though exports are adversely impacted by overvalued forex rates, it will also help to settle foreign debts and fund infrastructures (that needs more imports) with the average values of 4.30. Mean value of 4.27 indicates that the firms under investigation thought that depreciated exchange rate is helpful to higher growth from attracting new investments and then exports. And also economies with competitive exchange rates can attract and boost

exports which is indicated by the average value of 4.39. In addition to this, from Table 3 we can observe that firms believe that lack of forex and devaluation will result in lay off employees.

Table 7. *Effects of devaluation*

Descriptive Statistics							
	N	Range	Minimum	Maximum	Sum	Mean	Std. Dev.
Attract new investment	384	3	2	5	1431	3.73	.751
Highly competitive commodities	384	2	3	5	1630	4.24	.607
Settle foreign debts and fund infrastructures	384	3	2	5	1652	4.30	.672
Leads to higher growth	384	3	2	5	1639	4.27	.669
Competitive exchange rate	384	2	3	5	1686	4.39	.616

Source: *Own survey (2023).*

4.1.5 Company specific factors

Table 8 presents the company specific factors that may have an effect on the performance of the import and export trading companies. Based on the response of the sample companies, their companies are highly depended upon imported commodities for its operations with the average value of 4.44. Related with the international and national market share of those companies, they neither agree nor disagree that their company has a big share in international and national markets with the mean value of 3.4.

Even though the mean value shows a little bit towards to agree, the magnitude is not sufficient to conclude on that way. According to the respondents, their company highly suffers from foreign exchange risks arises from foreign currency denominated transactions with the mean values of 4.31.

Table 8. *Company specific factors*

Descriptive Statistics							
	N	Range	Minimum	Maximum	Sum	Mean	Std. Dev.
Import undependability	384	2	3	5	1704	4.44	.610
National and international Market share	384	4	1	5	1308	3.41	.776
Foreign exchange risk	384	2	3	5	1654	4.31	.685

Source: *Own survey (2023).*

4.1.6 Stabilization mechanisms

Table 9 briefly explains the mechanisms that might help the problems arising from the shortage of foreign currency and currency devaluation on firms who are engaged in import and export trading. According to the respondents other ways of getting the foreign currency, for example. Diaspora foreign currency accounts and parallel markets will somehow stabilize the demand of foreign currency with the mean value of 3.93. The mean value of 4.35 indicates that exports would help significantly ease the lack of foreign currency for Ethiopian economy.

The other big mechanism i.e., import substituting business will have significant contribution to solve shortages of foreign currency availability with the mean value of 4.28. In addition to this recycling technologies will enable to reduce demands of foreign currency for businesses with the average response value of 4.23. Finally, the mean value of 4.21 indicates that those firms who are engaged in this import and export trading asserts that policy makers should consider providing special initiatives for import substitution manufacturers and exporters to get access to foreign currency.

Table 9. *Stabilization mechanisms*

Descriptive Statistics							
	N	Range	Minimum	Maximum	Sum	Mean	Std. Dev.
Other ways of getting foreign currency	384	3	2	5	1509	3.93	.773
Export promotion	384	2	3	5	1669	4.35	.615
Import substitution	384	2	3	5	1645	4.28	.609
Recycling technologies	384	3	2	5	1625	4.23	.659
Needs special Initiatives	384	3	2	5	1617	4.21	.791

Source: *Own survey (2023).*

4.2 Inferential Analysis

4.2.1 Regression result

To analyze the regression of the variables the researcher takes the average values of questions under the same objectives to merge the questions in the questionnaire into five categories based on their objective. And then the researcher regress three variables out of five which have direct effect on companies performance.

Table 10 shows, the regression result of the dependent and the independent variables. According to this result the dependent variable i.e., Profit margin significantly affected by FOREX shortage, Devaluation and company specific factors.

Table 10. *Regression results*

PROFMAR	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
FOREX shortage	-.073	.033	-2.21	.028	-.137	-.008	**
Devaluation	-.193	.069	-2.82	.005	-.328	-.059	***
Company specific factor	.091	.044	2.05	.041	.004	.178	**
Constant	3.413	.302	11.30	0	2.819	4.007	***

Mean dependent var	2.758	SD dependent var	0.610
R-squared	0.032	Number of obs	384
F-test	4.216	Prob > F	0.006
Akaike crit. (AIC)	704.448	Bayesian crit. (BIC)	720.251

**** p<.01, ** p<.05, * p<.1*

Source: *Own study.*

4.2.2 Regression Result Interpretation

Foreign exchange (FOREX) shortage:

The coefficient for Foreign exchange (FOREX) shortage is negative and it significantly affects performance of the import and export trading companies at 5% level of significance. The regression result indicates that, when the foreign exchange (FOREX) shortage increases by 1%, then the profit margin of the import and export trading firms decreases by 7.3%. As a result, increasing the availability of foreign exchange (FOREX) has a vital role in increasing the firm's performance. This result is consistent with Maehle *et al.* (2013).

Devaluation:

The coefficient for Devaluation is negative and it significantly affects performance of the import and export trading companies at 5% level of significance. The regression result indicates that, when the devaluation increases by 1%, then the profit margin of the import and export trading firms decreases by 19.3%. This is due to the effect of devaluation on import outweigh the effect of devaluation on export. This result is consistent with Beakal (2019).

Company specific factor:

The coefficient for Company specific factor is positive and it is significantly affect performance of the import and export trading companies at 5% level of significance. The regression result indicates that, when the Company specific factor increases by 1% &, then the profit margin of the import and export trading firms decreases by 9.1%.

4.2.3 Correlation test

Table 11 presents the result of correlation test. According to the test, correlation is statistically significant at both at 0.01 and 0.05 level of confidence. This indicates that there is no correlation among the dependent variables.

Table 11. *Correlation table*

Variables	(1)	(2)	(3)
(1) FOREX shortage	1.000		
(2) devaluation	-0.263	1.000	
(3) Company specific factor	-0.098	0.285	1.000

Source: *Own study.*

4.2.4 Multicollinearity test

Table 12 presents the multicollinearity test to check whether there is a multicollinearity problem or not. Therefore, according to the table the mean values of the VIF is less than 10 and the individual value of VIF is less than 5. Therefore there is no a problem of multicollinearity.

Table 12. *Multicollinearity test result*

	VIF	1/VIF
Devaluation	1.159	.863
Company specific factor	1.089	.918
FOREX shortage	1.075	.931
Mean VIF	1.108	.902

Source: *Own study.*

4.2.5 Heteroscedasticity test

Table 13 presents the result of the Heteroscedasticity test. Therefore, according to the test Prob > chi^2 = 0.0711 indicating that we have to accept the null hypothesis, which means there is no heteroscedasticity problem i.e., variance is constant.

Table 13. *Heteroscedasticity test result*

White's test for Ho: homoscedasticity against Ha: unrestricted heteroscedasticity $chi^2(8)$ = 14.43 Prob > chi^2 = 0.0711 Cameron & Trivedi's decomposition of IM-test chi^2	df	p
14.430	8	0.071
86.010	3	0.000
75.720	1	0.000
176.170	12	0.000

Source: *Own study.*

5. Conclusions and Recommendations

After a detail analysis of both the primary and secondary data collected, the following majorconclusions are drawn.

The new driven businesses increment, the informal channels to access the foreign currencies, the rapid increase in the population and corruption can adversely affect the access to the foreign currencies by making it shorter than the supply.

The lack of sufficient amount of the foreign currencies has its own effect on the performance the import and export trading companies. It highly affects Retailers and wholesalers. It leads the firms to import under invoicing and tax evasion. It makes the running businesses very expensive and leads to a lower profit. Finally it discourages new investments and results inlay off employees from the companies.

Devaluation of BIRR against the foreign currencies makes Ethiopian commodities to be competitive in international markets. And it can also attract new investments and export as well as it settle foreign debts and fund domestic infrastructures.

Company specific factors that are import dependency, market share and FOREX risks have a great effect on the performance of the import and export trading companies.

Based on the analysis, discussion and the findings of the study, the following recommendations are given that may help the firms under consideration.

- In order to stabilize the demand for the foreign currency, there must be other ways of getting foreign currencies like diaspora foreign currency accounts and parallel markets through the National Bank of Ethiopia (NBE).
- The government should give a high emphasis for import substituting business as well as the export sector should be highly promoted to minimize the problem of shortage of foreign currency.
- The private and public sector should develop recycling technologies that enables the trading companies to reduce their demand for foreign currencies.
- Companies who are engaged in export trading should detach themselves from import dependency production system and they will better off if they can reduce the foreign exchange risks.
- Finally, policy makers should consider providing special initiatives for import substitution manufacturers and exporters to get access to foreign currencies.

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