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Privatisation of State Owned Enterprises in Ethiopia since 1991

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Question

What State Owned Enterprises (SOEs) or sectors were privatised in Ethiopia during the 1990s? What were the reasons for privatisation and the impact of privatisation for the SOEs or sectors?

Contents

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1. Summary

After decades of socialist rule under the Derg regime, the Ethiopian People's Revolutionary Democratic Front (EPRDF) adopted market reforms including privatisation of state owned enterprises (SoEs) in 1991. This is a historic literature review, which traces the causes, scale, modalities and impact of the privatisation programme.

The literature on the early privatisation programme is sparse, covers different time periods and uses different sources of data from the Ethiopian Privatisation Agency and the World Bank as well as estimates based on econometric analysis of data from industry surveys. The literature provides details of the number of SoEs privatised in various sectors, but does not provide the names of the SoEs. The information on the impact of privatisation generally involves comparisons of the performance of privatised versus state owned firms.

Ethiopia is a late starter in terms of privatisation in Africa (Nellis, 2003). Privatisation was facilitated through the sale of the SoEs, which were converted to share companies in some cases (Bennell, 1997). The literature is unclear as to whether companies were sold in their entirety or in part. The main causes for privatisation were as follows:

- Pressure from the international financial institutions (Deneke, 2001; Nellis, 2003).
- Large public debt and external debt leading to a high budget deficit (Selvam, 2007).
- Poor performance of SoEs in terms of production and profitability (Hansson, 2004; Selvam, 2007).
- Poor growth prospects of SoEs (Selvam, 2007).

There were two phases of privatisation: the first wave occurred from 1991 to 1994 and the second wave lasted from 1999 to 2004. There are a number of varying estimates of the scale of the privatisation in the literature, as follows:

- 223 SoEs were privatised from 1994-2002 (Gebeyehu, 2000).
- 362 SoEs were privatised from 1994-2004 (Selvam, Meenakashi, & Iyappan, 2005).
- 166 SoEs were privatised from 1996-2000 (Deneke, 2001).
- 287 SoEs were privatised from 1997-2009 (Altenburg, 2010).
- 160 SoEs in the manufacturing sector were privatised from 1994-2010 with a focus on textiles and apparel, food and beverages, tobacco, leather goods and chemicals (Wodajo & Senbet, 2017).

The literature is divided with regard to the impact of privatisation on firms and the economy as a whole, more specially:

- SoEs outperformed the private sector with regard to equipment per person, value of productive assets and employment (Gebeyehu, 2000).
- The production level declined by 14.21% in the post-privatisation period (1995-2004) (Selvam, 2008).
- There was no improvement in productivity in the manufacturing sector from 1994 to 2010 (Wodajo & Senbet, 2017).
- There were modest gains in after tax profit from 1995 to 2004 (Selvam, 2008).
- Selvam (2008) finds that technical efficiency improved after privatisation but Gebeyuhu (2000) finds that technical efficiency was not higher in privatised firms.
- No positive shifts in management philosophy or training were found (Selvam, 2008).

- Capacity utilisation was lower in former SoE's but higher in firms that were privately owned since inception in comparison to state owned firms (Wodajo & Senbet, 2017).

By 2003 privatisation slowed down (Hansson, 2004). There were concerns about corruption leading to the re-nationalisation of some firms (Wodajo & Senbet, 2017). Privatised firms were hindered by shortages or raw materials, competition from imports and political and economic uncertainty (Deneke, 2001). The main beneficiaries of the privatisation programme were two large business conglomerates: the Endowment Fund for Rehabilitation of Tigray (EFFORT), which is an endowment fund owned by the EPDRF and the MIDROC Ethiopia Investment Group, owned by Sheik Mohamed al-Amoudi (Wodajo & Senbet, 2017). These two business empires benefit from preferential treatment from the government and operate as a duopoly that undermines competiveness (Wondwosen, 2009).

There is little mention of gender in the literature although some authors do acknowledge that the lack of information on the impact of privatisation on female workers is a shortcoming (Selvam et al., 2005).

2. Background

The literature covered in this review covers the privatisation of SoEs undertaken since 1991 under the government of the Ethiopian People's Revolutionary Democratic Front (EPRDF), which ended decades of socialist rule under the Derg regime. Under the socialist government public and private sector activities were grouped into three areas:

- Those reserved for the state;
- Activities where the state and private capital could collaborate; and
- Activities which were left to the private sector (Selvam, 2007).

Public ownership was deemed necessary for almost all medium and large-scale industries. Consequently 87 manufacturing enterprises were nationalised in 1975 and it is estimated that up to 159 enterprises were nationalised under the Derg regime (Selvam, 2007). Poor performance and unimpressive gross value of output contributed to negative growth rates among SoEs in the late 1980s. By 1991 most SoEs were old and financially weak (Hansson, 2004).

In the 1990s the EPRDF government introduced economic reforms to reverse the socio-economic crisis, which manifested in the 1980s (Selvam, 2007). The new policy framework was developed in conjunction with the International Monetary Fund (IMF) and the World Bank aimed to stimulate the economy by creating a more market orientated system (Deneke, 2001). Privatisation of SoEs was a key component of the economic reforms especially to facilitate the transformation from a command economy to a market orientated economy. Privatisation is more likely to occur in countries that have extensive financial problems especially large deficits and dependence on external debt (Salvern, 2007, p. 5). However, governments may not privatise an unprofitable firm, especially if it is able to deliver taxes to the government and maintain employment.

3. Causes of privatisation

Ethiopia is regarded as a late-starter with regard to privatisation, even by African standards (Estrin & Pelletier, 2018). The principle reason for privatisation in Africa has been to placate the

international financial institutions (Nellis, 2003). In Ethiopia the treasury was empty and the government had little alternative but to yield to donor conditionality (Deneke, 2001). However, according to the proclamation the objectives of the privatisation programme were as follows: "To generate revenue required for financing development activities undertaken by the government; to change the role and participation of the government in the economy to enable it to exert more effort on activities requiring its attention; to promote the country's economic development through encouraging the expansion of the private sector" (Privatisation of Public Enterprises Proclamation No. 146/1998). According to the proclamation there were two categories under which privatisation occurred in Ethiopia:

- SoEs which were not meaningful in the economic sense would be options for privatisation; and
- In some cases donor conditionality made privatisation the only option. It was critical to reduce the budget deficit and dependence on external debt.

Selvam (2007) undertook a causal analysis to understand what motivated Ethiopia to opt for privatisation. The reasons for privatisation are as follows (Selvam, 2007, p. 3):

- Higher fiscal pressure on the government due to large public debt and large external debt;
- Dependency on loans from international financial organisations;
- Large share of total investment in SoEs;
- Poor performance of SoEs in terms of production and profitability; and
- Poor prospects for long-term growth.

According to Selvan (2007, p. 4) "The first and foremost reason that expedited the privatisation programme in Ethiopia was the poor performance of SoEs particularly production and utilisation of plant capacity." Moreover, most firms could not cover their **working capital** requirements and 33% of SoEs (concentrated in industry and agriculture) were making a loss.

Sector	Profit Making	Loss Making	IIA*	Total
Industry	63	40	10	**113**
Agriculture	8	20	9	**37**
Mining and Energy	2	2	1	**5**
Construction	6	5	7	**18**
Transport and Commodity	10	2	1	**13**
Housing	1	0	4	**5**
Trade	10	1	3	**4**
Hotels and Tourism	5	2	1	**8**
Health	3	0	0	**3**
Finance	4	1	0	**5**
Others	2	0	1	**3**
Total*	**114(50.9)**	**73(32.6)**	**37(16.5)**	**224(100)**

Note: *Figure given in the parentheses indicate the percentage in the column total

Table 1: Profit/loss of SoEs (Source: Selvam, 2007, p. 4)

The key SoEs were already running under **heavy losses** at the end of 1991. See Table 1 for a breakdown of SoEs that recorded profits or losses by sector. GDP in the industrial sector declined from US$714.29 million in 1987/6 to US$326.93 million in 1991/2 (Selvam, 2007, p. 5). Mismanagement, shortages of raw materials and spare parts, outdated machinery and inadequate access to foreign exchange contributed to the disappointing performance of the SoEs (Gebeyehu, 2000).

Capacity utilisation is a critical aspect of the viability of SoEs. With the exception of wood and printing, SoEs had poor capacity utilisation levels which declined from an average of 82% in 1986/7 to 54% in 1991/2 (Salvam, 2007, p. 5).

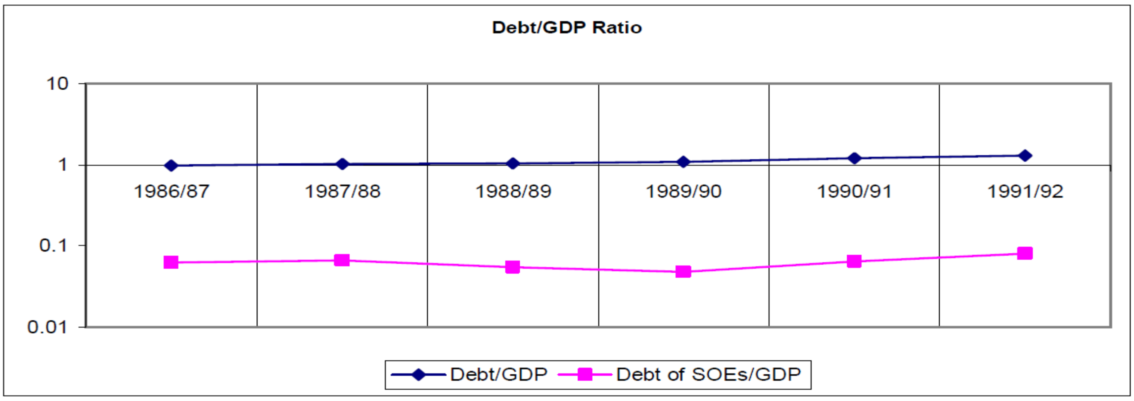

Figure 1: Debt/GDP ratio (Source: Selvam, 2007, p. 8)

The **budget deficit** limited the extent to which the government was able to maintain SoEs. Figure 1 indicates that in 1986/7 the deficit to GDP ratio (which shows how much the GDP should contribute to compensate the gap between the federal revenues and expenditure) stood at 0.069 but by 1991/2 it jumped to 0.097 (Selvam, 2007, p. 8).

There was a slowdown in privatisation that was attributed to a lack of government will (Hansson, 2004). In the early 2000s the government stopped privatisation, because of concerns about corruption and some firms were **re-nationalised** (Wodajo & Senbet, 2017, p. 8). Private expansion was severely hampered by inadequate competence in important fields, like accounting, auditing, business project evaluation and commercial law. Small and medium enterprises (SMEs) were hindered by lack of access to capital. The legal system needed to be updated. Trust between the government and the private sector as well as between domestic and foreign financial institutions was low. Agriculture was a source of livelihood for 85% of the population especially the poor and strengthening private sector growth could have promoted off farm employment (Hansson, 2004).

4. Scope and modalities of privatisation

Scope

The literature on the privatisation in Ethiopia in the early 1990s is sparse and tends to provide the total number of SoEs privatised by sector rather than provide the names of the entities that were privatised. In general, there was a lack of transparency regarding the process (Wodajo & Senbet, 2017), which may account for the absence of detail.

Ethiopia lagged behind other African countries in terms of the scale of privatisation, which was attributed to the lack of political will (Bennell, 1997). There were **two phases** of privatisation (Wodajo & Senbet, 2017). The first phase ran from 1994 to 1998 while the second phase occurred between 1999 and 2004. The first phase was more lucrative than the second phase since 88% of the proceeds were collected during the first phase compared to only 11.93% for the second phase (Selvam et al., 2005). A total of US$433.7 million was generated from the privatisation from 1994/5 to 2003/4 (Selvam et al., 2005, p. 69).

Sector	Privatized Enterprises		Transferred to		Investors Share %	
	Number	% share	Domestic Investors	Foreign Owners	Domestic	Foreign
Manufacturing	40	17	31	9	77.5	22.5
Agriculture	31	13	15	16	48.4	51.6
Hotel & Tourism	18	8	17	1	94.4	5.6
Retail Trade	133	60	133	0	100.0	0.0
Mining	1	0.4	0	1	0.0	100.0
Total	223	100	196	27	87.9	12.1

Table 2: Privatised SoEs 1994-2002 (Source: (Gebeyehu, 2000, p. 8))

From1994 to 2002, 223 SoEs were privatised[1], 40 were large or medium enterprises and 133 were small retail/trade outlets (Gebeyehu, 2000, p. 8). Table 2 depicts the number of firms in various sectors that were privatised as well as whether the purchaser was a domestic or foreign investor. In particular, tourist attractions, hotels, mines and agricultural enterprises were privatised (Gebeyehu, 2000).

Year	No. of Privatisations	Privatisation Proceeds (PP) (USD Millions)	GDP (USD Millions)	PP/GDP (In Percentage)
1994/95	14	29.54	5,779	0.51
1995/96	116	51.46	6,393	0.8
1996/97	26	18.72	6,725	0.28
1997/98	9	193.1	6,647	2.91
1998/99	21	89.12	7,067	1.26
1999/00	16	45.87	7,451	0.61
2000/01	11	2.97	8,106	0.04
2001/02	1	0.76	8,326	0.009
2002/03	3	0.56	6,638	0.008
2003/04	3	1.60	7,408	0.021
Annual Average	22		6,277	0.21
Total	-	433.7	-	-

Table 3: Privatisation of SoEs (Source: Selvam et al., 2005, p. 69)

[1] The 223 enterprises were worth 3,496.3 million Birr.

According to Selvam et al. (2005) 362 SoEs were privatised between 1994/5 and 2003/4. Table 3 lists the number of privatisations per year and the proceeds of the sale.

Economic sector	Number of Buyers			Selling Condition		Total Amount
	Private	Govt.	Parastatal	Full	Business	Birr
Hotels						
Ghion Hotels	4	-	4	4	4	12,143,280
Ras Hotels	1	-	1	1	1	8,929,993
Wabi Shebele Hotels	1	-	1	-	2	1,810,155
Ethiopia Hotels	3	-	2	1	4	3,169,181
Filwoha Administration	1	-	-	-	1	210,231
Total	**10**	-	**8**	**6**	**12**	**26,26262,840**
ETHOF	10	2	5	7	10	40,763,065
Super Markets						
Tana Super Market	1	-	-	1	-	68,010,020
Food Staff Super Market	8	-	9	6	11	12,442,054
Total	**9**	-	**9**	**7**	**11**	**80,462,074**
Leather & Shoes	3	3	10	4	12	5,237,655
Building Material	3	-	6	3	6	15,262,285
Central Food Processing	-	1	-	1	-	8,752,238
Stationary	6	-	6	6	6	20,775,363
Automotive shops	2	2	2	4	2	14,026,180
Kuraz Publishing	-	-	1	1	-	13,031,048
Beverage	3	-	-	3	-	186,007,978
Food Processing	9	-	1	9	1	74,902,980
Wood/Furniture	4	1	-	5	-	56,627,008
Meat Factory	6	-	-	6	-	18,659,536
State Farms	11	3	2	15	1	569,035,440
Leather Tannery	-	-	3	3	-	179,486,850
Metal	-	-	1	1	-	3,100,000
Textile	2	-	2	3	1	171,108,167
Building/Cement	2	-	-	2	-	21,728,705
Chemical	2	-	2	4	-	82,717,290
Agro-Industry	1	-	-	1	-	6,790,600
Tobacco	-	1	-	-	1	285,955,707
Printing	1	-	-	1	-	1,164,000
Mineral	1	-	-	-	1	1,290,796,624
Pharmacy	2	1	1	-	4	4,257,231
GRAND TOTAL	**87**	**14**	**59**	**92**	**68**	**3,232,773,209**

Table 4: SoEs privatised by Sector 1996-2000 (Source: Deneke, 2001, p. 11)

According to Deneke (2001, p. 9) 166 SoEs were privatised from 1996 to December 2000, of these 130 were bought by private persons or businesses and the remaining 36 enterprises were bought by government and parastatal entities. Of the 130 enterprises sold to the private sector 45 was sold to Addis Fanaa, a cooperative of trenched workers (Deneke, 2001, p. 10). Table 2 lists the SoEs privatised by sector from 1996 to 2000. Out of the 166 SoEs that were privatised, 16 were bought by **foreign investors** generating a total sales income of US$ 358 million (Deneke, 2001, p. 12). Over half the foreign investment was from Saudi Arabia. A further 189

SoEs were earmarked for sale. Overall, the process of privatisation was very slow and around 33 enterprises were sold per year (Deneke, 2001).

Other estimates of the scale of privatisation between 1991 and 2009 are as follows:

- From 1991 to 2001 there were ten transactions with a total sales value of US$410 million (Nellis, 2003, p. 8).
- In 1996/7 179 SoEs were advertised for sale (Bennell, 1997).
- In 1992 there were 211 large and medium-sized manufacturing plants under state control; by 2002 there were only 141 large and medium industries under public ownership (Selvam, 2007).
- Altenberg (2010) states that the Ethiopian Privatisation Agency privatised 287 SoEs between 1997 and 2009.
- The share of state-owned enterprises in the manufacturing sector declined from 58% in 2000 to 51% in 2005 (Altenburg, 2010).

Between 1992 and 2000 there were 5,411 domestic private investment projects, 120 foreign private investment projects and 110 private domestic and foreign joint ventures with planned investment capital of 38,629.85, 5,425.18 and 5,547.70 million Birr, respectively (Deneke, 2001, p. 17). It was anticipated that over 280,000 permanent and over 500,000 temporary jobs would be created. However, there was a long day between the approval and operationalisation of projects because the process was cumbersome and bureaucratic. Ultimately, only 31% of the approved projects became operational, while the rest were either terminated or lagged behind. Only 9,004.78 million Birr was raised and only 67,001 permanent jobs were created. Only 22% of foreign investment projects became operational and foreign investment totalled 4,340.65 million Birr (Deneke, 2001).

Deneke (2001, p. 19) notes that 32% of domestic investment projects took place in **Addis Ababa** and 21.6% occurred in the **Oromia** region followed by Amhara and Tigray. Amhara region has one third of the population, extensive raw materials and skilled labour, but it received only 7.5% of the approved projects. In contrast, the **Tigray** region, which has a small population and almost no raw materials received 7.2% of projects. There was potential for private investment in other regions with raw materials (Denenke, 2001).

Type of Manufacturing Industry†	1994-1995	1996-2000	2001-2004	2005-2010	Total	%
Food products, beverages and tobacco	7	31	11	22	71	44.4
Textile and wearing apparel, except fur	0	7	0	17	24	15.0
Tanning and dressing of leather and foot wear	0	3	1	6	10	6.3
Wood and paper, and wood and paper products	0	1	1	2	4	2.5
Publishing and printing services	0	3	0	0	3	1.9
Chemicals and chemical products	1	5	0	7	13	8.1
Rubber and plastics products	0	1	1	1	3	1.9
Other non-metallic mineral products	0	1	3	11	15	9.4
Basic metals and fabricated metal products, except machinery and equipment	0	2	0	3	5	3.1
Batteries, motor vehicle bodies, parts and accessories	0	0	0	1	1	0.6
Furniture	3	8	0	0	11	6.9
Total	11	62	17	70	160	100
%	6.9	38.8	10.6	43.8	100	

Table 5: Estimation of Privatisation among LMSM Industries (Source: Wodajo and Senbet, 2017, p. 14)

Using data from the Large and Medium Scale Manufacturing (LMSM) Industries Survey, Wadajo and Senbet (2017) estimate the number of privatisations in each year from 1994 to 2010 for the constituent industries, see Table 5. Privatisation was concentrated in four industries: textiles and apparel (44%), food, beverages and tobacco (41%), tanning, leather and footwear (40%) and chemical products (35%) (Wodajo & Senbet, 2017, p. 14). It must be emphasised that the data in Table 5 are limited to the industries that are included in the LMSM and may therefore differ from the results reported in the aforementioned studies. Moreover, the data is based on an estimate from the authors unlike the previous studies which relied on data provided by the Ethiopian Privatisation Agency or the World Bank.

Figure 2: Trend of Privatisation (Source: Wodajo and Senbet, 2017, p. 9)

Figure 2 provides a graphic representation of the pattern of privatisation over the past 15 years for industries in the LMSM (Wodajo & Senbet, 2017).

Modalities

SoEs were privatised through the privatisation of public enterprises proclamation No. 146/1 998. The proclamation defines privatisation as follows: ""Privatisation" means the transfer, through sale, of an enterprise or its unit or asset or government shareholdings in a shared company to private ownership and includes: (a) the making of an enterprise or government contribution to a shared company to be formed with the participation of private investors; and (b) the privatisation of the management of an enterprise." (Privatisation of Public Enterprises Proclamation No. 146/1998). The Ethiopian Privatisation Agency was established to oversee the process and was directly accountable to the Office of the Prime Minister in all matters.

A list of enterprises earmarked for privatisation was determined by the government based on the recommendations of a supervising authority. In some cases an enterprise was converted into a **share company** in which the government held all the shares. The valuation of the enterprises was conducted by the Ethiopian Privatisation Agency and a floor indicative price was approved by the board of trustees for privatised public enterprises, which was established under proclamation No 17/1966 (Privatisation of Public Enterprises Proclamation No. 146/1998). The **valuation** took account of depreciation and tax obligations.

The method of privatisation was through **sale** and by 1995 16 sales of SoEs were recorded by the World Bank (Bennell, 1997). However, the literature is unclear as to whether SoEs were sold off in their entirely or whether only a share of the SoE was sold.

The privatisation process was complicated since the market value of the enterprises was not known (Deneke, 2001). The implications on the workers were also unknown. Multilateral and bilateral institutions were pressurising the government to liberalise the economy, but had not conducted a detailed study on how to achieve this (Deneke, 2001). The planning was not transparent and the enterprises were operating in a distorted market.

5. Impact of privatisation

There are contrasting views regarding the effectiveness of privatisation on the performance of firms. New owners wanted to restructure the enterprises and faced **competition** from imports of consumable goods, such as leather goods, textiles, food, beverages, tobacco, steel, chemicals, furniture and stationary (Deneke, 2001).

Micro-economic impact

Firm performance

Gebeyehu (2000, p. 10) is sceptical about the positive benefits of privatisation in Ethiopia on firms and notes the following findings:

- The equipment per person ratio was lower in private firms compared to SoEs.
- The value of productive assets was lower in the private sector.
- Employment in former SoEs declined by 12%.

Selvam (2008) conducted a survey among privatised firms in order to gauge the effects of privatisation on management practices. Firms reported that after privatisation the **production level** declined by 14.21% during 1995 to 2004 and this was attributed to the worn out machinery used by privatised enterprises and shortages of raw materials (Selvam, 2008). Moreover, the new enterprises were distracted by restructuring and other efforts to improve productivity. Fear of retrenchment among employees may have curbed their productivity. Liquidity increased after privatisation and consequently provided a margin of safety for creditors. A regression analysis using the LMSM data also found that privatisation did not lead to an increase in **productivity** in manufacturing enterprises from 1994 to 2010 (Wodajo & Senbet, 2017, p. 19).

There was an improvement in the after-tax **profi**t after privatisation according to the firms interviewed by Selvam (2008). Profit after tax increased modestly in the post privatisation era (1995 to 2004). This improvement in profitability was attributed to greater efficiency which may have emanated from more effective use of machinery or new methods of production (Selvam, 2008).

There are contrasting findings regarding the effect of privatisation on **technical efficiency**. Regression analysis conducted by Gebeyuhu (2000) did not find that technical efficiency was higher in the private sector compared to state owned business entities. The technical efficiency in private firms was 69% compared to 75% for state owned firms and 71% for partially privatised firms. In addition, technical efficiency in the private sector declined from 1998 to 2002

(Gebeyehu, 2000). In contrast, Selvam (2008, p. 117) found that capacity utilisation or technical efficiency improved from 58.62% to 71.09% among privatised firms. Moreover, this improvement in capacity utilisation contributed to greater profitability.

Privatized Enterprises	Shift in the Management Philosophy					Total
	Autocracy to Democracy	Democracy to Autocracy	Autocracy to Free Rein	Democracy to Free Rain	No Change	
Domestic	170(56.67)	30(10.00)	00(0.00)	90(30.00)	10(3.33)	300 (100.00)
Foreign	250(27.78)	240(26.67)	100(11.11)	100(11.11)	210(23.33)	900(100.00)
Total	420(35.00)	270(22.5)	100(8.33)	190(15.83)	220(18.33)	1200 (100.00)

Note: Figures in parentheses indicate the percentages to row total.

Table 6: Shift in Management Philosophy (Source: Selvam, 2008, p. 115)

It is anticipated that privatisation would lead to a shift in **management philosophy** from autocracy to democracy. However, only 35% of employees claimed that privatised enterprises shifted their management philosophy from autocracy to democracy, see Table 6 (Selvam, 2008).

Privatized Enterprise	Training and Development to the Labor		Total
	Imparted	Not imparted	
Domestic	10(3.33)	290(96.67)	300 (100.00)
Foreign	590(65.55)	310(34.45)	900 (100.00)
Total	600(50.00)	600(50.00)	1200 (100.00)

Note: Figures in parentheses indicate the percentages to row total.

χ^2 value is 34.82 which is significant at 0.05 level.

Table 7: Provision of Training (Source: Selvam, 2008, p. 118)

Privatisation did not lead to a significant improvement in terms of the provision of **training.** Only 50% of foreign and domestic private enterprises engaged in professional training and development after privatisation, see Table 7 (Selvam, 2008).

Type of firm	Output as % of production at full-capacity	Three top reasons for capacity underutilization (% of firms) 1 Shortage of raw materials, spare parts and working capital	2 Difficulty in market competition and lack of market demand	3 Government rules and regulations	Number of firms	Number of observations
Privatized	59.9 (28.5)	61.4 (48.7)	36.1 (48.1)	33.4 (47.2)	160	767
Not privatized (stay state owned)	62.1 (37.3)	64.5 (47.9)	35.3 (47.8)	27.3 (44.6)	371	1,748
Private since Commencement	58.1 (59.6)	64.2 (47.9)	42.5 (49.4)	43.0 (49.5)	3,772	10,422
Weighted mean†	58.8	64.1	41.1	40.3	4,303	12,937

Table 8: Mean Rates of Capacity Utilisation and Reasons for Under-Utilisation 1996-2010 (Source: Wodajo and Senbet, 2017, p. 15)

A recent study compared **capacity utilisation** (the extent to which firms use their full capacity for production) among privatised SoEs, state-owned firms and firms that were privately owned since inception. The comparison was based on a statistical analysis of the LMSM survey data (Wodajo & Senbet, 2017). The results found that capacity utilisation was lowest in privatised SoEs and highest in firms which were always privately owned, see Table 8. All three categories of firms were plagued by shortages of raw materials and lack of demand but privately owned firms encountered more difficulties with government rules and regulations than state owned firms (Wodajo & Senbet, 2017).

Industry competiveness

Wodajo and Sebet (2017) contend that the privatisation process mainly benefited two large commercial conglomerates. The first is an endowment fund controlled by the EPRDF, the **Endowment Fund for Rehabilitation of Tigray (EFFORT)**, is one of the largest conglomerates in sub-Saharan Africa (Hansson, 2004).[2] EFFORT was established in 1995 and its top officials are also government officials and prominent members of the EPRDF (Wondwosen, 2009). It is engaged in a large number of industries including building materials, tannery, textiles, garments, pharmaceuticals, industrial engineering, mining, banking, insurance, training, construction services and livestock (Hansson, 2004). It operates as a non-governmental public charity and has never been audited since it was launched. There is no transparency with regard to the management structure or profits and losses. The companies within EFFORT have made extensive use of credit facilities of the state owned bank (Commercial Bank of Ethiopia) and were

[2] EFFORT was formed by a dominant member of the EPDRF, the Tigray People's Liberation Front and is widely believed to be a multi-billion dollar business conglomerate. The EPDRF has used its wealth to control Ethiopia's economy, bureaucracy, army, parliament and judiciary (Wondwosen, 2009, p. 1641).

bailed out despite mismanagement and cases of foreclosure. EFFORT receives preferential treatment with regard to government licenses, allocation of foreign exchange and contracts with the Ministry of Defence (Hansson, 2004). The second chief beneficiary of privatisation is **MIDROC Ethiopia Investment Group**, a group of companies including leading firms in many sectors, owned by Sheikh Mohammed al-Amoudi (Wodajo & Senbet, 2017). It is estimated that he invested more than US$2 billion in Ethiopia in hotels, goldmines, glass, plastics, soft drinks, private airlines, production and marketing of household furniture and office equipment and food processing (Hansson, 2004). MIDROC has close ties with the EPDRF and holds extensive leases of land. EFFORT and MIDROC operate as a duopoly which hinders competitiveness (Wodajo & Senbet, 2017).

SoEs are still prominent in some sectors. In 2006 the manufacturing sector was still dominated by public enterprises which accounted for 72% of total manufacturing value added and 62% of gross value of production. SoEs also employed 57% of the manufacturing workforce (Altenburg, 2010, p. 9).

Macro-economic impact

A statistical analysis performed by Salvern et al. (2005) found no correlation between privatisation and the national **budget deficit** since there was a weak correlation coefficient (r= 0.224).[3] "Hence, it may be said that the privatisation in the country has no impact on the budgetary deficit which is one of the high fiscal determinants deciding the private capital accumulation, particularly private capital." (Selvam et al., 2005, p. 72). Gebeyehu (2000) concurs that the budget deficit did not improve after privatisation.

Similarly, there was no correlation between privatisation and openness of the economy (r=-0.099) (Selvam et al., 2005, p. 74). Therefore, privatisation made little improvement on the **macroeconomic** environment and therefore had limited impact on capital accumulation. Overall the country's performance on private capital accumulation lagged behind that of other countries in sub-Saharan Africa. The privatisation initiatives had little effect on attracting the private investment potential of the country (Selvam et al., 2005, p. 78). The low **investment potential** is attributed to the fact that the privatisation was slow, small in scale and accompanied by economic and political instability. For example, openness was weak, savings were poor and the commercial framework was uninviting. There was also fear of expropriation which was compounded by the weak judiciary. There were also administrative weaknesses with regard to taxation, customs, trade regulation, corruption, anti-competitive behaviour and other regulatory uncertainties. A regression analysis confirmed that the impact of privatisation on **capital accumulation** was negative (Selvam et al., 2005, p. 81).

[3] The correction coefficient ranges from 0 to 1 with values closer to 0 indicating no correlation.

Year	Gross Public Investment/GDP (%)	Gross Private Investment/GDP (%)	GDI* or GFCF/GDP (%)	FDI/GDP (%)
1994/95	7.5	8.9	16.4	0.14
1995/96	7.5	9.4	16.9	0.16
1996/97	8.3	8.7	17.0	0.89
1997/98	7.4	9.8	17.2	0.11
1998/99	8.1	8.8	16.9	1.92
1999/00	5.2	10.7	15.9	0.68
2000/01	8.5	9.3	17.8	0.64
2001/02	11.5	9.0	20.5	0.00
2002/03	11.6	8.9	20.5	0.22
2003/04	Na**	na	22.6	0.02
Annual Average	8.18	9.26	18.06	0.27

Note: *Gross Domestic Investment (GDI) and Gross Fixed Capital Formation(GFCF) can be interchangeably used.** Not available

Table 9: (Source: Selvam et al., 2005, p. 76)

Table 4 depicts the contribution of public investment, private investment and foreign direct investment (FDI) as a percentage of GDP. After privatisation there was greater private investment compared with public investment although the difference is very modest (1.08%) (Gebeyehu, 2000; Selvam et al., 2005, p. 76). Likewise, **FDI** was limited as investors were deterred by economic and political uncertainty.

The investment climate improved significantly after 2003 when a new competition law was enacted, because the country applied for membership to the World Trade Organisation (Altenburg, 2010). There is some foreign direct investment mainly from the European Union, India, Israel, the United States and Saudi Arabia (Altenburg, 2010). FDI was successfully used to develop floriculture, leather products and textiles (Clapham, 2017, p. 1157). China has provided extensive investment especially for infrastructure and telecommunications projects (Clapham, 2017).

Outlook for further privatisation

The Ethiopian government wants to privatise many more firms, but the process is slow as there are many restrictive conditions imposed on privatised firms mainly to deter them from dismissing personnel (Altenburg, 2010). The government seems determined to maintain state ownership of enterprises in strategic sectors such as telecommunications, civil aviation, railways, energy, mining, chemicals, insurance and banking. However, it is expected that some of the larger state-owned enterprises will be privatised (Altenburg, 2010). In the financial sector private domestic banks operate alongside dominant state banks. Likewise, in the insurance industry there are eight private enterprises competing with one state owned company (Altenburg, 2010).

The number of Ethiopian entrepreneurs including from the diaspora is increasing although Ethiopian entrepreneurship is weak and hindered by unfair competition with SoEs or endowment enterprises owned by political parties (Altenburg, 2010). The following constraints to further private sector growth are noted in the literature: the top-down governance system (Tegenu, 2018) and low levels of competiveness despite efforts to improve consumer protection and anti-trust regulations (Dawar & Ndlovu, 2018).

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