

**JIMMA UNIVERSITY
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**PRIVATIZATION, IT'S PACE, PROGRESS AND
STATUS**

**[AN INSIGHT INTO THE PRIVATIZATION
PROCESS IN ETHIOPIA]**

**A research paper submitted in partial fulfillment of the
requirement to the degree of Bachelor of Arts (B.A.) in
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Abstract

A sample survey was conducted on factors that affect the progress of privatization in Ethiopia. Since privatization is a new phenomenon in Ethiopia, the process was started with a limited know-how, experience and expertise. As a result of these and other problems like: organizations which are sold being in a economic crises, lack of transparency in the process, lack of good relation among the agency and some other concerned bodies, the bureaucracy which is unbreakable in the agency (this is the serious factor to be more precise some of the officials are in prison accused of corruption) etc. are the major problems which affect the progress of privatization seriously.

The study tries to see problems from the agency and investors side. Besides it tries to analyse the pace of privatization and shows policy measures which have been taken to enhance or accelerate the privatization process.

I managed to collect the data for the research work by giving questionnaires and employing interview method. Data analyses and interpretation was mostly based on the reason given by respondents.

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List of Acronyms

- SOE----- State Owned Enterprises .
GDP----- Gross Domestic Product .
EPA----- Ethiopian Privatization Agency.
PESA----- Public Enterprise Supervisory Authority.
SAP----- Sector Adjustment Program.

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CHAPTER ONE

INTRODUCTION

1.1 Background.

In 1980s there has been a remarkable change in the world's economic history. From World War II through 1970s, and in most sub-periods, the state owned enterprises (SOE) sector either expanded or remained the same size in almost all countries. On the contrary, in the 1980s and early 1990s the SOEs were exposed to "dramatic" downsizing (privatization & liquidation) or remained the same in almost all countries. So, privatization of SOEs has been at the heart of policy debate.

Nevertheless, in spite of its present celebrity, policies designed to stimulate the substitution of private for public provision of goods and services are not recent innovation; nor the debate about the economic consequences of privatization. In the wealth of Nations, Adam Smith (1776) argued that:

"When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated." (Adams, 1991)

Therefore, the history of privatization debates is older than we may imagine. Yet the wide range of public sector activities that are nowadays considered for divestiture, the multitudes of methods being suggested to achieve these objectives, and the extent of enthusiasm with which privatization policy is pursued distinguish the current privatization efforts from previous ones.

In most sub-Saharan Africa Countries, the issue of "extensive" privatization is extremely recent & does so in Ethiopia. Ethiopia economy has suffered from inappropriate policies and devastating wars. Though out mid 1970's and the entire decade of 1980s, Ethiopia has faced serious economic crises. These enormous crises brought about low growth rate of GDP, negative growth rate of per capital income and persistent balance of payment

deficit. To reverse this downward trend and facilitate an economic recovery and growth, the comprehensive reform program has been under implementation since 1991.

These comprehensive reform programs (Structural Adjustment and stabilization programs) are economic recovery programs designed with financial and technical support of the world bank and the programs contains packages of policies including privatization & restructuring of public enterprises.

In its narrowest sense, privatization is simply an approach of selling state owned enterprises completely or in blocks of shares to private investors, local or foreign. However, privatization of state owned enterprises is not an easy task in Ethiopia. Since, most of these firms are inefficient with huge unpaid loans from banks and with excess employees, it is really difficult to sell the enterprise to private investors. These state of affairs, tempted investors and potential buyers to shun SOEs.

The Ethiopian privatization agency, which started in implement the privatization program through privatizing retail shops, warehouses and small hotels and restaurants has in the process, been able to gain valuable experience for the future task of privatizing medium and large scale enterprises.

So this study deals with the privatization process and its problems in Ethiopia, overview of Ethiopian pubic sector, and analyses the pace and the process of privatization in Ethiopia.

1.2. Statement of the Problem.

Generally speaking, privatization has been becoming the very common issue all over the world for the last half a century. It's importance to the country's economy is research proved. Even if it started in developed countries many developing nations have been profiting from it. As it is indicated in the American national policy study, south East Asian and Caribbean countries have been using it effectively. But problems are observed in Africa.

For a country like Ethiopia, which had been staying in a strong command economy policy for decades, privatization has undeniable importance to the economy development. Now days, 'privatization' becomes a recent phenomenon in Ethiopia. Policies are coined, the opening of the agency is decreed officially and some activities are done so far. But problems are prevalent in its progress and activities. These problems in turn hinder the economy development of the nation. So, these problems should be identified and measures should be taken too. Below are some factors that hinder privatization in Ethiopia.

The organizations, which are sold so far, were in economic crisis and they had problems in structure and administration. Profitable organizations are not on sale. Still in the government control, lack of coordination among the agency, workers' union and some other concerned bodies, the Ethio-Eritrean war which was sustained for two years and its impact, the absence of strong financial institutions which encourage investors. Although some banks are cooperative it is not satisfactory, lack of awareness on the importance of privatization. (This is very common to the community and domestic investors), the bureaucracy, which is unbreakable in the agency, lack of strong protection to the investors and their property and the policy itself (it has been said that the policy is not attractive) are the major ones.

In the light of the above factors, this research tries to indicate its current status and progress over the year and will state recommendation after having finished the research work.

1.3 Objective of the Study

Since privatization is a new phenomenon in Ethiopia the implementation of the program resulted in many problems. Some of them are reflections of the structural problems that are inherent in underdeveloped economies. Therefore, the objective of this study can be broken down into:

- Analyze the pace of privatization (according to expectancy, planned Vs actual, if not the reasons as well) and the performance of privatization agency since its establishment.
- Show policy measures, which have been taken to enhance or accelerate the privatization process.
- Investigate major problems in the privatization process from the perspectives of
 - The Agency (Implementation problems.)
 - Investors (Both potential and other who already have)
 - Other stakeholders (If they have some feedback as to it's progress.)

1.4 Significance of the Study.

The significant of this study is in order to examine the pace, process and problems of privatization in Ethiopia by considering different Investors (foreign and domestic), the Ethiopian privatization Agency (EPA) and others who are related with the process.

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CHIPTER -2

LITERATURE REVIEW

Excessive state intervention in the economy limits the role of the private sector in the economic activity. The result is often low investment and growth, and poor investment quality. In Ethiopia like other developing countries the direct involvement of the state in economic activities has been large and wide spread during the period between 1974 to 1991 with state owned enterprises having monopoly rights in a large number of sector.

Even though, the sate led strategies for economic growth were popular in the 1950s, 1960s and early 1970s the quest for privatization gained strength since 1980s. As the public sector has been characterized by poor performances due to the lack of competition, lack of profit motive, poor management and others such as artificial price levels, excess employment etc. most countries opted to reform their economy i.e. to privatize the public Sector.

During the 1980s many developing countries have adopted new economic programs, lifted barriers to trade and foreign investment and other measures designed to promote competition and strengthen their private sectors.

From all efforts of reforming SOEs, privatization has been considered as the most prominent especially in 1980s. Conformably,

“----- More than 6800 state owned enterprises (SOEs) has been privatized around the world since 1980, with more than 2000 of these in developing counties with broad difference in wealth, degree of industrialization and even culture from Great Britain to Ghana, from Poland to Pakistan, form Aregentina to Algeria, have embarked upon this path with some of these enjoying remarkable success in their privatization Efforts”. (Prosperity papers series, 1993)

Therefore, between 1980 to 1993 there was a considerable transfer of public enterprises into the private sector. This is what we can deduce form the above statement.

2.1. Background of the Ethiopian privatization program

2.1.1. Public Enterprises in the Ethiopian Economy.

Since 1975, public enterprises have become one of the significant facts of Ethiopian economy. As a direct reflection of its economic and political centralism, the previous government nationalized large and medium scale private enterprises in the productive, service and financial sectors.

The number of public enterprises further increased through the initiation of green field investment in Agriculture, manufacturing, construction, mining, hotels and tourism.

Presently about 200 public enterprises are operational. These enterprises account for over 20% of GDP. In some sectors like manufacturing, mining, power and transport the output of public enterprises accounts for over 50% of the total output of the respective sectors.

In order to redress the past misguided structural set up and working system of public enterprises and to reorient their activities in line with the operation of market economy, restructuring measures were undertaken soon after the transitional Government took over power in 1991. Public enterprises were running under the direct command of sub sector corporations and were operating at about 20-30% of their attainable capacities when the new economic policy was launched. The restructuring measures enable individual public enterprises to recognize as separate legal entities with their own board of management. They were also made autonomous in managing their business. These measures and the political stability the country gained after decades of civil war created the necessary conditions and enabling environment to start a privatization program. (Privatization news, 1999)

2.1.2. The Establishment of Ethiopian Privatization Agency

EPA was established in February 1994 by proclamation No. 87/ 1994. The mandate of EPA is to carry out the process of privatizing public enterprises in an orderly and efficient manner. The agency is accountable to the office of the Prime Minister, is administered by a board of directors, and is managed by a general manager appointed by the government (Privatization News, 1999)

Among its power and duties, EPA:

- Undertakes detailed valuation studies taking into account economic, technical and financial situations of the public enterprises to be privatized;
- Submits to the government recommendations regarding the modalities of privatization of public enterprises.
- Privatizes public enterprises using modalities approved by the government;
- Coordinates the activities of concerned government offices in the process of privatizing public enterprises
- Creates conditions which facilitate the successful completion of the privatization process: and
- Prepares detailed records of manpower, asset, financial and legal affairs of public enterprises.

In addition to the powers and duties vested in it under proclamation No. 87/ 1994, EPA has also, under proclamation No. 110/1995, the power to investigate and decide on claims of ownership in respect of properties confiscated in extra- legal manner through directives as well as through written or oral orders. (Eth. Prv. Authority and Addis Tribune News paper Aug. 1997)

2.1.3. Status of the Program

EPA started to implement its program by first privatizing small retail trade out lets and hotels as well as small- scale Manufacturing and Agro Processing Enterprises. The rationale was to gain hands on experience, which could be used in later privatization of medium and large-scale enterprises whose privatization process could be more complex.

The Ethiopian privatization program, since it was launched three years ago, has steadily gained momentum. A number of tenders and notices have been issued inviting prospective investors to participate in bids for enterprises floated for privatization.

As a matter of policy, bids for retail trade outlets, stores, small hotels and restaurant as well as small scale manufacturing enterprises were floated for domestic investors alone. The privatization modality selected was the sale of 100% ownership interest.

For other enterprises, the agency invited prospective investors both local and foreign, to participate in either joint expansion or improvement program with the government, or acquisition of full ownership of the enterprises.

To date, 168 units and whole enterprises have been privatized to domestic and foreign investors.

2.1.4. Modalities of privatization.

There are different approaches to privatize the public sectors. Among others, the following are the most common ones.

Privatization through Public Offerings

This modality raises money from the public by encouraging shares. This means of privatization needs a well-established stock market. However, like many sub-Saharan African countries, in Ethiopia stock market has not been established so far. Therefore, this modality may not be valuable to privatize public enterprises in Ethiopia's setting.

Privatization through Private Sale.

This is by giving the chance for private investor (local or foreigner) to participate in auction to purchase the public enterprises. This method of direct selling the public enterprises is relatively an easy model to privatize. The Ethiopian privatization process has mainly followed this path.

Privatization through Delegation

In this model the government can privatize the management of those enterprises by entering into management contracts with private parties or by leasing the enterprise assets to those parties. In this case the private partners undertake to run all or part of enterprises, and lease the physical installation from government for specific length of time. In Ethiopia only the first two modalities of privatization has been implemented so far in the process (including sales through tender and workers buyout sponsored through the safety net.)

Generally what so ever the approaches of privatization, the objectives are to encourage private investment in the economy so that there should be economic growth. (Privatization news, 1999)

CHAPTER 3

METHODOLOGY

3.1 Study Site and back ground

The main study site was Addis Ababa, Capital of Ethiopia. It is preferred because of the location of EPA.

3.2. Study Design

A cross-sectional study design was used to conduct this study.

3.3 Sampling Technique and size

- Non- probability convenient sampling techniques was used for self-administered Interview to the concerned key people that are useful for collecting data.
- By using convenience sampling some of investors i.e. potential and those who have already participated was interviewed.
- By using systematic sampling the sample size was limited.

I.e. of all privatized companies the desired sample for this study is ~~22~~ privatized companies that is about 12% of the total population. Since there is only one EPA in Ethiopia 3 persons were taken from the Agency.

3.4 Measurement and Data Collection

Data was collected using structured questionnaires and unstructured interview.

The study was also drawn from secondary data, which is divided in to two. The first one is the statistical data, which are collected from non-government sources and government agency publications, mainly from various publication of Ethiopian privatization Agency. The second source of data was theoretical data analysis of various books, published materials such as the of the World Bank and IMF publications.

3.5 Data Collection

Data collection was done from February 6 - 26, 2002. The data was collected by using questionnaires. The questionnaires was designed, one for EPA (which aims to see Efforts by the Agency in the process.) and the other to investors (which aim to identify their

participation in the process.) the questionnaires are all open ended in type. Besides, unstructured interview was used in order to secure primary data.

3.6. Presentation of Results and analysis

The corrected data was compiled and the results and the reasons were presented using ~~descriptive~~ method. Data interpretation was done by relating data analyzed to more General theories. Figures were displayed in words. The research employed statistical method. Such as tables and percentages to indicate the trend over to time.

The data was processed by using Identification of reasons that was largely occurred in the questionnaires by manual tallying method for each reason's occurrence.

3.7 Ethical Consideration

Before data collection had started the investigator was taken to social affairs department of council of Addis Ababa city about the study. ~~and~~ included the consent of respondents individually by telling them the objective of the study is to see the pace of privatization process in Ethiopia.

Scope and limitation of the study.

The entire focus of this study point to the top concerned EPA on privatization of public firms and those enterprises, which are already privatized. The research ~~has~~ been done starting from Dec 2,2001(i.e. the literature search) and extends to May 20,2002. (I.e. the analyzing)

While performing the process of data collection getting in touch or contacting investors has been the main problem. Moreover, some of the investors weren't interested in filling the questionnaires after theywere contacted which happened due to the fact that the questionnaires were open ended and some of them weren't willing to release a genuine information due to misunderstanding of the objective of the research.

As far as time issue is concerned, the respondents needed more time than the researcher expected since the questionnaires were open-ended. In addition to these the distance from the respondents hindered to have, further information, which was very helpful for the perfection of the work.

CHAPTER 4

Result and Discussion

Ethiopian privatization agency has 33 workers. Among them 8 are professionals. Three individuals were taken from these professionals as a sample to assess factors that affect the progress of privatization in Ethiopia on behalf of the agency. Judgement sampling was used to select the respondents. They are key individuals that could provide reliable information for this research study. Thus three questionnaires were given to these respondents and all of them were answered and returned properly.

Head post, Privatization department, a print journalist in the public relations department and head of computer center were the respondents to the design questionnaires. Since they are working under similar work environment most of their answers were somewhat similar.

4.1 The process of privatization in Ethiopia.

The respondents believed that a number of advantages could be gained by previewing the public sectors in to privatization like:

- ⇒ Improvement of the recourses.
- ⇒ Privatization could as well be used to mobilize external resources and by doing so promote investment, foreign exchange earnings and capital market.
- ⇒ It also helps lighten the budgetary burden of public enterprises both by reducing subsidies and public sector borrowing requirements.
- ⇒ On top of this it improves government revenue and instead of the government doing every business including the micro-ones, it is good to leave the place to investors who have the capacity and the business know how.
- ⇒ Further more it may also be pursued to encourage private sector development.

Therefore, the successful process of privatization is essential so as to attain the objectives of privatization.

With Regards to the process of privatization, it starts by the agency with in undertaking of detailed studies on the economic, technical, financial and price evaluation of public enterprises. The government has decided to privatize through Public Enterprise Supervisory Authority (PESA). Ministry of Finance and Ministry of Trade and Industry are the other

governmental institutions which the agency has relationship. Submission of recommendations regarding the modalities of privatization of public enterprises to the government and privatized public enterprises in accordance with modalities approved by the government.

The respondents mentioned that the agency is also paving a way to create the necessary conditions that will facilitate the successful completion of the privatization process. The agency began the actual privatization program with small public retail shops and warehouses. According to the information gained from the respondents about 200 enterprise so far privatized. In fact, the bulk of the enterprises so far privatized are composed of mainly retail shops, where houses and restaurants.

TABLE 1 : SUMMARY OF PRIVATIZATION TRANSACTION IN ETH.

CAPILLARY OF PUBLIC ENTERPRISES	NUMBER OF ENTERPRISES	PROCEEDS OF PRIVATIZATION (000 BIRR)
I. Ethiopian Retail shop corporation		
1.1. Food and general Mds enterprise	23	11819.5
1.2. Shoes and leather enterprise	17	19372.7
1.3. Building materials enterprise	9	15262.2
1.4. Stationery materials enterprise	5	4177.9
1.5. Textile & leather product Enterprise	7	7845.1
1.6. Automotive & Spare parts enterprise	8	86236.2
1.7. Meat retail shops	2	492.9
II. Kuraz publishing agency	35	13031.0
III. Centro; Food storage & Distribution enterprise.	7	8752.2
IV. Ethiopian Housirp & office furniture (ETHOF)	16	38204.9
V. Hotel and restaurants	14	16856.1
VI. Industrial Enterprise.	38	2293.834.4
Total	181	2,515,885.4

Source: Ethiopian privatization agency.

*Data available on June 2000.

What we have seen from the above table is that retail shops and warehouses have greatly dominated the Ethiopian privatization process. The large and medium public enterprises are thus still awaiting their transfer to the private hand. The large enterprise so far privatized is Legedembi mining enterprise. The proceed which has been obtained from the sales of this large enterprise is 172 million US and out of this 60 million us dollar is already received by the agency but the rest (112 million ups) is going to be received in the future. This is the major foreign investment by the MIDROC. PLC. At this stage 15 of the enterprises were sold to two foreign investors. /midroc Eth. and BGI /.

4.2 Privatization performance in Ethiopia: planned Vs actual

Some analysts considered the process as sluggish, leaving much to be desired in terms of speed. However, the people from the privatization agency have different opinion about the pace of the privatization process. They believe that there are some factors that contributed for the slow pace of the privatization processes. Nevertheless, on balance, the pace is still satisfactory according to the respondents. Reinforcing this argument, the head posts privatization department of Ethiopian privatization agency stated.

"Some say the pace is too slow others still compiling it is too fast. Given the lack of experienced managers and financial constraints this is not bad for a bignner."

4.2.1 COUNTRY EXPERIENCE: PRIVATIZATION PROGRAMME IN ETHIOPIA (1995-97)

Like in other African countries, privatization programme is gaining increased momentum in Ethiopia. But contrary to other African countries, Ethiopia is a new comer when it comes to privatization and Structural Adjustment Programme (SAP). The new government has taken some policy and institutional measures with emphasis on privatization of SOEs. Nevertheless, since public knowledge about how transactions have been carried out is limited, rigorous assessment of the program is very difficult. There are informational voids, especially concerning the valuation methodology, and the terms and conditions of each privatization case. It is unclear the way the labour issues have been handled. In view of these vacuums, whatever we can say here with respect to privatization is gleaned from some documents here and there.

4.2.2 THE FIRST PHASE OF ETHIOPIAN PRIVATIZATION PROGRAMME

The first round of privatization programme was launched in February 1995. In this phase, it was envisaged to divest 185 public business undertakings and SOEs. At the end of the 1996 Ethiopian budget year, 135 public business undertakings and SOEs were divested.

That is evident that 65% of the planned privatization transactions have been carried out. Even though the level of achievement seems moderate, the *privatization programme involved only the insignificant portion of the SOE sector while those in the manufacturing industries and infrastructure remain untouched by the process.*

4.2.3 THE SECOND PHASE OF ETHIOPIAN PRIVATIZATION PROGRAMME

The second round of the privatization programme was commenced from the middle of the 1996 budget year and planned to end at the end of 1997 Ethiopian Fiscal Year.

On the implementation front, during the period 1996 up to January 1997, valuation and privatization modalities for 26 factories selected for divestiture was completed. Out of these, 16 were put for sale of which 8 were privatized. Moreover, valuation and privatization techniques for 16-state farms and state farm related ventures were completed. From February 1995 up to January 1997, out of 201 privatization' candidates 143 public business undertakings and SOEs have been transferred to private owners or to employees who were organized under a safety net scheme (Ethiopian Privatization Authority, 1997: 5-6). This implies that around 71% of planned transactions were successfully implemented.

The press statement of the agency disclosed that the total privatization transactions carried out up to August 1997 were around 152, comprising retail shops, store houses, hotels, restaurants, factories and a gold-mine (Addis Tribune August 1997). According to the information gleaned from press releases, the value of these 152 transactions was estimated to be around 1.7 billion Birr including \$172 million (about 1.16 billion Birr) proceeds from the privatization of the Legedembi gold mine (Addis Tribune August 1997).

The pace of the privatization was not intensified in years that followed 1997. The most up-to-date consolidated data of the Ethiopian Privatization Agency showed that up to February 2001 about 200 enterprises and public business undertakings have been privatized .The revenue yield of these transactions is about 2.5 billion Birr. In the subsequent phases about 111 public enterprises have been offered for sale.

Table 2 Summary of Privatization in Ethiopia (1995-February 2001)

SNO	Category of Public Enterprises	Number of Enterprises	Remarks
1	Hotels	17	2 reinstitution
2	Filwohas' Administration	1	
3	Housing and Office Furniture (ETHOF)	17	1 reinstitution
4	Supermarkets and stores	7	
5	Food Stuff Merchandise	23	1 reinstitution
6	Leather and Shoe	16	
7	Building Materials merchandise	9	
8	Food Processing	1	
9	Stationary materials shops	5	
10	Textiles	7	
11	Automotive and Spare parts	6	
12	Publishing Agency (Kuraz Book Shops)	34	
13	Beverage (Soft drinks and Brewery)	5	
14	Food-related Factories	10	3 reinstitution
15	Wood Works	5	1 reinstitution
16	Meat Processing Factories	6	5 purchased by MIDROC
17	State Farms	17	1 reinstitution
18	Leather Industry	3	3
19	Metal Work	1	
20	Textile Factories	4	1 lease
21	Water well Drilling	1	
22	Chemical	5	1 reinstitution
23	Agro-Industry	1	
24	Tobacco	1	51%
25	Printing Enterprise	1	
26	Minder (Gold mine)	1	98% for 20 years
27	Pharmacy	4	
Total enterprises sold (excluding reinstitution)		200	

Source: Ethiopian Privatization Agency (2001).

It is apparent that retail shops and warehouses have greatly dominated the Ethiopian privatization process. The large and medium public enterprises are thus still awaiting their transfer to the private hand. As the table shows most of the candidates for privatization program are industries and factories.

To conclude, both in Ethiopia and other African countries, bigger SOEs both in financial and employment size stubbornly remained intact. In Ethiopia's case, those privatized public business undertakings (retail shops and stores), hotels and restaurants are negligible as compared to the economic significance of SOEs that are not yet privatized, particularly those in infrastructure and manufacturing industries. Over the time examined as a whole, Ethiopia's privatization records are not that impressive; and the majority of the SOEs

divested have been small and medium-sized companies. So, it can be safely said that the economic importance of the SOE sector as measured by conventional economic indicators is slightly less today than it was in the 1980s.

Generally, there are a number of factors that may account for the slow pace of the privatization process mentioned by the respondents. There are also obvious reasons why the privatization agency focuses on privatization of small shops and Hotels:

The existing Domestic market is limited in capacity and it would be beyond its financial means to participate in large and medium scale privatization. That is why small shops, Hotels & Restaurants have a lion's share in the already privatized public enterprises.

Further more, according to the head of the computer center, since most of the enterprises are unprofitable, it is costly to organize and restructuring them to turn into profitable enterprises. Nevertheless, small shops and hotels generally involve minor adjustments and restructuring to make them profitable. Moreover, most of the small shops and Hotels demanded little time and experts to assess their asset value so as to determine the floor price. Therefore, these together with other factors contributed for the slow pace of privatization.

There are a number of problems that the respondents also put into the process of implementation. As a print journalist in the public relation department mentioned. The absence of a stock market in Ethiopia has limited the pace of the privatization process and may ultimately create a concentration of capital in few hands.

That is to say - shares could be sold in large numbers to the public if there was a stock market. But in the current condition those who afford only can buy the companies as a whole. Even if the general public (especially the minority interest group of companies) can buy, they can not observe the day to day operation of the companies. Thus, Presence of stock market helps to see the effect of any changes observed in a country economy. Moreover, true competition between companies can not be seen to the public.

4.3 Participation of foreign investors.

In addition to own source of finance the new owners, borrowing from Bank sectors, financing privatization from the budgetary source and foreign source have been commonly used in Ethiopia. Since the beginning of the process, according to the expert of the privatization agency, financing the process from foreign resources is limited in number. As

the Ethiopian investment code restricts some areas to local investors, their participation in certain areas were non-existent. Although the level of participation is limited 36 foreign investors have participated in the tender of 23 enterprises. Among so many factors that hinder the privatization of foreign investors the following are the major ones:

- ⇒ Most of the already privatized enterprises are reserved for local investors only. Moreover, the country political instability limited their participation. For example the impact of Etio-Eritrean conflict- which mostly had effect on foreign investors who usually do not want to take a risk as long as possible. Africa itself is a "high rise" area in their opinion whether there is war or not. So, the Ethiopian case will escalate their perception of risk. They will be willing to come only if the return is very high.
- ⇒ Lack of Transparency in the process: this is critical for Economic & political success. EPA should made the sell of enterprises transparent by adopting competitive bidding procedures, developing objective criteria for selecting bids, and creating a clear focal point with minimal bureaucracy to monitor the over all program. A lack of transparency can result political backlash.
- ⇒ Lease policy: The Shorter period for the lease payment, the better higher value of the floor price of sales contract, etc. should take in to consideration.
- ⇒ Lack of awareness: foreign investors are not aware of Ethiopians potential investment areas so they should be advertising in order to attract investors, in addition Ethiopian ambassadors who works in different countries should know very well the investment policies and clarify it for foreign investors in order to make up their awareness.
- ⇒ Undeveloped market: some public enterprises are too small for foreign investors and the local demand does not warrant expansion at the moment and competition from other countries offering better incentives.

The above factors generally reduce the participation of foreign investors. But foreign participation level compared to the number of public enterprise is not bad but not sufficient. It is hoped that the number of foreign investors will increase in the future when big enterprises will be put on the auction.

But in the side of their participation they contribute about 11% of the total privatized enterprise. This is 58% of the total procedure.

4.4 Valuation of asset

. It is difficult because in the valuation procedure all fixed assets held by an enterprise are revalued so that the financial statements reflect a more realistic and market-based values. The asset valuation exercise also facilitates a clear understanding to the government and potential investors of the nature, capacity, condition and value of assets being divested. Regarding to the valuation of asset during the privatization process it is very difficult

According to the head of computer center this is the major problem in Ethiopia. This is due to the lack of systematically recorded information during nationalization. And there is also difference between the value of a company's assets given in their books and their actual market value. However, the agency has to give a great attention and consideration to the proper valuation of assets by acquiring of some valuation know-how from different governmental organizations to carry out the valuation process.

The second type of questionnaire is designed for the potential investors who bought state owned enterprises from the government. There are about 200 enterprises where ownership has been transferred to public sector all over Ethiopia. Among them 12% of the sample was taken in order to fulfil this research. 22 questionnaires were distributed to the investors in order to know their attitude towards the pace of privatisation in Ethiopia and the potential problems they faced in the process. 20 Questionnaires were returned and the remaining 2 were not. Out of the 20 papers returned, 2 of them are not properly answered.

4.5 Attitude of investors towards privatization.

From the investors point of view privatization has the following advantages:

- ❖ It opens opportunities for new investment; that is to say a free market economy policy is significantly different from the one that was applied by the former socialist regime and it basically aims to strengthen the private sector. So more investors can participate in investing their capital.
- ❖ Expansion and rehabilitation of the old government owned plants; That is, if they are in the hands of government there is no much expansion work. But if they become under the ownership of private sector there won't be a government intervention in their operation. They have enough capital for the expansion too.

- ❖ Better technology; management skill and technology transfer are achieved. This is true because they will implement new method of working as a result of hiring specialists by paying a good sum of money.
- ❖ Better operational efficiency; if it is in the hand of private sector it can buy new machineries and motivate workers by giving different incentives.

For the question raised about the process of privatization except some bureaucratic problems, almost 72% of the respondents didn't face much problems during the privatization process. This is because they got proper information from the government agency about the companies they are interested to privatize.

The respondents believe that even though EPA claims the required preparation for potential investors, the whole process has taken quite a long time that made investors tiresome and fade up.

As to the investors their aim of choosing the companies and make them privatized is that, the companies are much related with the business area that they are interested in. They bought the companies from the government by winning the auction conducted by Ethiopian privatization agency.

55% of the respondents are not interested in privatizing other sectors; but not for the reason of the process they face but because of the business areas they want to engaged in and similar business line they are already in. so except the capital limitation as well as lack of know- how in the sectors the investors are interested in investing.

In countries like Ethiopia, where banks are the main means of borrowing money, commercial bank play a big role in finance. As to the respondents, obviously the absence of the capital market in Ethiopia forced them to borrow from bank to settle the bill they are required to pay. There are also other means of financing which some of the respondents use.

TABLE 3:- Financial source of investors, Addis Ababa, 2002.

Means of financing	# Of investor	% Age
Own source of financing	3	15%
Banking	14	70%
Government financing	1	5%
Budgetary source	1	5%
Foreign source	1	5%

The above table tells us that banking is the major financial source in Ethiopia.

Forty four percent of the respondents comment on the 100% cash payment process of buying the enterprises, which is beyond the capacity of domestic investors. But now a days taking into consideration the above facts, the agency began to employee deferred payment scheme which is available through EPA to support Ethiopian investors and Ethiopian-owned companies who have the required entrepreneurial skills, adequate experience and the willingness to invest in state owned enterprises, but lack the financial resources required for the purchase.

By arranging for long-term payments, the new scheme is an additional incentive to invest in the Ethiopian privatisation program. The new scheme, that is available for a limited number of economically sound enterprises still to be decided, distinguishes between asset sales and the sale of a share company.

When it is used in the case of asset sales, the investor has to come forward with a minimum of 10% down payment of the agreed price. up to a % maximum of 20 will be covered by EPA through a deferred payment scheme over a maximum period of 6 years. The rest of the purchase price has to be covered by a bank loan .In the case of the sale of a share company, which includes asset as well as debts, the investor should also be able to come up with a minimum down payments of 10% or more of the purchase price. Then 2/3 of the remaining equity capital can be deferred over a period of 6 years. The rest of purchase price has to be covered by a bank loan. But according to the head of computer centre even though the agency starts to implement these schemes, it doesn't that much encourage investors.

The scheme is based on annual payments and the interest rate for the deferred payment is the current deposit rate.

Up to now, EPA has already paved the way to substantial bank loans and improved the modality of payment to be 30% upon closing of the sale and 70% upon handing over of the enterprise

CHAPTER - 5

CONCLUSION AND RECOMMENDATION

5.1 conclusion.

This paper has attempted to assess the following:

First the profile of the Ethiopian public sector: Public enterprises in Ethiopia were favored in both allocation of foreign currency and market monopoly over the private firms. Moreover the government subsidized them directly or indirectly. Nevertheless, the performance of SOEs is dismal by all indications.

An attempt was also made to see the experience of Ethiopian privatization agency performance. Its impacts and problems were also reviewed and assessed.

Privatization in Ethiopia has been rather limited to small scale retail trading and industries, and has slow process. But considering the briefness of the time, it might be unfair to give a hard judgment regarding to the performance of Ethiopian privatization agency.

Some analyst criticize the Ethiopian privatization agency on several counts such as, the pace of privatization is slow and some public enterprises have been sold at prices lower than their market values. However, regarding the above criticism the research would like to comment that, in a country where there is a shortage of skilled manpower and a low capacity of domestic investors, the efforts made so far are satisfactory within this short period of time, with agency privatizing about 200 enterprises. All public enterprises privatized so far were sold at the prices determined through an auction system. Hence, the question of under-pricing should not be raised. Nevertheless, the pace of the privatization process has been slow. Therefore, it must work hard to speed up the process so as to encourage private investors.

In the Ethiopian context privatization process has generated revenue for the government treasury and contributed to the improvement of the internal financial imbalance. Even though it is very difficult to measure its extent government intervention in the economy has been declining since the beginning of the reform. Regarding efficiency issue, the already privatized enterprises are now more efficient than they were before the reform years.

5.2 Recommendation.

Having the aim of improving the privatization process in Ethiopia, this paper strongly recommends that the following measures and strategies should be exercised:

- ▼ One of the major constraints of privatization in Ethiopia is the weak capacity of the domestic market to absorb the sales offered. Domestic participation was adequate at the time when small business were offered. This is mainly due to the amount of investment required to buy them. So domestic investors should find foreign partners. This practice further guarantees that enterprises will remain in the hands of the Ethiopians and the encouragement of domestic investors is so crucial for our country that further attention should be given to ways in which they can be assisted by the government. I strongly suggest that a special "assistance program" should be organised for local investors.
- ▼ The privatization program does not clearly spell out the way and modes of mobilizing resources to finance the divestment of the enterprises, and is limited to some modalities. Therefore, there should be a study of other modalities by the agency so as to encourage domestic investors to foster their participation in the process.
- ▼ The public enterprises on the agenda for privatization in the coming years are of large size. Domestic entrepreneurs would require a medium to long-term loans to finance their participation. Therefore, there should be special arrangements with banking sector to facilitate these activities. Alternatively, privatization through public offering should be encouraged so as to raise money from the public in the form of share. This modality of privatization (public offering) is advantageous in raising enough money from the public and in addressing equity issues.
- ▼ The government should be aware of privatization process not to create a sole monopoly. As it has been observed, there were very few major participants in the privatization process in Ethiopia. This condition may transfer the enterprises from government to private sector monopoly. Therefore, the process of privatization may fail to attain its objective. So, there should be a mechanism to deal with the problem.
- ▼ The agency should take in account popularization and transparency as key campaigns which are now getting growing importance as a basic communication tool. To promote privatization process panel discussions, conferences, exhibitions, press-relations with

various press associations, etc. are necessary. Based on research and plan. Winning customers and influencing people must be targets of promotional activities.

- ▼ The agency should consider lowering the floor price of lease and they should also extend the period of grace for lease payments. The agency should also have a bill clearly stating the need for administrative tribunal that hears lease related cases, because the tribunal helps reduce the work loads in many courts and speed up justice.

Generally the agency should struggle for a better working efficiency that would break the bureaucratic bottlenecks that hamper the progress of privatization.

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ANNEX – 1

JIMMA UNIVERSITY
FACULTY OF BUSINESS.
DEPARTMENT OF MANAGEMENT

QUESTIONNAIRES

This questionnaire is a major material to be used in research composition. It is prepared to gather some facts and substantiate the major problems that affect the progress of privatization in Ethiopia. There are various questions to be answered and some of which require much detail and sincerity. Hoping all of the questions are clear; I would kindly request you to answer the maximum possible number of questions; precisely and comprehensively. Your honesty and kindness would be of great help in many aspects. Since some of the questions are subjective, writing names is not necessary.

Thank you in advance.

1. What is your position in the organization?
2. What do you think the need of privatization?
3. How many public enterprises have been privatized since the establishment of Ethiopian Privatization Agency?

9. How is the capacity of domestic investors in participating in the privatization process especially in buying huge public enterprises?

10. How do you evaluate the participation of foreign investors in the process? Do you think it is satisfactory? If your answer is no, explain the reasons briefly. Explain if "Yes" or "No" i.e. in both cases.

11. What policies do you think should be adopted to encourage investment through privatization?

12. Do you provide any benefits for potential investors to encourage investment?

13. What does EPA plan to accomplish in the near future to make their operation more Effective & Efficient?

14. How do you see the recent government reform to privatize public Enterprise like Telecommunication & EELPA by foreign and Local investor partnerships.

15. What are the main obstacles in the process of privatization?

16. What is the impact of the current boarder conflict between Ethiopia and Eritrea on the privatization process?

17. Would you please comment on the pace of Ethiopia privatization process? (Planned Vs vactual).

18. If you have other comment.

ANNEX 2

JIMMA UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF MANAGEMENT.

QUESTIONNAIRES

This questionnaire is a major material to be used in research composition. It is prepared to gather some facts and substantiate the major problems that affect the progress of privatization in Ethiopia. There are various questions to be answered and some of which require much detail and sincerity. Hoping all of the questions are clear; I would kindly request you to answer the maximum possible number of questions; precisely and comprehensively. Your honesty and kindness would be of great help in many aspects. Since some of the questions are subjective, writing names is not necessary.

Thank you in advance.

1. Name of the Company.

2. When is it privatized?

3. What is your aim of choosing this company to make it privatized?

9. After the company privatized, what measures have you taken? What progress have you made?

10. How is the feedback that you receive from customers towards privatization?

11. What do you think is the role of EPA? Does it facilitate the process very well? if no what is your reason?

12. How do you see the process of privatization in Ethiopia?

13. From Your point of view what is the advantage of privatization?

14. Does EPA make the required preparation for potential investors? L.e. Does it encourage investors?

15. Are you going to participate in making another sector privatized? If now why?

16. What policies do you think still exist that discourage privatization or what policies do you think that should be instituted to encourage privatization?

17. What incentives do you feel should be given to investors?

18. What do you think should be the role of government in privatization?

19. What role do you think commercial bank & Financial institution should play in privatization?

20. If you have any comment in the process please mention.



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