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Transitional Issues and Approaches in Privatisation of Public Sector Undertakings in Ethiopia

JESIAH SELVAM*

Abstract

The study examines empirically the transitional issues and approaches of privatisation of public sector undertakings in Ethiopia. Multiple linear regression analysis based on heterodox model was widely used in this research in addition to simple correlation analyses and chi-square applications. The study shows a mixed result, revealing a negative impact of privatisation on macro-economic, political and socio-labour issues, and a positive result on the micro-labour and managerial issues. The result on per-capita income is, however, a consoling effect on privatisation, owing to the controlled growth rate of population over the study period. Study recommends the country to maintain macro-economic stability and to adopt a comprehensive reforms policy not only on economic side, but also on commercial and institutional legal framework and judicial system. The recommendation also emphasizes more on the reforms to attract private investment with a final notion that the country should never give up initiatives of the private sector development.

I. Introduction

THE RECENT UPSET and turmoil experienced with the functioning of public sector undertakings, and the two engines of economic liberalisation and democratisation have led most of the third world countries marching towards privatisation. Since the beginning of the 1980s, most of the developing world has moved unevenly, but undeniably toward liberal, market-oriented economic reforms. Although recent reviews of international effects of privatisation have been generally favourable to privatisation, the consequences of privatisation within the developing countries remain controversial.

Privatisation process, in fact, has given a rise to contentious issues and conflicting interests such as Privatisation vs. Processing Effectiveness, privatisation vs. economic growth, privatisation vs. investment,

* Professor and Director, Indian Academy School of Management Studies (IASMS), Hennur Cross, Hennur Main Road, Kalyan Nagar PO, Bangalore, Karnataka 560043, INDIA.

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Privatisation vs. National Sovereignty, Privatisation vs. Public(society) concern, Privatisation vs. Labour Concern and Employment, and Privatisation vs. Efficiency and Productivity. With these issues, privatisation at this moment is no more a rhetoric statement because it has become a big debate among intelligentsia pertaining to its merits and demerits. As a matter of fact, privatisation is believed to have brought conflicting interest and confusing state as post-privatisation effects.

Yet, there is a strong belief on market system that privatisation can bring into an economy, resulting in growth and stabilisation and reduction in budget deficit and national debt. Moreover, a shift towards a market system involves competition and incentives which are seen as driving forces towards efficiency in resource allocation and use, as well as accelerated economic growth. But experience shows that most of the developing countries have not achieved the expected outcomes and overall growth which goes against market-driven policies, and the World Bank, the IMF and other donor countries. The severity of the case is so high in poor countries which are with little resources, and spare frequently its national policy to food security and poverty reduction. Ethiopia, which is a typical case of this kind, nevertheless, adopted privatisation as a structural adjustment programme since 1994.

Privatisation in Ethiopia is nothing but is considered an outcome popped up as a result of the new economic policy of the Federal Democratic Republic of Ethiopia which was announced in 1992. The policy clearly envisaged a quickest development of its economy through the process of planning and implementation of multi-sector programme, especially to establish an efficient private sector and a market economy.

Ever since the introduction of the new market-oriented economic policy was announced, a number of policy measures and reforms have been undertaken to attract private investment either domestically or internationally. These measures include short-term economic stabilization, and structural adjustment measures, such as deregulation of domestic prices, abolition of export taxes and subsidies, liberalisation of foreign trade, privatisation of public enterprises and the promulgation of liberalised investment law for the promotion and encouragement of domestic and foreign private investment.

Privatisation as an economic process needs to be handled systematically with a careful plan and policy especially in the third world countries since their resources and capacity to meet any repercussion in mishandling privatisation are very much limited to bearing the after shock. If the process and their issues were well handled, it would yield expected outcomes which have already been experienced in many developing countries.

The privatisation entails enormous number of issues to be contemplated and analysed in such a way that the impact of privatisation can easily be judged. Four specific issues underscore the urgency of the breakthrough: first, processing issues that the application of legal framework, valuation of assets, use of methods and techniques, buyers' response and pace of privatisation in general which all determine the success of privatisation. Processing issues are business environment, regulatory and executing issues that are very much interrelated to other succeeding issues of privatisation. If the processing issues were not properly approached, it would increase chances of failure muddling up political, economic and other social issues which could turn out to be anti-elements to economy and community as a whole.

Second, economic and political issues include economic growth, budget deficit and external debt reduction, openness (export orientation) and investment which are main targets of privatisation. These issues are direct causes to why privatisation is imposed on the least developed countries (LDCs). Third, the socio-labour issues, such as standard of living, education, health, road construction and social welfare, poverty reduction, unemployment and labour conditions after privatisation should carefully be seen during the privatisation process. Many studies reveal that privatisation has brought a negative impact on social and labour issues, albeit its better performance in political and economic issues; fourth and final, the performance and managerial issues of privatised ones are the most visible issues contributing a lot to judge whether privatisation works well at the bottom level of economy.

Ethiopia is no exception to all these issues, queries and complication in handling privatisation which have been raised above. It has, therefore, become a strong reason, and necessitated this research to be undertaken in Ethiopia, a poverty-stricken nation. The research design for this study is basically built up to accomplish its objectives on empirical and analytical basis in order to give a full proof about some of the hidden issues and impacts of privatisation, which are not yet properly diagnosed in Ethiopia, a Sub-Saharan African country. This research is mostly empirical that attempts to address the following questions

- How much worth are economic reforms in Ethiopia? What has necessitated Ethiopia to adopt privatisation?
- What are the issues and impacts of processing issues that decide the over all performance of privatisation process in Ethiopia?
- What are the economic and political issues of privatisation, and their impacts, particularly on the issues of economic growth, reduction of budget deficit and national debt, export orientation, investment, ownership creation and foreign dominance?
- What are the socio-labour and managerial issues of privatisation and impacts that privatisation brings to Ethiopia?

To supplement the research questions, the following hypotheses H0 are formed to be verified through this study: (a)Privatisation in Ethiopia is slow and absurd; (b) Privatisation in Ethiopia as an economic reform has failed to bring a desired change in the economic issues; (c) Privatisation in Ethiopia has failed to show any positive outcome in the social and labours' conditions, and (d) The privatisation in Ethiopia has not effected any betterment in productivity, profitability and management working environment in the privatised enterprises.

This study is organised into five sections. The Section II discusses about methodology of the study. The section III provides complete findings drawn from the arrived results and elaborative discussions thereon in Section IV. The Section V concludes the study with some recommendations.

II. Methodology

This study is both descriptive and empirical. The overall data set up for analysis in this study includes national economic indicators, statistical data from the concerned ministries, manuals, and financial statements. For the analyses of most of the labour and managerial issues, survey method was conducted.

2.1 *Selection of Samples*

The labour, who was chosen as samples based on the non-random sampling for this study, were ensured to have worked during the pre and post privatisation process of the enterprises. As a result, 1200 were identified out of 11,500 labourer population. Out of which 1200 labourers – 10 percent of the population – were drawn as samples. These samples were distributed based on the size of the business they acquired from the state which was, in turn, found in much proportionate to the number of labours. For much closer look, these samples were distributed after a stratification of privatised enterprises as the domestic and foreign which help this study to investigate thoroughly as to how these issues are handled by these enterprises. To analyse about other issues such as retrenchment and employment generation, fifty five enterprises were taken as samples out of 220 privatised enterprises, i.e. 25 percent of the total enterprise population.

To analyse the financial performance of those privatised enterprises, a purposive random sampling was applied. Forty five potential enterprises were identified. Out of which, six enterprises, i.e., 13 percent were chosen as samples on the justification: the enterprises were relatively bigger in operation, and moderately with a wider area of network; the enterprises employed a relatively large number of workers and the enterprises that were with adequate accounting data and approved statements and they should, moreover, be suitable for in-depth studies.

2.2 *Data Collection*

Primary and secondary data were collected. Pertaining to primary data, a questionnaire was prepared to collect relevant data and so were interview schedules. Primary data for this research aims at collecting first hand information from important actors such as EPA (Ethiopian Privatisation Agency), the labour, and donors. Interviews were conducted, particularly with officers working in pre-privatisation and post privatisation departments of EPA and an expert in the World Bank.

Secondary data was collected from different stakeholders of Ethiopian privatisation like Ministry of Finance & Economic Development (MoFED), Ministry of Economic Development & Cooperation (MEDaC), Ministry of Industry & Trade, Ethiopian Investment Authority, EPA, World Bank, IMF, and importantly, from those privatised companies.

2.3 *Quantitative Data*

Accounting data is the mirror that reflects where exactly an organisation stands. Financial data was collected in such a way that the basic requirement of the study is not, at any phase of study, undermined. Reports and statistical data were collected from the concerned ministries and the Agency, and a detailed schedule was prepared to collect the relevant financial conditions of the selected enterprises for analysing changes in their conditions. Financial statements – though limited – such as income statements, balance sheets and annexes for accounting justification for the required period were carefully examined in spite of a lot difficulties confronted in seeking them. Governmental accounts and statistical data relating to economic performance were also deeply pursued for studying the relationship between different variables under study.

2.4 *Quality of the Financial Data and Economic Indicators*

The data either of financial or economic indicators were ensured to be reliable and dependable. As it is already quoted in the cases selected, the way the enterprises were sampled to show that they had their accounts properly audited by the certified or chartered auditors. Statistics at the National level was collected from the National Accounting Department of the MoFED, which is duly audited by FAG. In addition to these sources, the World Bank data was highly useful, as the World Bank computes its statistics as per the 1993 United Nations System of National Accounts (1993SNA).

2.5 *Qualitative Data*

Most of the participants under study were interacted with or interviewed (structured or unstructured or both) or given a questionnaire. A comprehensive questionnaire was prepared to target the labour (employees) of the privatised enterprises for the study of the labour and managerial issues. A two set of Structured Interview Schedule (SIS) with closed and open ended questions were prepared and administered respectively for the officials in the Agency, and for the external agency official.

Managers and Administrators of the selected enterprises were focused and discussed for labour and managerial issues. A high degree of attention and vigilance was taken in preparing and administering the questionnaires, interviews and discussions as not to prevent the study from missing any needed result. Each interview took approximately forty five to fifty minutes. Questionnaires, SIS and discussions were administered in 2003-04.

2.6 *Period of the Study*

Data concerning this study covers a period of ten years which ranged between 1994-95 and 2003-04, Ethiopian Fiscal Years (EFY). However, for investigating the pre-impact reforms and causal analysis of privatisation, period ranging from 1986-87 EFY to 1991-92 EFY was used.

2.7 *Data Analysis*

Data collected from the different sources was analysed through SPSS Version 12 (Statistical Package for Social Sciences). Financial statements of the selected enterprises were interpreted through financial analysis. As financial analyses are helpful to understand the strengths and weaknesses of the organisation, the analysis has carefully been done, and the most widely used method in this study is ratio analysis. The ratio analysis was used to know the proportion between two variables: productivity, profitability, liquidity and return on investment.

To know the growth rate of each and every economical and social variable of the study period, the compound growth rate was applied. To calculate the compound growth rate, the following formula is used

$$y = Ax^b \tag{1}$$

$$\text{Log } y = \log A + b \log x$$

$$Y = a + b\,x$$

where, y Dependent variable,
x Time period (1, 2, 3...),
b (1+r);
r compound growth rate, and
Compound growth rate = (Antilog b – 1) 100

The significance of *b* value is tested by *t* value:

$$t = \frac{b}{S.E(b)} \tag{2}$$

At the macro level, especially the economic performance of Ethiopia during privatisation was analysed through simple measures of central tendency and regression analysis. Pertaining hypotheses testing, t-tests were performed. Multiple linear regression analysis based on heterodox model was widely used in this research, and the formula for multiple linear regression model is given by equation 3

$$y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \ldots\ldots\ldots\ldots\ldots\ldots\ldots\, b_nx_n \tag{3}$$

where, y is the dependent variable and x_1, x_2, x_3, ...x_n are the set of independent variables, b_1, b_2, b_3, ...b_n are called the regression coefficients and b_0 is called the intercept term. Most of the time series data was linearised through logarithms, in particular ones that are growing at a constant rate having no significant negative signs.

To find out the relationship or association between two variables, correlation analyses were applied. It is computed by using the formula:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}} \qquad (4)$$

Here, the significance of r is tested by the formula:

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}} \qquad (5)$$

During the analysis labour and managerial issues, an attempt was made to distinguish through Chi-square distribution (χ^2) whether there is any significant difference in results between domestic and foreign privatised enterprises after privatisation. The formula for χ^2 *is*

$$\chi^2 = \sum\left[\frac{(f_0 - f_e)^2}{f_e}\right] \text{ with degree of freedom(df)} = (r-1)(c-1), \qquad (6)$$

where, r number of rows;
c number of columns
f_0 is the observed frequency
f_e is an expected frequency

In addition to these statistical tools, scatter diagram and simple graph methods were widely applied. Furthermore, data was tabulated in order to show the ups and downs of different economic indicators and other important privatisation proceedings. To show more accuracy, geometric mean was used to calculate the annual growth rate if data was found either in percentage or in ratio.

III. Findings

From the results and discussions, this study furnishes following summary of findings, hypotheses testing, conclusion and recommendations. The findings are furnished in such a way to show that the objectives set forth for this study are hereby accomplished.

3.1 *Emergence of Economic Reforms and Privatisation*

Ethiopia is the third most populous country in Africa, and the 9th in terms of geographical area in the whole of Africa. As far as the economic status is concerned, Ethiopia remained the poorest country with per capita income of US $ 100. The economic system during the Imperial government was a mixed economy, followed by the Derg Regime that adopted the system of socialism. The government that came after the Derg Regime, adopted again a mixed economy, but highly directed towards market led economy. It is so unique to find that these three changes in the economic system occurred within the past three decades.

Ethiopia was perhaps the first African country to prepare a comprehensive plan with "The First Five Year Development Plan 1957-61". Before the Derg Regime came into power, the three five-year plans were implemented which achieved annual growth rate of 3.2 percent, 4.6 percent and 4.0 percent respectively.

The pattern of the economy moved from more or less outward economy to a rigid socialism during the Derg Regime which is otherwise called a Marxist Military government. Having ruled for 17 years between 1974-75 and 1990-91, the regime slowed down the growth rate of GDP to 1.9 percent, falling considerably short of the population growth which recorded then 2.7 percent. Furthermore the per capita income declined by 0.8 percent, deteriorating the standard of living of the average Ethiopian. Hence, the dismaying state brought by the Derg Regime necessitated the successor to adopt economic reforms in 1991 for the recovery of economy.

The implementation of economic reforms on finance and trade brought money devaluation by 58.6 percent in US $ terms, reforms on export and imports particularly reduction of import tariff by 10 percent, elimination of retail price control on fertilizer, entry of forex bureaus in commercial banks, foreign exchange retention, and liberalisation of interest rates. The trade sector was more advantages as the average import tariff rate was lowered by 3 percent (the average import tariff rate was lowered from 24.5 percent to 21.5 percent) while the maximum tariff rate remained at 50 percent. New enactments were made on investment, labours, and private sector development. The most important reform was that of the establishment of Ethiopian Privatisation agency 1994 which was meant to facilitate privatisation of the public sector undertakings.

Precedence to the study of the impact of privatisation, an analysis is made to review the performance of economic reforms. The study finds that the economic indicator during the post reform period was satisfactory as compared to the pre reform period. Agriculture and industrial output grew at the rate of 2.78 percent and 7.3 percent respectively which, in turn, raised GDP to 5.7 percent as compared to 1.7 percent in the pre-reform period. However, GDP and their component growth rates were found unstable with a higher degree of variation.

It is also found that during the reform period, inflation and consumer price index (CPI) were found normal but they too inflated highly in some of the fiscal years of post reform period. GNI per capita remained lower because it recorded only US $ 103 in the reform period. Budgetary, trade and current account balances were increased respectively from negative 10.96 percent, 16.37 percent, and 10.2 percent to negative 15.3 percent, 25.54 percent, 13 percent. However, indicators on export and gross private investment were found satisfactory as compared to pre privatisation. FDI grew insignificantly at an annual average rate of 0.27 percent. The findings show that no satisfactory result was found on poverty and income inequality.

OLS model, which is applied to examine the impact of economic reforms on economic growth, reveals the positive growth of agricultural and industrial output. The capital is positive but insignificant. However, the OLS model result surprisingly exhibits that the economic reforms played a negative role in the economic growth of the country, owing to its slowness and incompleteness in nature.

The institutional framework of PSUs operated during the imperial government was a free enterprise system with an open policy. The role of government was then mainly to encourage potential investors from within and outside the country to commit resources in industrial development. The PSUs showed faster growth and expansion. But under the Derg Regime these PSUs identified as basic industries, industries that produced essential goods, drugs, medicine, tobacco and beverages were nationalised through their socialistic economic policy.

It is found that during the Derg Regime the expansion of public ownership proved to be a failure, owing to mismanagement, over staffing, inappropriate investment, poor coverage and quality of services, high debt and physical losses and increased corruption. The other important reason for the failure of the public ownership was that many of the nationalised enterprises became obsolete to run and their number showed a declining trend.

The causal analysis made in this study exhibits no strong justification in retaining the PSU with the government. The analysis proved that production, profitability, liquidity, capacity utilisation, external debt of PSUs and other macro economic indicators such as budgetary deficit and external debt in general caused a major reason for privatisation. However, the study does not reject the role of external agencies behind the privatisation programme in the country.

For the reasons as proved in the causal analysis, privatisation was inducted as one among those economic reforms in 1994, targeting not only for alleviating the problems vested with PSUs, but also for other macro economic objectives such as reduction of alarming budget deficit and external debt, injection of openness and development of private sectors at macro level. The objectives for Ethiopian privatisation is found as same as that for privatisation in other LDCs.

3.2 *Processing Mechanisms and Issues in Privatisation*

3.2.1 *Business Environment and Legal and Regulatory Framework Issues*

Market condition, financial sector and conditions for export development improved significantly during the privatisation period. However, the imperfection and inadequate competition in the market existed. Availability of highly skilled human capital to match with an increase of technology was found to be questionable. Legal and regulatory issues, particularly the judiciary system, land tenure system, commercial framework, tax system, intellectual property rights, patent and copyright laws in the country was found unsatisfactory for the faster development of private sector.

3.2.2 *Issues on the Privatisation Legal Framework*

To carry out the privatisation, the Agency (EPA) was established in February 1994. The findings question the independence and autonomy of the Agency since the Agency was made directly accountable to the Prime Minister Office in all matters. Furthermore, the proclamation, which guides the Agency and privatisation programme, came late into operation in 1998, and hence ran the first phase of programme haphazardly.

3.2.3 *Transformation Issues*

Privatisation was carried out, using the case by case approach. There were three major steps found in the whole process of privatisation: first, pre-privatisation phasing that includes identification and sequencing of PSUs candidates and preparation of PSUs through restructuring and valuation. Second, privatisation implementation that consists of bidding and tendering, assessment and selection of bidders, selection of modalities and sale. Third, post privatisation phasing that is to carry out the monitoring of the privatised enterprises.

While selecting the candidates, the most strategic and viable candidates were retained with the state control and the rest, which included a few potentially viable, have been slated and sold to buyers. It is found that Ethiopia followed bottom-top approach by privatising the small ones initially. Out of 124 enterprises privatised during the initial period of privatisation, 102 were small and petty enterprises. The sequencing was made not only based on the size of enterprise, but also to some extent based on their profitability. However, there were a few transactions in the initial period of privatisation gone on demand side.

The study finds that the Agency carried out two types of valuation – (a) Asset valuation and (b) Business valuation. Valuation was carried out with the clear cut guidelines. For the sake of confidentiality and to ensure a fair sale, the business valuation was not disclosed to the enterprise. It is also found that after re-structuring and valuation, the enterprises were transformed into a new share company – otherwise called as corporatisation – using internationally accepted methodologies. Nonetheless, the study affirms that the privatisation processing failed to look into the macro-economic conditions, particularly the fluctuations in the inflation and exchange during the valuation process.

The findings on tender convertibility shows that most of the enterprises were sold out in the first tender attempt itself and rest was gone even up to fourth attempt of tender. The study also finds that the higher indicative price was the major reason for the failure in converting these tenders into sale actions within one or two attempts of tender. The bidders were weighed in terms of three criteria. Price offered, business plan and technical and managerial expertise which shared the weight of 70 percent, 20 percent and 10 percent respectively. These evaluation criteria were found as much same as internationally accepted ones.

As far as the response to privatisation, the study finds that the average number of the bidders to the slated enterprises was 1.79, indicating less than two bidders responded to each sale offer. No sector attracted more than three bidders for offering for each sale except a sale for mining. Buyers' response over the study period was found far from satisfactory.

Regarding the modalities, most of sale was performed in the country through the asset sale (73.18 percent), and followed by MEBO (20.45). Restitution that occurred in a political change accounted for 6 percent in the total number of transactions. The study also finds that there was one transaction each on joint venture and lease respectively. It is interesting to note that under asset sale modality, 124 transactions were made on a full sale, where as 33 transactions were done on a partial sale.

3.2.4 *Size and Speed Issues*

The size of privatisation in the country was very small. A sale over two hundred and twenty enterprises contributed only USD433.7 million to the country's exchequer. Regarding the phase of privatisation, the first phase (1994-95 to 1998-99) was considered lucrative, collecting 88 percent of the total privatisation proceeds, whereas the second phase (1999-00 to 2003-04) showed the poorest performance. For this poor performance, the study finds reason not only in the weak business environment and legal framework, but also in the war broken out with Eritrea in 1998.

Retailing business dominated in the number of privatisation transaction which constituted 58.64 percent in the total number of transactions, but contributed a meagre of 7.06 percent in the total proceeds collected over the study period. Next to retailing, the farm and agriculture constituted 26 in the number of transactions, contributing 22 percent in the total proceeds. Food and beverage stood third in the number as well as in the contribution.

Food and beverage with 22 transactions yielded US \$ 74.06 million which accounted for 17.14 percent of the total proceeds. It is also found that that hotel and tourism – an emerging sector in the country – with 21 transactions fetched up only 1.20 percent of the total proceeds, where as the mining sector with one transaction contributed surprisingly 39.81 percent of the total proceeds. Leathers, cement and chemicals, wood and furniture, textiles and pharmacy contributed 6.15 percent, 3.46 percent, 2.04 percent, 0.96 percent and 0.15 percent respectively for the total privatisation proceeds.

3.3 *Economic and Political Issues*

3.3.1 *Economic Growth and Development Issues*

GDP grew at an annual average of 5.2 percent in which agriculture grew at 3.1 percent over the privatisation period. It is found that there was a significant variation in the economic performance, owing to the fluctuation in the agricultural output which accounted for an annual average of 46 percent in the total output over the study period. Agriculture showed its poorest performance in the EFY1996-97, 2001-02 and 2002-03 because of the drought and war conditions. However, the soothening effect was industry and services which grew at an annual average growth rate of 5.52 percent and 6.56 percent respectively over the study period.

Nevertheless, this study finds little evidence on economic development as three things are found unsupportive:

i. the industrialization in the country is absolutely slow in progress with a few agricultural products, particularly coffee and hide and skin—coffee's share in total export earnings as of 2003/04 fiscal year stood at 37.2 percent;
ii. Ethiopia was a major importer even for the basic and necessary raw material for its industrial sector and
iii. the technological advancement in Ethiopia was found poorer than any other Sub-Saharan African (SSA) countries.

Precedence to the OLS empirical analysis, a simple correlation analysis was conducted to measure the correlation between privatisation and the three major components of GDP. The result indicates that there is a negative correlation between privatisation and GDP growth (correlation coefficient is -0.308). The similar results are found for agriculture (correlation coefficient is -0.378) and industry (correlation coefficient is -0.320. Nonetheless, the correlation behaved differently for services, showing a positive correlation (correlation coefficient is 0.664).

3.3.2 *Budget Deficit and External Debt Issues:*

No improvement was found on budgetary deficit, but fluctuated rapidly (σ = 2.29 percent) over the study period. Budget deficit to GDP, which stood at 3.7 in the first fiscal year of the privatisation, 1994-95, was raised to 7.13 percent in the last fiscal year of 2003-04, and grew at an annual average of 5.48 percent over the period. The preliminary correlation that there is a weak correlation (correlation coefficient is -0.268) found between privatisation and budgetary deficit.

External debt to GDP moved down from 178.37 percent in 1994-95 to 97.16 percent in 2003-04 which results in the reduction of indebtedness of the country. However, a simple correlation analysis ruled out any major role of privatisation in this reduction (coefficient correlation is 0.382), but thanks to the waiving off US$ 4,321 million in the fiscal year 1998-99.

While analysing debt services, the indicators such as debt service to export and to debt showed a significant change. Debt service to export reduced substantially while debt service to debt increased. The results on these two debt variables left a notion that the condition on indebtedness may reverse to normal. This result is substantiated by the fact that external debt to export was reduced from of 1,275 percent in 1994-95 to 574 percent in 2003-04 over the privatisation period. Nonetheless, the findings eventually say that the country's present value of debt was in danger since it ran out of safe ratio.

3.3 *International Trade and Current and Trade Account Deficits Issues*

Openness improved, but was slow to reach the standard requirements. It recorded only an annual average of 20.9 percent over the study period which is considered insufficient in this globalised business environment. A simple correlation analysis failed to show a correlation between privatisation and openness. Export to import, which stood at 59.54 percent in the first year of privatisation, 1994-95, was reduced to 45.88 percent in 2003-04. Import started to exceed export particularly after 2002-03. Nonetheless, export, predominantly with coffee, shows an increase over the period.

Trade deficit increased slowly over the period and so did the current deficit, but with a little fluctuations. This trend of increase in the export to GDP was expected to have smoothened the trade and current account balance over the period, but the analysis over export to import prevented the expectation from yielding positive effect on these balances. The study also finds that the current account balance (deficit) was increased, but not proportionately to the increase of trade account deficit, owing to an increase of the international reserve that the country held. Although there was an improvement in the openness, export orientation and current account deficits, attributing these developments to privatisation was highly questioned in this study because the major exporting commodity, coffee, was seldom handled in privatisation.

3.3.4 *Investment*

Private investment over the privatisation period grew at an annual average rate of 9.26 percent, where as the public investment attained only 8.18 percent. Although the difference of annual average rate between the public and private investment in percent of GDP was too narrow – the difference between the private and public investment was only 1.8 percentage points, the successful achievement on the private investment was said to be satisfactory. FDI as a share of GDP increased, but insignificantly from 0.14 percent to 0.21 percent over the period. However, these achievements comparing to other Sub-Saharan Africa (SSA) was found far from satisfactory as the latter were able to achieve in an annual average of 13.5 percent over the same period.

Heterodox based OLS model in examining the impact of privatisation on different economic variables prove that there is no visible effect on any economic variable taken for this study. The analysis reveals that privatisation is found insignificant for GDP growth despite a robust and positive result was found for agriculture growth. The OLS models on the budgetary deficit, external debt and export orientation also reveal that privatisation contributed insignificantly. The analysis also proves a failure of privatisation on investment with robustly negative in general, and on FDI in particular. This result on FDI reveals that privatisation is not an important element in the FDI decision.

3.3.5 *Political Issues*

On analysing the political issues vested in privatisation, against all odds, the issues such as anti-privatisation feelings among public and trade union's resistance were not observed in the privatisation scenario of the country.

Resistance from labour unions was not observed against privatisation, but slightly against retrenchment. The externalities (external pressures) on privatisation of the country may not be ruled out since there have been evidences about the country's high dependency on external loan and aid. However, a simple correlation analysis ruled out the relationship between privatisation and externalities which is measured in terms of the SAL.

The analysis on foreign dominance shows that the foreigner bought 75 percent of the total privatisation transactions in spite of acquiring a few number of enterprises. Foreign dominance was found much prevalent in the sectors like food and beverages, leathers, mining and farm-agro industries. The reason for the foreign dominance on these sectors is attributed not only to their growth prosperity, but also the highest indicative price fixed for their sale. Leathers and mining received 100 percent of foreign dominance.

The study reveals that 91 percent of the total foreign privatisation was dominated by Saudi nationalities through purchasing 23 large sized transactions. The second share went to Yemenis who held 6 percent of the foreign privatisation with only one transaction. French, the only European, purchased a single transaction, holding 3 percent in this value. The interesting note that the study leaves that a single person from the Saudi dominance held his share which accounted for 92.6 percent – 63.47 percent in the total privatisation proceeds. Ownership distribution analysis reveals that 1,579 new owners were created out of 220 transactions over the study period. The analysis also reveals that in many fiscal years, the ownership-creation efficiency ratio was below one. However, the ratio stood at 7.17 over the study period, owing to the MEBO transactions.

3.4 *Socio-labour and Managerial Issues*

3.4.1 *Social Issues*

On social issues, the impact of privatisation on per capita income, education expenditure, health expenditure, road construction and social welfare expenditure was analysed. Among these chosen variables, education expenditure, health expenditure and social welfare are categorized as social infrastructure, where as road expenditure is deemed as economic infrastructure. Per capita income over the study period declined from US $ 110 in 1994-95 to US $ 100 in 2003-04 despite the population grew only at 2.56 percent. A simple correlation analysis shows that there is no correlation (correlation coefficient is 0.143) between these two variables.

On education, literacy rate and gross enrollment improved satisfactorily over the privatisation period. Relating privatisation to this improvement through a simple correlation analysis, however, rules out the effect of privatisation. On health, conditions became worse during the privatisation period because the expenditure declined by almost half the amount over the period. Nonetheless, a simple correlation analysis shows that there is a moderate correlation (correlation coefficient is 0.523) between privatisation and health expenditure.

On road construction and social welfare, the expenditure on road construction increased rapidly, where as the spending on social welfare declined over the study period. The study finds that Rc/GDP increased from 0.31 percent to 1.90 percent, establishing an annual average of 0.71 percent over the study period. The annual average of Sw/GDP stood only at 0.031 percent over the period. A simple correlation analyses on the variables of road construction and social spending reveal that there is a negative correlation (correlation coefficient is -0.508) observed with road construction, whereas a positive relationship (correlation coefficient is 0.469) with social welfare spending. Privatisation programme was linked to poverty reduction mission in the country. However, its impact on poverty reduction was found very little. The absolute poverty declined only by 4.26 percent over the study period, but no improvement was observed on the UN definition of poverty.

OLS empirical analysis indicates that privatisation contributed significantly to per capita income, confirming the side by side effects of a steady increase in industrial sector coupled with a slow growth of population. Privatisation is found insignificant for health expenditure. On the variable of education, privatisation is significant, but contributed negatively, while showing insignificant and fragile coefficients to road construction and social welfare.

3.4.2. *Labour Issues*

For this study, the analysis on labour issues was segregated into micro and macro issues. Micro labour issues include variables such as awareness and communication about privatisation, fear, wage and salary, incentive system, job security, working hours and load, adherence to labour law and total favourability after privatisation. Results on these issues reveal a satisfactory approach of privatisation. The issues such as the labours' right to know their transfer to another legal form of enterprise, and communication with labourers and unions were well handled by privatisation. Fear towards privatisation as expected was highly prevalent among labours, but it was surprisingly lower among those transferred to foreign enterprises.

Overall wage and salary structure and incentive plans after privatisation were relatively improved, but contrarily, the labour in domestic enterprises are more satisfied as compared to the labourers in foreign enterprises. Job security, the major job factor, was perceived to be uncertain since a little less than half the total number of labour felt themselves unsecured in their jobs. As far as working hours and load are concerned, many viewed that there was an increase, particularly in the foreign enterprises.

The study also reveals that there was a less adherence to labour law, attributing to the failure in the enforcement, but the foreign enterprises were proved to be better ones as compared to the domestic enterprises. The most important finding is that no single labourer in both type of enterprises viewed their post-privatised working conditions bad. Rather many deemed it favourable.

The effects of privatisation on the macro issues are, however, negative since the number of labourers was reduced by 7.56 percent in the name of re-structuring. The study underscores the fact that the most potential sectors recorded these reductions to a large extent. In the total retrenchment, the enterprises gone to foreign buyers shared more than two-third, signaling their intensive structural adjustment despite they shared the higher share in new job creation.

3.4.3. *Managerial Issues*

The approach of privatisation towards managerial issues comes up with somewhat a different result as compared to that towards economic, political and macro labour issues. Privatisation slowed down production and sales, but raised the overall net profitability of the privatised enterprises. The study affirms this result thanks to the improved technical efficiency, coupled with the adoption of newer production techniques and innovative system. Fixed assets per person were also declined, showing their restructuring deliberation on the size of labour. However, the technical efficiency was yet to reach the desired level because the one-forth of its utilisation remained unexploited. The study gives caution to the privatised enterprises to see that their production capacity would be used to a great extent, otherwise, the observed ROI might become more worse in the due course of time.

From the analyses over the qualitative issues of management, it is observed that there was a tremendous development after privatisation. The management shifted its administration philosophy to either democratic or free-rein, ensuring the professional approach of the privatised enterprises. Work freedom, opportunities for training and development and relationship with management was relatively improved. However, the retention of the labour by the management was found no more adhering to labour laws, but efficiency was deemed most important factor for their retention. This observation signals a wider use of hire and fire policy which is going to be a new trend in the Ethiopian labour market. On all these managerial issues, the foreign privatised enterprises were observed as better-doers as compared to the domestic privatised enterprises.

3.5 *Findings on the hypotheses proved*

The following are the summary of hypotheses testing which are empirically performed in this study.

Hypothesis H1: *Privatisation in Ethiopia is slow and absurd*

Privatisation over the study period of ten years yielded only US$ 433.7 million with a receipt of US$ 24.5 million a year. The quantitative analysis done in this chapter, thus, proves it to be very slow. Privatisation proceeds expressed in terms of GDP accounted for an annual average of 0.21 percent also authenticates this derived result. Regarding the speed, the chi-square approves a robust difference between the expected and the observed speed in privatisation. The chi-square's computed value (χ^2 473 $>\chi^2_{0.05}$ 16.9190) is significant at 5 percent level. Hence, the hypothesis is proved to be accepted.

Hypothesis H2 : *Privatisation in Ethiopia as an economic reform has failed to bring a desired change in economic issues*

To prove the hypothesis on economic issues, seven economic variables are tested at 5 percent or 1 percent significance level. The details of t-statistics and explanatory power (R^2) of each hypothesis testing are given below:

i. *On the Economic Growth*: Privatisation is insignificant with t-value 0.808 at 0.05 significance level. The explanatory power (R^2) of the model is 0.992.
ii. *On Budgetary Deficit*: Privatisation is insignificant with t-value 0.599 at 0.05 significance level. The explanatory power (R^2) of the model is 0.733.
iii. *On External Debt*: Privatisation is insignificant with t-value 0.780 at 0.05 significance level. The explanatory power (R^2) of the model is 0.506.
iv. *On Import and Export*: Privatisation is insignificant respectively for import and export with t-value -0.695 and -0.686 at 0.05 significance level. The explanatory powers (R^2) of these models respectively for import and export are 0.620 and 0.729.
v. *On Investment*: Privatisation is insignificant with t-value -2.607 at 0.01significance level. The explanatory power (R^2) of the model is 0.835.
vi. *On FDI*: Privatisation is insignificant with t-value -0.894 at 0.05 significance level. The explanatory power (R^2) of the model is 0.974.

Hence, the resulting t-statistics arrived on all economic variables are found to be insignificant, proving the hypotheses as valid ones. This result matches with the relationship between economic reforms and economic growth, the model of which is also statistically proved insignificant with t-value 0.835 at 0.05 significance level. The explanatory power (R^2) of the model is 0.982

Hypothesis H3 : *Privatisation in Ethiopia has failed to show any positive outcome in the social and labour conditions*

To prove the hypotheses on social issues, the social variables are tested at 0.05 or 0.01 significance level. The details of t-statistics and explanatory power (R^2) of each hypothesis testing are given below:

i. *On Per Capita Income:* Privatisation is significant with t-value 3.359 at 0.05 significance level. The explanatory power (R^2) of the model is 0.865.
ii. *On Education:* Privatisation is significant with t-value -3.151 at 0.05 significance level. The explanatory power (R^2) of the model is 0.868.
iii. *On Health:* Privatisation is insignificant with t-value 2.089 at 0.01 significance level. The explanatory power (R^2) of the model is 0.429.
iv. *On Road Construction and Social Welfare:* Privatisation is insignificant on road construction with t-value -1.96 at 0.01 significance level. The explanatory power (R^2) of the model is 0.433, whereas being testrf at 0.05 level, privatisation shows an insignificant t-value of 0.339 for social welfare with explanatory power (R^2) of a meager 0.078.

3.5.1 *Labour Issues:*

The statistical evidences on the labour issues have almost disapproved the hypothesis. The details of the statistical evidences show that the surveyed labourers for this study reveal that the issues pertaining to them were handled in an effective manner and their work conditions and environment improved more significantly in their privatised enterprises as compared to their previous public sector undertakings. The chi-square which is applied to ascertain the difference between the domestic and foreign enterprises has strong statistical evidences that the foreign privatised enterprises were doing better than the domestic enterprises. The employment after privatisation resulted in a net loss of 1,506 jobs which got a share of 441 and 1,065 job losses respectively from the domestic and foreign enterprises. Thus, having these mixed results in social issues as well as in labour issues, the hypothesis may not be fully accepted.

Hypothesis H4 : *Privatisation in Ethiopia has not effected any betterment in productivity, profitability and management working environment in the privatised enterprises*

The statistical evidences on productivity and sales show that they decreased respectively from 20.61 percent and 23.63 percent in the pre-privatisation period to 17.68 percent and 17.57 percent in the post privatisation period. However, the net profit ratio increased significantly by switching over from 0.087 in the pre-privatisation period to 2.79 in the post-privatisation period. The study considers it to be a significant achievement in the privatised enterprises. To add up to the positive evidence on managerial issues, the capacity utilisation increased from 58.62 percent in the pre-privatisation period to 71 percent in the post privatisation period.

The statistical evidences on managerial issues disapprove the hypothesis which is because of the reason that the managerial approach toward the organisation and labourers improved robustly in the privatised enterprises. The chi-square statistically proves that the foreign privatised enterprises were doing better than the domestic enterprises on most of the variables selected for the study. Therefore, this hypothesis in general cannot be fully validated.

IV. Recommendations

Privatisation should be viewed, not as an end itself, but as part of a broader programme of reforms. If the reform measures fail, privatisation cannot stand alone to succeed. Hence, it can be said that a well tailored and user friendly reform policy with high clarity and transparency is a pre-requisite for making the privatisation programme successful. While setting the objectives for privatisation, it should be ensured that the objectives should be practically workable and achievable with the size of the privatisation programme. Imaginary and exaggeration in setting the objectives should be avoided.

On the flaws found in the processing issues, this study suggests that the privatisation agency should be as much independent as possible to ensure a fair service in privatisation. This study suggests the government to withdraw its unnecessary interference and influential representations from the Agency. Regarding the personnel in the Agency, this study recommends that the Agency should be well-equipped with the trained personnel and experts as the programme may ignite again at any time for the rest of the huge public sector.

Privatisation laws should be made in such a way that undue restrictions from the government in tying the Agency's hand can be avoided. The legal framework for privatisation should be flexible and comprehensive. A flexible legal framework enables the government or responsible agencies to adapt their approaches to changing circumstances. It is because of the reason that many changes to perfection in the laws of the LDCs like Ethiopia are natural and common.

The issues on valuation can be minimised if the most of the PSUs came under a systematic financial accounting. Professional accounting seemed to be emerging, but it has to be nourished to the extent that these enterprises cannot easily get away from the systematic examination of books of accounts by these accounting firms. The other suggestion is that the Agency to give as much time as possible to the buyers to contemplate and pool resources to buy the enterprise.

The privatisation programme aimed at even for poverty reduction was not properly directed and linked with the policy implications of poverty reduction. Setting realistic goals is important to developing appropriate procedures for privatisation if it targets indirect objectives like poverty reduction. The country is strongly perceived as the most poverty stricken and political chaotic in Africa. The political struggle and nationalisation during the Derg regime and the recent war with Eritrea have had a damaging message in building the goodwill of the country. This study finds that neither does this condition exist nor is imminent. The government should do enormous efforts through the Ministry of Foreign Affairs, Ministry of Trade and commerce, Chamber of Commerce to demonstrate the on-going private sector development initiatives to the rest of the world. In these goodwill promotion activities, the Ministry of Tourism may also play a vital role hand in hand with other ministries.

Privatisation is an important element in attracting investment despite the fact that causality runs each other. Privatisation cannot be carried out in an unsound investment climate. Hence, it is not too late to create a conducive climate since many PSUs are yet to be privatised. The sound investment climate includes a long-term macroeconomic stability, freedom entry and exist, well-tailored financial reforms, and adequate physical infrastructure.

For privatisation to be successful, the country needs to build its openness of the economy. The size of the economy does not matter to build this openness as many small sized economies have been proved successful on this issue through their systematic deregulation and liberalisation policies. Having more than a decade in the name of reforms, the country was found to be more static and inward oriented. Hence, this study recommends that the country should build its export capacity at the earliest, and at the same time, improve its production capability of the basic raw materials required for its industry.

Cost-structures, differential returns, market growth and the institutional characteristics of the country are the most important determinants in making privatisation effective, but they are yet to be lucrative in the country. Investors wishing to invest always look for a favourable trade and investment regimes, good infrastructure, property rights, political stability and an educated and committed workforce. Above all, the major investment incentives, particularly tax concessions need to be reformed to the extent that it should create business friendly conditions.

It should also be noted that among all types of investment flows, foreign investment through privatisation is considered an important input for the economic growth and it may play a significant role in generating a positive spill over effect, bringing new technologies and management and marketing skills contributing to the economic growth. But the empirical evidence in this study proves that FDI was little to flow. The study, therefore, recommends that foreign investors should be encouraged and handled diligently by creating a conducive-environment for FDI in the private sector development. The government should also facilitate domestic as well as foreign investors to get out of difficulties in the areas of technological information, support services and market information, particularly on the area of export and raw material market, and basic infra-structural facilities.

The judicial system seems to be an obstacle not only for private investors, but also for foreign investors. Foreign investors perceive the country so backward in its commercial judicial system which could be deemed as potential threat to their business. Hence, it is suggested that the judicial system should be injected with clear-cut commercial codes and judges who are expert in judging commercial suits.

In addition to a review of domestic laws and regulations, the country access and adherence to international laws should be enhanced. Although there have been a few treaties signed with some international organs, it has yet to be ratified and strengthened. For this, the government should make use of AU and NAPED for internationalising and harmonising the country's law system.

The confusions and uncertainties regarding land ownership of privatised enterprises presents a potential concern to any investor. The owners of the privatised enterprise were much frustrated about the land lease system in which the land does not appear in their balance sheet. Though it requires a time-consuming and complicated political process, there must be a bold decision from the government to transfer the ownership of land to the investors.

For a wider share ownership and a speedy transformation from the centralized to market economy, it should take necessary steps to sell the PSUs through the method of public offerings instead of sale of assets. This study suggests that the country should lay a foundation to establish a well-structured and informative capital market, followed by the security market. The lead time regarding to set up such markets is normally too long. The first step would be to develop basic security legislations, regulating issues and trade of shares and operation of financial intermediaries.

A properly functioning autonomous banking system is critical to the successful accomplishment of privatisation programme. Effective banking system is needed to allow the domestic investors to leverage their purchase and to enable local and foreign investors to finance future working capital requirements domestically. In addition, a broad range of financial sector laws including sureties (collateral), credit, leasing and insurance should be prepared to ensure the smooth flow of financial transactions and claims. Tax system and administration should be modified to the extent that it should encourage the investors to multiply their business in the country. More tax concessions needs to be announced to encourage the local and foreign investors. Furthermore, dual tax system with a view to give indirect and undue privileges to PSUs should be abolished.

Labour laws should be ensured to apply for the protection of basic rights of labour regarding retrenchment or severance pay or other compensation, but care should be taken to see that the law and its enforcement should never become an impediment to the investors.

This study suggests that the government should allocate a substantial portion of money from the budget for the development of education and health which ensures a highly skilled and healthy human resource in the near future. A highly talented and healthy human resource in a country is considered an important element in attracting private investment.

Having observed a severe retrenchment within this small sized privatisation, it is suggested that the employment issues should be seriously considered by the government. Although the employees safety net programme seemed to exist but it became ineffective in many circumstances, it is absolutely essential to revitalising this safety net to enhance their livelihood. As fear exists among the employees even after privatisation irrespective of domestic and foreign enterprises, the management should make all necessary efforts to speak to them for reducing unnecessary fear. They have to be clearly told that nothing except inefficiency or misbehavior or lethargy would threaten their jobs.

An inefficient and non-transparent bureaucratic system contributes to high transactions and business costs to investors. It is necessary to streamline the bureaucracy and increase transparency of rules in general and particularly those governing investment, labour, trade, the environment, land and taxation. It can, therefore, be said that a strong and bureaucratically free economic foundations to attract investment should a first-hand priority.

The financial sector reforms should be restructured at the earliest, and should go hand in hand with the reform measures. The creation of a sound financial system is crucial to transition and reconstruction, and to revising the living standard of the Ethiopian people. The financial reforms cannot be spared in the case of Ethiopia where the growth rate was not satisfactory.

The economic isolation – the common and chronic issue in Africa – of the county may also provide a strong explanation for the country's poor performance on privatisation and investment. The government should activate its participation in COMESA and AGOA. It is also suggested that the country should become a member in WTO in order to cope with the emerging gloablised trade.

V. Conclusion

Privatisation in Ethiopia exhibits a mixed result, revealing a negative impact of privatisation on macro economic, political and socio-labour issues, and a positive result on the micro labour and managerial issues. The result on per capita income is, however, a consoling effect on privatisation, owing to the controlled growth rate of population over the study period. The results on the micro labour and managerial issues are the indication of a mile-stone achievement of privatisation which occurred among the privatised enterprises. The scope and purview of this positive effect from the privatised enterprises is, however, very minimal because the beneficiaries are limited in number, and their contribution to the economic and social is not so imminent.

The partial failure in privatisation as revealed in this study does not mean that the private sector has failed in the country. Private sector development can be developed and made work well even without the privatisation programme through an effective policy of creating the private sector much parallel to the public sector undertakings. It can, therefore, be said that the initiative on the private sector development should continue, but with the critical examination of feed backs of privatisation in the country which, in turn, helps the privatisation programme to become successful in the near future.