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THE CHALLENGES OF PRIVATIZING STATE-OWNED ENTERPRISES IN A

TRANSITION ECONOMY: THE CASE OF ETHIOPIA

A Case Study presented in Partial Fulfillment

of the Requirements for the Degree

Doctor of Business Administration

University of Phoenix

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THE CHALLENGES OF PRIVATIZING STATE-OWNED ENTERPRISES IN A

TRANSITION ECONOMY: THE CASE OF ETHIOPIA

by

Sertsu G. Medhin

June 2007

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ABSTRACT

Developing countries lack market-supporting institutions that facilitate and support the planning, organizing, and implementing of a privatization program. As a result, transitioning from a command economy to a free market economy is challenging for developing countries. Such was the dilemma the new leaders of Ethiopia faced when they decided to move the country away from a planned economy into a functioning market economy. This exploratory study, through a case study method, examined the challenges Ethiopia faced when transitioning to a market economy and selling its state-owned enterprises. The emerging themes and concepts from the sample literature were captured, the findings explained and recommendation for future research has been offered.

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DEDICATION

To all whose lives were adversely impacted in the pursuit of good governance and economic progress for Ethiopia

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A doctoral journey is a long and difficult one. It takes a strong support system to complete the journey. I was fortunate to have had such support throughout the period of my study. I had the support of a network of organizations and individuals who contributed to the stimulation of my passion to start the doctoral program and stood by my side giving unconditional support when the journey became lonely and difficult to bear.

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CHAPTER1: INTRODUCTION

Privatization of state-owned enterprises (SOEs) has been an important component of economic restructuring efforts in many countries in recent years. Despite the difficulty of establishing conclusive empirical evidence to support privatization, proponents present strong economic as well as political arguments that transferring ownership and management of SOEs to private investors will improve the viability and financial health of SOEs (Ernst, Edwards, Gladstone, Gregory, & Holt, 1999). This prospect has generated support for privatization efforts in both developed and developing countries. Government leaders and international financial organizations have been interested in the possibilities that privatization may accelerate economic growth and development (Al-Obaiden, 2002).

The contributions of notable business executives and scholars have continued to increase the knowledge base of privatization from the late 20th century into the first decade of the 21st century. Most notably, Drucker (1969) in his book, *The Age of Discontinuity*, predicted the transition of society from the industrial age to the information age and the impact this change would have on society, business, and government. Drucker foresaw how governments would eventually turn to the private marketplace to fulfill the delivery of essential public services. His writings enhanced the understanding of the concept of privatization. One of Drucker's specific suggestions was for governments to contract out local services to private companies. By taking such action, Drucker maintained that governments would have ample time to focus on governing while leaving the functions of providing production and basic services to the private sector (Drucker, 1969).

Privatization was first implemented as a national economic policy in 1957 when the Federal Republic of Germany sold a controlling interest in Volkswagen to private investors (Filipovic, 2005). At that time, there was no immediate follow up as no major country adopted privatization as a national economic policy. However, during the 1960s and 1970s the paradigm of privatization continued to gain popularity

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and support. The next significant privatization move came in the 1980s when large-scale privatization began in earnest in many parts of the world (Filipovic, 2005; Nellis, 2006).

The 1980s ushered in a new era in privatization. A number of developed and developing countries accepted privatization as a viable alternative for economic development and began implementing privatization programs in various sectors of their economies (Nellis, 2006). Nellis estimated that as many as 100,000 business organizations across the world have been privatized within the last 25 years. His overall assessment of privatization indicated a positive outcome in the majority of cases. Nellis explained how privatization contributed to the general increase in efficiency, profitability, and the availability of financial resources to governments that were in financial difficulties.

Margaret Thatcher, a conservative British prime minister, popularized the concept of privatization in Great Britain when she came to power in 1979 (Filipovic, 2005). Thatcher developed clear strategies to reduce the size of the British government that led to the privatization of many large companies (Andrisani & Simon, n.d.; Filipovic, 2005). A number of countries started looking at the actions of the British government and its privatization programs. Andrisani & Simon reported that countries such as Mexico, Brazil, Chile, and Argentina, China, and Vietnam started privatization programs to increase efficiency and reduce costs. Mexico, Chile, and Argentina elected progressive governments that adopted privatization policies. China began experimenting with privatization ideas and permitted private farming, while Vietnam followed suit by allowing the operation of private businesses. Privatization continued to gain momentum in the African continent as well, as many developing countries embraced this rapidly expanding new paradigm and the liberating influences of free market philosophies, and by 1997, the monetized value of privatized government enterprises reached a record of $160 billion (Andrisani & Simon, n.d.).

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In 1991, Ethiopia's socialist government, which had close ties with the former Soviet Union and other socialist states collapsed, and a new government with a new vision and economic policy emerged (United Nations, 2004). Ethiopia moved away from socialism and slowly joined the strong privatization movement that began during the 1980s as the new government began the long and difficult process of privatizing SOEs. The study explored the challenges Ethiopia faced in the course of privatizing its SOEs. By drawing on the experiences of other countries that had privatized their economies, the study focused on the specific challenges Ethiopia faced in the privatization of its SOEs.

Background of the Problem

Following the collapse of the Soviet Union, its legal successor, the Russian Federation, started changing its economic policies and initiated a program of transformation from a command economy to a market economy (Hoff & Stiglitz, 2004). A command economy is directed through central planning while a market economy is guided by the needs of the marketplace with little interference from the government (Day, 1996). Under command economy, most properties in the former Soviet Union were owned by the state and the government controlled the means of production. When Russia introduced the free market economy, it allowed private ownership of properties with limited interference in the operation of the market. The market was primarily guided by the needs of consumers (Hoff & Stiglitz, 2004). The change to a market economy required Russia to dismantle the structure of the command economy and to establish institutions that supported a free market economy. The Russian government began liberalizing prices and started privatizing its SOEs (Soderholm, 1999).

The actions of the Russian government initiated the economic liberation of the nations of Eastern and Central Europe as they transformed from planned economies to the free market system (Stark, 1992). These liberated nations of the former Soviet Union initiated increased diplomatic and business relationships with Western

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countries in the pursuit of new markets for their products and services. The manner and sense of urgency in which these newly liberated nations transformed their economies demonstrated a commitment for a free market economy (Castater, 2003). Russia and its former satellite states of Eastern and Central Europe joined the economic and social transformation that was sweeping many parts of the world (Castater, 2003). First Gorbachev's actions and later Yeltsin's aggressive policies hastened the demise of command economies in Eastern and Central Europe, and a new vibrant capitalist structure and a free market system emerged that resulted in the transformation of the whole region (Stark, 1992).

Al-Obaiden (2002) observed that privatization gained significant momentum in the 1980s as developing countries accelerated the implementation of privatization programs in search of higher productivity and economic efficiency. During the 1990s, privatization programs continued to accelerate worldwide as more former socialist-oriented countries adopted the free market system (Stark, 1992). The leaders of these former socialist countries along with other developing countries that had originally followed planned economies believed that free markets would help their economies to operate with lower costs and greater efficiency and would deliver better quality of goods and services (Al-Obaiden, 2002). Eliminating waste and inefficiency through effective allocation of capital and technology was expected to improve efficiency, lower cost and increase productivity (Sachs, Zinnes & Eliot, 2000). Sachs et al. further reported that large and small developing countries began opening up their markets and accepting the free market system. Although developing countries had rejected the free market system earlier, they now saw it as a means to increase the efficiency of their economic performances that would eventually extricate them from the cycle of poverty (Al-Obaiden, 2002).

Ethiopia joined the ranks of countries transitioning from a command economy to a free market economy following the demise of communism in Eastern Europe and Russia, subsequent to which, its own socialist-oriented military regime collapsed in

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1991 (Abraham, 2001). The fall of the regime at home and the demise of communism in Russia and Eastern Europe liberated Ethiopia and a new government seized power (Abraham, 2001). The new Ethiopian government that seized political power in 1991 began preparing the groundwork for a free market economy by gradually removing legal restrictions on private investment, stopping price controls, and liberalizing domestic and foreign trade (Abraham, 2001). The government planned for the eventual sale of SOEs and began dismantling state monopolies, gave autonomy to public enterprises to operate independently and removed budgetary support (Pangaea Partners, n.d.). By privatizing the economy, the government was also looking for improved food production through increased agricultural investment that would also support the development of other sectors of the economy (Kebede, 2002).

The new Ethiopian government made a clear commitment to privatize and began laying the foundation for the steady privatization of the economy (Abraham, 2001). In 1994, the government established the Ethiopian Privatization Agency (EPA) by proclamation. The EPA was given a clear and specific mandate to manage and oversee the privatization process and generate sources of revenue for development activities (Ethiopian Privatization Agency, 2002a). The EPA was charged with the responsibility of redirecting the participation of the government in the economy, developing the emerging free market system, and promoting and encouraging the expansion of the private sector. The assets were to be disposed through the modalities of competitive bidding and joint ownership (Pangaea Partners, n.d.). The Ethiopian government leaders continued to maintain their enthusiasm and ardent support for the privatization program as expressed by the prime minister in an interview he gave years later (United World, 2002).

Monitoring the activities of privatized SOEs was an integral part of the privatization process. The government made the EPA responsible for following up and checking the progress of privatized SOEs (Ethiopian Privatization Agency, 2002d). The postprivatization program was designed to evaluate the effectiveness of

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the privatization program and the degree of compliance of investors who bought the SOEs. By collecting information on the SOEs before and after they were sold, EPA evaluated the differences that come about after the sale. Through the postprivatization monitoring program, EPA reminded investors about their obligations as stipulated in the sales contract and required them to submit periodic information. The postprivatization program authorized representatives of the EPA to inspect and monitor, at any time, the condition of the sold enterprises (Ethiopian Privatization Agency, 2002d).

Privatization programs require the availability of a high level of managerial and technical expertise in the workforce. The tasks involved in privatizing SOEs can be difficult and complex for ordinary workers to accomplish, as many responsibilities of privatization require specialized training and experience (Young, n.d.). For instance, workers responsible for weighing each competitive bid submitted need training and experience in assigning a proper value to each privatized enterprise through the valuation of its assets and liabilities. Specialized training, experience, and high ethical standards are required at all administration levels to evaluate the changes that would result from the privatization of an enterprise. Putting in place a reliable regulatory mechanism to check and control the privatization process cannot be accomplished easily (Young, n.d.).

Developing countries and transition economies lack market-supporting institutions that facilitate and support the privatization process. They lack capital markets, laws defining property rights, and workers' rights fitting the framework of a free market economy (Antanassov, 2004). The smooth operation of a market economy requires legal institutions that interpret company contracts and handle bankruptcy, antitrust, and other related issues that arise in the course of conducting a business. A trained cadre of workers such as auditors, accountants, financial analysts, management specialists, and financial reporters is needed to undertake a successful privatization program (Ramamurti, 2000).

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Engler (2003) noted that international financial organizations such as the World Bank and the International Monetary Fund (IMF) are playing an increasingly important role in privatizing SOEs in transitioning economies. These international financial institutions provide technical help to restructure the economy and facilitate financing for the sale of SOEs. The World Bank and the IMF, like any other private lenders, routinely set conditions and economic prescriptions when reviewing and approving loans. They work in collaboration with other donor governments to provide insurance and loan guarantees to companies that invest in developing countries.

Engler asserted that these international lending institutions always take extra precaution when reviewing loans to minimize risks and losses. Engler's assertion has led some to conclude that the true motive of these lending institutions is to advance their own interests and not necessarily to help the countries to which the loans are made. No credible literature that would support Engler's assertion was found in the course of the research. Rather, the literature suggested that the World Bank, the IMF, and the donor communities were clearly committed to helping Ethiopia to accelerate its economic development in order to reduce poverty and improve the material condition of its people.

Statement of the Problem

Market economies have a higher rate of efficiency and productivity than planned economies (Al-Obaiden, 2002). Al-Obaidan stated that developing countries could increase their human assets and capital stock efficiencies by a factor of 45% by simply privatizing their economies. However, privatizing in a transition economy is a long and difficult process. State institutions that can manage the privatization program are virtually nonexistent, and creating these institutions requires a new legal authority (Antanassov, 2004). Domestic financial institutions that can facilitate the sale of state assets are absent; as is a program to support and find employment for displaced workers who will be laid off by the new owners of the SOEs (Fretwell,

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2004). Further, no effective program exists to fight the corruption that arises during a transition period (Antanassov, 2004).

The Ethiopian Privatization Agency administers the privatization of many SOEs in furtherance of the broad macroeconomic reform program of Ethiopia. Through a case study research design, this research showed the challenges that emerged during the privatization period and evaluated their implications for the Ethiopian economy. The research offered relevant and practical recommendations to governments that plan to privatize SOEs.

Purpose of the Study

The purpose of this qualitative case study is to identify the challenges Ethiopia faced in privatizing its SOEs before and during its transition from a command economy to a market economy. The research, through content analysis, offered explanation on the implications of these common challenges to the economy. In particular, the focus was on exploring and explaining the common themes and patterns that emerged during the privatization of the SOEs in Ethiopia.

A qualitative case study provides the most effective mechanism to describe the challenges Ethiopia faced in the privatization of its SOEs. Neuman (2003) considered qualitative case study research method as the most appropriate approach for conducting a historical analysis of events that took place during a transition period. The method is appropriate for conducting the study and for describing the steps the Ethiopian government took in privatization its SOEs. The study covered the events that emerged before and during the privatization of SOEs in Ethiopia.

An economy that is transitioning from a command economy to a market economy goes through constant changes during the transformation process. The privatization experiences of Eastern Europe and Russia have demonstrated the significant social changes that characterize the transformation (Castater, 2003). A massive unemployment could result from a privatization program that would dislocate workers and affect the welfare of families (Fretwell, 2004).

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An SOE goes through a transformation process of its own before it is sold to investors. First, it must be converted into a public share company. A series of actions are subsequently taken including due diligence, valuation, and auditing, bid preparation, closing of the sale, transferring of the assets to the new owners and conducting postprivatization reviews (Ethiopian Privatization Agency**,** 2002c). A case study method provides the best means to observe the transformation closely and to capture the prevailing themes and patterns that emerge during the transition process (Yin, 2003).

The independent variable in the study is privatization. The outcome of the privatization program, also referred as the dependent variables, are changes in Gross Domestic Product (GDP), Foreign Direct Investment (FDI), and the level of employment related to the expected increase in efficiency and productivity. The independent variable consists of the pre- and postprivatization phase as well as the complete application and implementation of the privatization program. The Ethiopian government decided to privatize SOEs in 1991. Accordingly, the period for collecting data was from 1991 to 2006. The data were collected from the publications issued by the Ethiopian government, the World Bank, the IMF, donor governments, and independent researchers. Relevant data pertaining to the challenges Ethiopia faced and continues to face in its privatization program were extracted and analyzed and the emerging themes and concepts were coded and explained. The data are shown from Tables 4 to 14.

Significance of the Research

Ethiopia is one of the poorest countries in Africa and presents the world community with one of its biggest development challenges (Andrews, Lodweyk, & Powell, 2005). The country needs to accelerate economic development to overcome its poverty. The significance of the research to present and future generations of Ethiopians lies in the contributions it would make to the fundamental knowledge of

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privatizing SOEs in transitioning economies that are challenged by poverty and underdevelopment.

Privatization began attracting the attention of many countries in the 1980s as more countries continued to privatize SOEs. The attraction and appeal is likely to continue growing as more countries privatize SOEs and become the subject of critical evaluation and review about the effectiveness of the policies they adopt. International financial organizations such as the World Bank and the IMF are playing an increasingly important role in the privatization of SOEs. The contributions of these international organizations are particularly useful to developing countries where there is a great need for economic progress and development. All leaders, but particularly those in developing countries need to understand the benefits of privatization in stimulating and accelerating economic growth and development (Filipovic, 2005).

Political and economic leaders can apply effective leadership and use the knowledge of privatizing SOEs to benefit the organizations or institutions they serve. The privatization process is long and complex, and any knowledge generated would aid in the understanding of the process. The knowledge gained during this research should contribute to the literature of privatization and facilitate the effective planning and implementation of future privatization programs in transitioning economies.

Nature of the Study

The study aimed to present a holistic appraisal and analysis of the privatization program of Ethiopia that would help to determine the challenges the country faced and continues to face in its privatization efforts. The study employed a qualitative case study method and a content analysis technique. A qualitative method was selected for this study for its lack of prescription and the flexibility it allowed to observe the phenomenon of privatization in all its complexities from the beginning to the end (Leedy & Ormrod, 2001).

In the context of the general challenges of privatization in a transitioning economy, the focus of the case study was the identification of the specific challenges

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Ethiopia faced in privatizing its SOEs. The privatization experience of Ethiopia from the planning to the implementation stage was examined as well as the roles of the World Bank, the IMF, donor organizations and independent researchers. All necessary care and precautions have been taken in the research process to control bias and to increase the validity and reliability of the findings.

Content analysis is a method that has been used to examine the content of information either in a written or symbolic form (Neuman, 2003). By employing a content analysis technique, the body of information available on the privatization program of Ethiopia covering the period since 1991 when the decision to privatize was made was collected and analyzed. The sources of the data for the study were publications issued by the Ethiopian government, the World Bank, the IMF, donor organizations, and independent researchers. The common themes and ideas that emerged from the contents of these publications were coded, checking for similarities and patterns, into relevant groups. Coding the recurring themes and concepts helped the study in extracting the main ideas that influenced the decision makers to conceive and implement the privatization program. The absence of a rigid formal hypothesis further allowed flexibility to develop the theoretical foundation of the privatization program and to extract all relevant information from it.

Four parameters: context, input, process, and outcome were used to analyze the privatization program of Ethiopia in its broadest context. The analysis included the context under which the program was conceived and developed, the challenges of assembling the inputs, and the implementation processes of the program. The outcome of the program was further examined, relative to the research questions and pertinent conclusions were drawn on the success of the privatization program. The overarching objective of the study was to identify the challenges Ethiopia faced and continues to face in its privatization program and to extract the key components of a successful privatization program relative to the experience of Ethiopia.

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Research Questions

This qualitative case study is guided by the basic proposition that transitioning economies lack the basic infrastructure to privatize SOEs. As a result, such economies will require a much longer period than a developed economy would, to develop and execute a privatization program. The experience of Ethiopia has demonstrated the difficulties and challenges the country faced in preparing for and putting in place a privatization program through the sale of its SOEs (Abraham, 2001).

The problem of privatizing SOEs is multifaceted and could not be covered entirely by the research. The focus of the research was one country amongst many transitioning economies in the developing world. The data were collected and analyzed through a qualitative case study research method. Based on the application of the privatization program in Ethiopia, the study answered the following research questions:

1. What are the main preconditions of privatization, and what preparations were made before the privatization of SOEs in Ethiopia began?
2. What were the main challenges of the privatization program in Ethiopia as expressed by the Ethiopian government, donor organizations, and the international financial institutions?
3. How was the privatization of state-owned enterprises conducted in Ethiopia, and to what extent has it been successful thus far?
4. What benefits resulted from the privatization program in Ethiopia relative to GDP, attracting Foreign Direct Investment (FDI), and raising the level of employment?
5. What are the lessons learned, and how could these lessons be applied to other transitioning economies?

Each of these research questions was addressed from the data that were collected from primary and secondary sources. The sources of the data are

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publications issued by the Ethiopian government, the World Bank, the IMF, donor organizations, and independent researchers.

Conceptual Framework

In the production of goods and services, all societies, regardless of the philosophical orientation they follow, wrestle with the same three basic questions: what to produce, how to produce, and for whom to produce (Samuelson & Nordhaus, 1985) Ownership of the means of production is, therefore, very important. Ownership gives the individual, through the mechanism of the market, a degree of influence on and control of what needs to be produced and in what amount it needs to be produced.

Adam Smith, the noted economist, laid the foundation for the ownership of private property when he advanced the theory of capitalism and the free market system. Kristlov (2005) referred to Smith's contention that free societies provide the best and most efficient system of distributing resources effectively and creating the greatest prosperity to investors and to society. Smith argued that efficient markets generate laws that create an environment for a free society to emerge and exist.

Frederick Taylor's ideas of scientific management and his application of scientific principles in solving business problems further reinforced the belief that society must find the most efficient way to produce and distribute goods and services (Wren, 1994). Drucker (1969) gave shape to this emerging thought when he advocated the use of private companies to carry out specific public services for a fee instead of depending on the government to provide these services. Private companies are noted for improving efficiency and effectiveness in providing goods and services to consumers at a reduced cost (Havrylyshyn & McGrettigan, 1999).

A paradigm shift in favor of privatization appears to have emerged in the late 1970s when new economic theories based on the laissez-faire principles of classical economics favoring supply-side economics emerged (Aktan, n.d.). Aktan noted that this thinking gave a serious blow to demand-side economics that had dominated economic thinking since the days of the Great Depression. Aktan further noted that

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Milton Friedman with his monetarism theory emerged as the champion and defender of the free market economy. Friedman criticized government interference in the economy and in the activities of businesses. One of Friedman's controversial positions was his argument that the social responsibility of business is to increase its profits (Friedman & Friedman, 1982)

Milton Friedman's eloquent argument in favor of maximizing profits and shareholder value generated a serious debate amongst economists and opened a new way of looking at the role of government in business organizations. Meanwhile, Keynesian economics continued to lose support because of its stance and support for excessive government interference. It was blamed for the stagflation of the 1970s, namely, a combination of hyperinflation and unemployment (Aktan, n.d). Reaganomics, the economic policy of President Reagan with its advocacy of reduced government expenditure, a balanced budget, tax cuts, and the implementation of a sound and stable economic policy, became one of the guiding forces for the privatization movement and began gaining traction and momentum and spread to other parts of the world (Aktan, n.d.).

Privatization is relatively new and does not have a long history behind it. The countries that privatized their economies have limited experience, making it difficult to draw any definite or reliable conclusion about privatization (Schusselbauer, 1999). Schusselbauer noted that the experience of countries such as the nations of Central and Eastern Europe does not yet offer a clear and specific theoretical model. The economic transformation of these countries has only been observed for less than two decades and has not been sufficiently elaborated and documented to allow developing a holistic model from which a theory may be extracted. A clear theoretical framework that can be used as a guide to explain the entire privatization process of these former planned economies is lacking. Such a theoretical framework requires a longer period to emerge (Schusselbauer, 1999). The Ethiopian privatization experience is relatively

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short, and the process is still ongoing making it even more difficult to make any definite conclusion on the privatization program.

When transitioning to market economies began on a large scale during the 1980s, the transitioning countries followed no particular theory to guide their privatization programs (Havrylyshyn & McGrettigan, 1999). Havrylyshyn & McGrettigan indicated that these countries followed market forces and learned from the emerging knowledge and understanding. They liberalized prices, eliminated government subsidy, reallocated resources effectively, and restructured the organization with due consideration of the needs of labor, product change, and new investment opportunities. Havrylyshyn & McGrettigan reported increasing evidences that showed that privatized firms outperformed similar SOEs. They reported studies conducted on several thousand privatized enterprises in seven East European countries that demonstrated productivity increases of 45% after privatization, which is five times the rate of SOEs. The study further demonstrated that privatized firms reduced their workforce by 20% without receiving any direct government subsidy. Al-Obaidan (2002) has also indicated that developing countries can increase their human assets and capital stock efficiencies by a factor of about 45% by simply privatizing the economy.

The performance of SOEs and private organizations can best be viewed through principal and agency relationships. Ramamurti (2000) compared the performance of SOEs with private organizations from the point of view of principals and agency. Ramamurti noted that SOEs are owned by the citizens of the country at large, the principals, and are run by managers, the agents. Accordingly, Ramamurti concluded that since all citizens own SOEs, no one has a personal interest in holding the managers accountable for their actions. Under private ownership, however, shareholders express dissatisfaction by selling their shares or attracting a takeover bid, while owners of SOEs can only show dissatisfaction by denying their votes to the managers or to the government that appoints them during elections. The extra

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supervision and accountability placed on agents of privatized firms force them to work harder to improve the financial health and viability of the firm. The agency problem, the view that owners will devote more time and energy and use resources more effectively compared to nonowners is at the core of the issue of privatization (Dharwadkar, George, & Brandes, 2000).

The Ethiopian privatization program was conceived and designed after 1991 when a new government seized power. Thus, the period in which the privatization program has been in effect is relatively short (United Nations, 2004). The Ethiopian privatization experience has a shorter life span than that of Eastern Europe and Russia. Privatization in Eastern Europe and Russia began following the fall of communism at the end of 1989 (Stark, 1992). Ethiopia did not start privatization until the establishment of the EPA in 1994 (Ethiopian Privatization Agency, 2002a). The Ethiopian privatization process is still ongoing. Consequently, it would be difficult to develop a holistic theory to explain the entire process at the present time. More time is needed to study the underlying challenges that continue to impede the program. A well planned and executed qualitative study contributes to the identification and understanding of the challenges faced in the privatization process and in finding appropriate solutions.

Definition of Terms

Operational definitions, technical terms, and acronyms have been defined as they emerge during the course of the research. The meanings of acronyms have been provided in the report. The definitions of operational words used in unique ways in this study are as follows:

Privatization refers to the transfer or sale of an SOE or its units to private investors.

State-owned enterprise (SOE) refers to an enterprise or a corporation that is owned by the state or the government.

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Ethiopian Privatization Agency (EPA) or *Agency* was established by Proclamation No. 87/1994 in February 1994 to carry out the privatization of public enterprises through a complete or partial sale to investors (Pangaea Partners, n.d.).

A command economy or *planned economy* is an economy where the government allocates resources through central planning.

A market economy is an economy that is relatively free from government interference and is primarily guided by the laws of supply and demand.

A transitioning economy is an economy that is moving from an economy based on central planning to an economy that is based on market forces.

Asset valuation is a system of valuing the fixed assets of an enterprise to come up with financial statements that reflect the market value of the assets (Ethiopian Privatization Agency, 2002c).

Business valuation is a benchmark that estimates the value of an enterprise. The business value includes the assets and liabilities as well as the performance of the enterprise and the conditions of the market (Ethiopian Privatization Agency, 2002c).

Civil Society Organizations (CSOs) are nongovernmental organizations (NGOs) such as trade unions, faith-based organizations, indigenous, peoples' movements, and foundations that work in collaboration with the World Bank on a global, regional, or country level (World Bank, n.d.).

Foreign direct investment (FDI) is investment made in another country in the form of production, by buying a company there or establishing new operation of an existing business (Economist, n.d.).

*Gross domestic product (*GDP*)* is a measure of economic activity that is calculated by adding the total value of goods and services a country produces annually (Economist, n.d.).

Gross national income (formerly gross national product) is the total measure of a country's economic performance that is calculated by adding to the GDP the

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income earned by residents from their investments abroad, minus the corresponding income sent home by foreigners who live in the country (Economist, n.d.).

Assumptions and Limitations of the Study

The study was conducted with two basic assumptions. First, the method employed in conducting the research is believed to be the best and most effective way to pursue a study of this nature. A second assumption is that the sources of the data are credible and reliable. Reliability of data is crucial in any research (Salkind, 2003). A possibility for bias and inaccuracies exists due to the nature of the study. The lack of quantitative metrics to measure the variables is a limitation that should be recognized in any qualitative study and should be considered in evaluating the findings of this case study. This study is unique as it applies to the distinctive experience of one country, which limits the results from being easily generalized or replicated. The general conclusions and recommendations from the study, however, would be useful to other similarly situated developing countries that initiate privatization programs.

Scope of the Study

A case study method allows the observation of a phenomenon and the changes that take place during transformation, with all its dynamism and intensity from the beginning to the end (Yin, 2003). The purpose of the study was to find answers to the research questions and accordingly, the study used a case study method and employed content analysis to provide the answers. The study focused on the challenges faced by the Ethiopia’s privatization program. The scope of the study was limited to identifying the prevailing challenges that Ethiopia faced and continues to face in the privatization process. The sources of the data were documents issued by the Ethiopian government, its agencies, donor countries, and international financial organizations, primarily the World Bank and the IMF, and independent researchers involved since the privatization process was initiated in 1991. The lists of publications contained in the sample literature are shown in Tables 1 to 3. The themes and concepts were coded

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from the sample literature by extracting the key words, phrases, sentences and main ideas.

Summary

The possibilities of increasing efficiency and improving productivity have encouraged many developing countries to convert a large numbers of SOEs into privately owned enterprises in recent years. Since the mid 1980s, many countries have begun opening up their markets and applying free market principles to stimulate their economies. The objective of privatizing the SOEs was to increase the rate of return and to raise the level of efficiency and productivity (Sachs et al., 2000).

Ethiopia has embarked on a sustained program of privatizing its SOEs with the intention of improving the performance of the economy. The government has laid out a clear privatization policy and has continued to privatize for several years. The government's commitment and desire to follow through with its stated objectives of privatizing the economy appears unwavering and the result achieved so far demonstrates a modest degree of success. The literature review provided in the next chapter demonstrate the internal and external forces pushing for privatization, the efforts of the government, the international financial organizations, and donor governments in sponsoring and supporting the privatization program of Ethiopia.

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CHAPTER 2: LITERATURE REVIEW

The subject of the study is the challenges of privatizing state-owned enterprises (SOEs) in a transitioning economy and specifically, the challenge Ethiopia faced when implementing its privatization program. Chapter 1 provided a general introduction on how privatization emerged as a strong trend, attracting the attention of governments and international organizations. In particular, the chapter drew some parallel between the privatization experiences of former socialist-oriented countries and Ethiopia and showed how Ethiopia introduced a market economy with the help of the World Bank and the International Monetary Fund (IMF) when a new government came to power.

Chapter 2 contains an overview of the literature on the privatization of SOEs and is divided into three sections. The first section traces the origin and emergence of privatization as a popular economic model that is designed to accelerate economic growth and development. The second section deals with the literature on the privatization program of Ethiopia, the context under which it was conceived and developed and the roles of international financial organizations, primarily the World Bank and the IMF, and their contributions to the privatization effort of Ethiopia.

Related Literature

The examination of the available literature on privatization has shown an abundance of literature on the various subject areas of privatization. In particular, a large volume of literature exists on the privatization experiences of former socialist states of Eastern and Central Europe and Russia, and currently, more literature is being produced on China’s privatization program. The literature on the privatization experiences of Ethiopia and other emerging nations in Africa, however, is limited. The privatization program in Ethiopia is relatively new, having been designed and implemented after a series of economic and structural reforms in 1992-1993 and 1994-1995 (Abraham, 2001). Researchers have yet to study the privatization program and its implications in detail and publish their findings.

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SOEs can be privatized in any way that is best suited to the needs and requirements of the country in which the privatization program is being implemented. The program may be developed and applied with that in mind, ensuring that the method selected is clearly laid out and easy to understand (Schusselbauer, 1999). The method may be a direct form of privatization that uses public auctions, tenders, public invitations, and employee or management buyouts. It may also be indirect that would bundle and privatize SOEs in one mass privatization program (Schusselbauer, 1999).

A transitioning economy would face many challenges in its privatization efforts. Some of these challenges may be minor, and others may be major. The lack of basic public institutions to privatize the economy is the root cause of these challenges (Antanassov, 2004). Successful privatization efforts may also require a trade off between privatization and reducing social benefits, as demonstrated in the literature review of privatization in Eastern Europe (Schindele, 2003). Privatization is a public function that requires skills from the private sector (Young, n.d.). Typically, governments are responsible for the design and implementation of a privatization program. Weak public institutions in the three branches of government cause difficulties in the implementation of a privatization program (Guislain, 1997).

Privatization requires strong institutions to carry out the policies and directives from the executive arm of the government that is privatizing the economy. Transitioning economies generally do not have such institutions in place, which then require the legislative branch to pass new laws to create such state institutions. Laws on property-ownership rights and workers' rights fitting a free market economy are needed, as are legal institutions that interpret company contracts and handle bankruptcy and antitrust laws and other related matters. Trained workers such as auditors, accountants, financial analysts, management specialists, and financial reporters are required to provide services to businesses and regulatory authorities (Ramamurti, 2000).

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Ernst et al. (1999) saw privatization as a complex process with several interrelated parts. They presented an analytical framework of a privatization program that incorporates context, input, process, and outcomes. They indicated that each of these factors impact on a privatization process and that no privatization program is free from internal and external influences such as economic, political, and social forces. A clear understanding of these underlying forces can help managers of privatization programs to execute their duties and responsibilities properly.

Shehadi (2002) made several conclusions from his research of a number of Arab countries. Shehadi found that a successful privatization program requires not only a clear business strategy and political commitment but also an established regulatory framework and a favorable legal environment as well to handle the many obstacles and challenges of a privatization program. He found that ownership, management, markets, competition, possibility of failure, and the need to comply with regulations are what drive privately owned organizations to succeed. Such motivations are absent in SOEs.

In Africa, many economies saw a period of rapid privatization in the 1990s following the economic reform of the 1980s (Kayizzi-Mugerwa, 2002). Governments tried to take clear and decisive steps to free themselves from the direct ownership and management of businesses as each country developed its own privatization program to sell SOEs. Kayizzi-Mugerwa observed that the structural adjustment programs that were introduced in the 1980s offered an alternative approach to development. He indicated that privatization has a greater socioeconomic implication than a mere transfer of ownership. Such privatization implications include the rights and obligations of ownership, an understanding of the nature of the market, a national and ethnic awareness, donor conditionality, and an examination of bureaucratic practices that prevail in the country.

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The Ethiopian Privatization Program

The Ethiopian privatization program was conceived and designed to promote the economic growth and development of the country. Many domestic and external forces have shaped the privatization program. The following section provides a survey of the literature that shows the internal and external forces that played a role in the emergence of the program. Some of the literature may not be clear and evident and may require a more in-depth reading and analysis for a proper understanding to emerge.

The Importance of Context in the Privatization Program of Ethiopia

Context is important in understanding and explaining any phenomenon, change or transformation taking place in a society. Privatization is such a phenomenon and knowledge of the context in which it is designed and implemented is essential for a proper understanding of the subject matter. No one functions in a vacuum. People may be seen and perceived as individuals, but in reality, they are a collection of social groups living in a defined physical environment impacting and being impacted by their environment

Thomas Friedman (2002), a *New York Times* foreign affairs correspondent indicated that understanding context could help to explain a phenomenon. Friedman attempted to explain the 9/11 terrorist attacks through the context of the forces of globalization that are influencing events worldwide. Freidman made the assertion that the breaking down of borders and the easy availability of technology are creating what he called “super-empowered individuals” who are capable of undertaking tasks that used to be reserved for states. News of any important event that takes place in one country is communicated instantly to other countries with a potential to influence events in those countries.

Friedman believed that unlike previous forces such as that of the Cold War that divided the world into different camps, the emerging globalization forces of today are integrating the world into a unified marketplace. He explained how today’s

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world is increasingly becoming interdependent and how walls and divisions are giving way to the World Wide Web connecting different parts of the world and creating enormous threats and opportunities. No nation today can remain an island and expect to develop and meet the growing needs of its increasingly enlightened population.

Globalization essentially began at the time of the Industrial Revolution and has been creeping since that time. Nations have been moving gradually closer to one another and building a world economy based on the comparative advantage they enjoy. David Ricardo, who formulated the theory of comparative advantage, argued that some countries are better equipped to provide goods and services to other countries at a relatively cheaper price than other countries (Samuelson & Nordhaus, 1985). Nations are inherently unequal, because of either geographical factors or the training and education of their people (Tucker, 1977).

Regardless of the level of poverty, wealth or level of industrialization, nations can engage in mutually beneficial trade with one another. Industries buy products or services from a market that provides them at the most competitive price. Gupta and Govindarajan (2004) stated that nations have an inherent need to expand and globalize. The need for growth, acquisition of knowledge, and competitiveness in a global environment and the need to attract as many international customers as possible will keep their interest in globalization.

The need for interdependence is the driving force behind privatization in many developing countries including Ethiopia. The economy of the world is gradually moving towards integration. A global marketplace is emerging where different nations can freely trade and establish commercial relations. Many global forces are at work to bring the different nations of the world closer. Information technology is globalizing markets, consumer preferences, supply chains, and financial institutions. Competition is intensifying as liberalization of trade and a growing foreign investment create an international marketplace where nations freely exchange

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goods and services. The emergence of the knowledge-based society is accelerating the movement in this direction and is making the world interdependent (European Bahai Business Forum, 2001).

The Historical, Social, and Political Context of the Privatization Program

The rift valley of Ethiopia is the site of the discovery of the bones of "Lucy" who lived more than three million years ago (Embassy of Ethiopia in the U.S, n.d.). This discovery has led Anthropologists to believe that Ethiopia is the site of the origin of humanity. Ethiopia's long history dates back to the legendary Queen of Sheba. Emperor Haile Selassie, whose reign ended in 1974 with the rise of the military government, traced his origin to the Queen of Sheba. The military government drove the Emperor from power, transformed itself into a communist dictatorship, and ruled the country until the current government replaced it in 1991 (United Nations, 2004).

Ethiopia is a diverse country both ethnically and culturally. About 80 ethnic groups compose the population. The Oromos, Amharas, and the Tigre constitute the three predominant ethnic groups. About 61% of the population is composed of the two largest ethnic groups: the Oromos and the Amharas. Christianity and Islam constitute the two largest religious groups, while many ethnic groups in the southern part of the country practice animist religions. Ethiopia's culture and traditions are multifaceted and reflect the lifestyles of the diverse ethnic groups and languages (United Nations, 2004).

Privatization, like any social phenomenon, does not function in a vacuum. It influences historical, social, and cultural forces and in return, is influenced and affected by these forces. Understanding how these forces work and using them to one's advantage will facilitate the implementation of a privatization program. For instance, Vietnam adopted an indigenous economic reform program, a *Doi Moi* or renovation policy in 1986 to transition from a command economy to a market economy (Nguyen, 2005). *Doi Moi* permitted many free market activities. Nguyen reported that the program transformed Vietnam's economic management and cultural

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institutions and shaped the emergence of the market economy that affected the leadership culture of the SOEs. In a similar vein, the cultural legacy of communism, along with the history of each individual country, is an important factor to consider when evaluating the social transformation of Eastern Europe and the former Soviet Union (Castater, 2003).

The cultural legacy of a multicultural society built on diverse ethnic, language, and religious heritage deserves due consideration. The leaders who developed the Ethiopian privatization program had to consider the cultural influences that could influence the implementation of the program. Rodrick's observation that the Ethiopian government adopted a privatization program reflecting its own vision, without being unduly influenced by donors is, therefore, relevant ("In an Economy Like Ethiopia's," n.d.). The privatization program can best be understood and analyzed through a sound understanding of the underlying environmental forces that affect it. Context, as pointed out by Friedman (2002), would help to understand and uncover the underlying forces that influence the course of the privatization program.

The Economic Context of the Privatization Program

Ethiopia is one of the largest countries in Africa with a growing population estimated to approach 83,400,000 by 2010 (Ethiopian Privatization Agency, 2002b). The country has a total area of 1,333,380 square kilometers (United Nations, 2004). With a growing labor force, Ethiopia is striving toward economic and social development to alleviate its poverty. Its present economy is mainly based on agriculture and livestock, and mineral extraction constitutes a growing source of its national income (Embassy of Ethiopia in the U.S, n.d.)

The rise of oil prices in the international market and the consequent economic hardship that followed it did not spare Ethiopia. Ethiopia is not an energy-producing nation and imports oil for its needs. Despite the strain on its economy, the country has made significant economic and social progress and its economic performance has

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grown. Ethiopia has increased its spending on the poor substantially, raising it from 39% of the budget in 1999/2000 to 54% in 2005/2006 (World Bank, 2006).

Ethiopia's membership of the World Bank Group started in 1945. To date, the country has received approval of $4.1 billion in total disbursements (World Bank, 2006). Ethiopia is actively engaged in ensuring that good governance prevails throughout its administration. The government, in collaboration with citizens, is building strong institutions that support the continuation of the country's development efforts. In addition, the government has developed a strong relationship with the Development Assistance Group (DAG), based in Addis Ababa and co-chaired by the World Bank branch office Country Director in Ethiopia (World Bank, 2006). DAG consists of the development assistance partners of Ethiopia based in Ethiopia, and presently, the membership includes the African Development Bank (ADB), Austria, Belgium, Canada, the United Kingdom, the European Community Delegation, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Sweden, the United States, and the World Bank (U.S. Embassy, 2005).

Ethiopia is a member of the New Partnership for Africa's Development (NEPAD) as well. NEPAD is conceived and developed by African leaders to address the prevailing social, political, and economic issues of the continent. The objective of NEPAD is to help African countries to take charge of their development needs through the promotion of good governance, decentralized systems of administration, and sustainable economic development and by protecting democratic liberties and human rights. The primary aim of NEPAD is to help Africa to work towards economic and social transformation so that development will continue unimpeded (United Nations, 2004, 2005).

The Africa Growth and Opportunities Act (AGOA), which President Bush renewed and signed into law on July 13, 2004, is another initiative that is designed to help sub-Sahara African countries. Ethiopia is a beneficiary of this act. Mr. Bush stated when signing the law that AGOA has shown the power of free markets in

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improving the lives of people both in the United States and Africa. AGOA’s purpose is to increase exports, create better job opportunities, and persuade American businesspersons to invest in Africa. African countries are expected to reform their economies to benefit from the increased investment opportunities (AGOA, n.d.).

Privatizing in a Transition Economy and Ethiopia’s Experience

In Ethiopia, the new government’s decision to privatize was born out of “pragmatism and a dedication to their [reconstruction and development] implementation” (Abraham, 2001, p. 23). The country was ravaged by war, natural disaster, and famine. The short-lived experiment with socialism and a planned economy left a bitter legacy behind it. Of all the countries that adopted planned economies, Albania in Eastern Europe perhaps bore the closest resemblance to the realities of Ethiopia in terms of the brutality of the regime. Albania’s regime under Enver Hoxha was brutal and autocratic as was the regime in Ethiopia under the socialist-oriented military regime. When the government of Albania was overthrown in 1990, the country was in confusion, and the weak governance culture made privatization of SOEs in Albania difficult and controversial (Hashi & Xhillari, 1999). The core leadership of the present Ethiopian government that overthrew the military dictatorship had considered Albania a model state in the 1980s when they were still ardent communists (Biles, 2005). Their adoption of pragmatism as a guiding philosophy that led to their introduction of a market economy was a significant change of vision.

The short-term results Ethiopia achieved after the start of privatization were encouraging. First was an improvement in the food security in 1996-1997, several years ahead of the projected date although that turned out to be temporary; second was a gross domestic product (GDP) growth of 10.2%; and third was a lowering of inflation (Abraham, 2001). This was a significant achievement when one considers the disordered state of the economy when the socialist-oriented military government was overthrown in 1991. Years of mismanagement and civil war had devastated the

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economy, created hardship for the people, and reduced the level of production (Abraham, 2001).

When Ethiopia abandoned the socialist path of economic development and adopted a free market economy, the preconditions for privatization were lacking. The new government had to start planning for the creation of institutions that would develop, manage, and implement the privatization program. The government needed to plan for the availability of financial resources that would facilitate the sale of state assets and prepare temporary relief programs for displaced workers. Developing a strategy to control corruption was another important matter (Pangaea Partners, n.d.). The government started the privatization process by creating an agency that would look after the privatization program. The Ethiopian Privatization Agency was created in February 1994 with a clear mandate to carry out the privatization of SOEs (Ethiopian Privatization Agency, 2002a).

Many transitioning economies go through a period of stabilization and post stabilization. The first phase is generally characterized by excessive fiscal deficits, high inflation, and a flight from the currency showing a large gap between the official and parallel exchange rates (Bevan, 2001). Bevan drew a comparison of the five-year average before the change of government (1986 - 1987 to 1990 - 1991) with the five-year average after the change of government (1991 - 1992 to 1995 - 1996) to give a good picture of the fiscal situation. Total revenue fell from 23.1% to 17.7%, mostly due to a decline in domestic revenue, which declined from 19.7% to 14.9%. Recurrent spending was slashed substantially and total expenditure was reduced from 30.2% to 22.6%. The fiscal deficits, after making allowances for grants, also fell from 7.1% to 5.0%. The decline in domestic revenue, however, changed course after 1991/92, and recovered significantly over the next four years reflecting the speed at which the reform was taking effect (Bevan, 2001).

Ethiopia’s progress towards a market economy must be seen in the light of its emergence from a centrally planned economy that lasted almost 20 years. Its progress

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so far has been constant with no major relapse (United Nations, 2004). The EPA has been fulfilling its mandate of privatizing SOEs in accordance with the government-approved modalities. The Public Enterprises Supervising Authority under the Ministry of Trade and Industry has also been fulfilling its obligation of selecting and recommending SOEs that are to be privatized. To date, about 220 SOEs have been privatized (United Nations, 2004). Ethiopia is planning to join the World Trade Organization (WTO) by 2009 and has launched the Diagnostic Trade Integration Study and the Integrated Framework Action Plan as stipulated in the WTO Accession Work Plan (Development Assistance Group Ethiopia, 2005**).** Efforts are underway to generate increased growth opportunities through the expansion of small and medium-sized organizations**.** Despite this progress, however, a great deal remains to be accomplished, and many hurdles still need to be removed to improve the physical and social barriers that impede development (United Nations, 2004).

Privatization of SOEs has several dimensions and raises legal, institutional, economic, and strategic issues. Countries that implement privatization invariably face these challenges. Guislain (1997) estimated that more 100 countries in every part of the world privatized some SOEs in the late 1980s and the first part of the 1990s. Each country adopted various strategies to control and manage the challenges of privatization.

Menshikov (1994) argued that privatization is a long process that takes time to complete. He pointed out the evolutionary nature of transitioning from a command economy to a market economy with various intermediate stages needed to complete the process. One needs to adjust one’s philosophical vision during the process. The experiences of former communist states in the Soviet Union and Central and Eastern Europe have shown the need for adjusting ones philosophical vision and thinking during the transition process.

Winiecki (2003) found that new private companies established under free markets have outperformed privatized enterprises in the short term (three to seven

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years) as was demonstrated in Poland, Czech Republic, and Hungary. New private firms enter the marketplace with clearly defined property rights and work rules. Employees who work in these firms know exactly what to expect and are not demoralized by changes in the new work environment, unlike the workers of privatized firms (Winiecki, 2003).

Ethiopia faced the prospect of making fundamental changes in its economy when it decided to privatize its SOEs. The country had attempted to practice a planned economy for about 17 years under a socialist-oriented military regime. When that government collapsed in 1991, the country turned its attention towards the free market system under the guidance of a new government. The new government recognized the need for establishing state institutions to privatize the economy and developed a strategy to create these institutions (Pangaea Partners, n.d.). The literature documents the general and specific problems that emerged during the transition period.

Historically, SOEs have played a significant part in the economic growth of many nations. Zhu (2004) noted that between 1930 and 1970, SOEs played a crucial role in promoting the economic development of former socialist countries, including many in the developing world. The increase in efficiency and productivity and the resulting benefits have been the driving force behind privatization efforts. Leaders of a privatizing nation would be prudent to check if any measurable improvement in the performance of the economy resulted from the privatization of SOEs. Many economic variables may be examined to measures the changes that may have taken place. The study explored the changes in three important variables: GDP, FDI, and Employment.

Gross domestic product (GDP) is a measure of economic activity that is calculated by adding the total value of goods and services a country produces annually (Economist, n.d.). The total level of economic activity that takes place in a nation is reflected in its GDP, and privatization is bound to have an impact in the economic activity of a nation. The theoretical analysis of privatization indicates a

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properly structured privatization program creates the conditions for efficiency, investment, and the adoption of new technologies (Filipovic, 2005). Despite the controversy about the effectiveness of privatization in promoting economic development, there is a growing view that privatized firms in Eastern European countries have significantly improved their economic performance and outperformed similar SOEs, by as much as 45%, five times the result of SOEs (Havrylyshyn & McGrettigan, 1999). Other studies also indicate developing countries can increase efficiencies in human assets and capital efficiency by as much as 45% (Al-Obaidan, 2002). Therefore, GDP is an important variable that will help to discern the effectiveness of privatization in a free market economy.

Privatization attracts Foreign Direct Investment (FDI). FDI related to privatization has made a positive contribution and brought about a systemic change in the economies of Central and Eastern European countries (Kalotay, 2001). FDI has helped in minimizing the impact of macroeconomic imbalances and structural distortions such as hyperinflation and high budgetary deficits as foreign investors supply goods and services that eliminate chronic shortages (Kalotay, 2001). The skepticism and suspicion against FDI and its perception as corporate imperialism has largely disappeared, and many governments are making a serious effort to attract FDI (Economist, n.d.). An investment in a manufacturing company, for instance, is far more enduring than any direct cash loan or capital that may come in and leave the country. Emerging nations have realized the importance of FDI and are making concerted efforts to attract foreign investors. The degree of success of privatization is tied to the availability of capital and many capital-constrained countries such as Ethiopia have continued to benefit from the inflow of FDI. The government remains optimistic about the prospect, despite the recent political unrest related to the election of May 2005 which may have posed some level of threat to FDI ("Ethiopia: Troubled Time," 2006).

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The level of employment is another important variable that was reviewed. Employment shrinks in a transitioning economy during the transition period and starts improving after investors align the duties and responsibilities of workers in the new organizations. Privatization exposes workers to hardship and suffering as many employees who were on the payroll of SOEs are displaced when the state assets are sold to private investors (Fretwell, 2004). Introduction of free markets and privatization of SOEs affect the level of employment.

Many developing countries are suffering from a cycle of poverty and hardship because of the lack of employment opportunities. Unemployment is a direct result of the lack of economic development and progress. In a society where the unemployment situation is high, political instability, social strife and unrest prevail (Alhajji, 2003). Privatization may not provide a solution to hardship and difficulty and may even worsen the situation in the short term. SOEs employ more people per job than private corporations and when the SOEs are sold to private investors, the new owners will lay off the excess workers adding to the problem (Ethiopian Privatization Agency, 2002e). Studies by the World Bank have confirmed that a large number of workers are laid off following privatization (Alhajji, 2003).

The postprivatization performance of some privatized enterprises and the employment opportunities they provided was checked for measurable change in their business activities. The increase or decease of business of the sold SOEs reflected the change in the level of efficiency that came about because of the sale. FDI had an impact on the employment situation as some of the corporations were sold to foreign investors.

The Role of International Financial Institutions

The World Bank and the IMF provide loans and development assistance to developing countries. Privatization is usually driven by funds made available by these two financial organizations. Both organizations set conditions for approving the loans

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to mirror the private sector financial markets. Many loan recipients and observers find such mirroring objectionable (William, 2001).

The World Bank, through its various agencies, encourages privatization and promotes efficiency and productivity. The International Bank for Reconstruction and Development extends funds to middle-income countries in Latin America, Asia, Africa, and Eastern Europe. The International Development Association focuses on reducing poverty and extends interest-free loans and grants to the poorest countries. The International Financial Corporation finances private sector development, provides technical assistance, and promotes economic growth. The Multilateral Investment Guarantee Agency guarantees investment in developing counties against noncommercial risks (World Bank, 2005).

The IMF monitors the activities of countries that have entered into an agreement with the organization to privatize their SOEs and requires them to prepare several types of documents. Such countries are required to prepare country policy intention documents setting forth their plans and strategies on how they will privatize the economy. They also need to prepare policy framework papers in collaboration with the IMF and the World Bank outlining their economic and political policies. Another document they need to provide is a letter of intent that describes the policies and procedures they intend to implement in the privatization program. The letter of intent is similar to the memoranda of economic and financial policies that member countries are required to prepare. Another additional required document is the interim poverty reduction strategy paper, which analyzes and summarizes the country’s strategy to reduce poverty. Finally, countries that receive IMF funding also prepare poverty reduction strategy papers in collaboration with the World Bank and the IMF. The documents are updated annually and describe the plan the country has put in place for its macroeconomic, structural, and social policies (International Monetary Fund [IMF], n.d.).

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The World Bank and the IMF have been involved in the privatization initiatives and programs of Ethiopia. In 1996, the government of Ethiopia entered into a three-year arrangement under the IMF's Enhanced Structural Adjustment Facility (ESAF) program, which was supported, by the World Bank and other multilateral and bilateral donors. Subsequently, the Ethiopian government adopted and extended the program to last until 2001, making it possible to secure financial assistance under the ESAF program from the World Bank and other multilateral and bilateral organizations (IMF, 1998).

The federal government of Ethiopia, in its letter of intent released on August 12, 2005, described the steps it was taking in accordance with the agreement it had made to qualify for the financial assistance it was requesting from the Fund (IMF, 2004a). In the letter, the government outlined the growth in the GDP and the containment of inflation and reiterated that the quantitative and structural performance criteria for the first part of 2004 have been met. The letter further stated that the government continued its efforts to exercise budgetary discipline, redirect public spending to reduce poverty and to control public debt. The IMF subsequently reviewed Ethiopia's request and because of the progress the country had made, released the final disbursement (IMF, 2004b).

The World Bank has identified many challenges Ethiopia needs to address to reduce poverty. The most important ones include accelerating economic growth, increasing human capital investments, rehabilitating the infrastructure, improving food security, and strengthening the private sector by providing incentives (Abraham, 2001). The World Bank, in a recent Project Information Document, praised the progress Ethiopia had made in its commitment to reduce poverty as stipulated in the Sustainable Development and Poverty Reduction Program (World Bank, 2004).

The World Bank has also been forthcoming in its support of the privatization efforts of Ethiopia. The Bank has made credit and loan grants available to Ethiopia in recognition of the genuine effort the country has been making to privatize its

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economy. For instance, the World Bank extended an International Development Association loan and grant to Ethiopia on December 21, 2004. The purpose of the loan and the credit was to stimulate economic activity and to accelerate the process of the divestiture of SOEs through the participation of the private sector (World Bank, 2004).

The result of Ethiopia's privatization program so far is encouraging. The economic growth of Ethiopia for 2005 was solid, and the outlook for 2006 remained positive. Despite the increase in the price of energy in 2005, economic activity in Ethiopia expanded by more than 7%. Ethiopia, along with other oil-importing countries that adopted sound economic policies, maintained its economic growth. The benefit it derived from the rise in the price of exports other than oil commodities was also helpful in maintaining its economic growth prospects (IMF, 2006).

The most important recognition of Ethiopia's privatization effort by the World Bank is perhaps the debt relief the country received under the Multilateral Debt Relief Initiative. The IMF executive board approved a significant debt relief for Ethiopia that wiped out 100% of the outstanding debt it had incurred before January 1, 2005. Mr. David Andrews, the IMF representative in Ethiopia, reported that Ethiopia qualified for a significant debt relief because of the serious steps it had taken to restructure its economy (IMF, 2005a). The measures it had taken to put its overall macroeconomic performance on a proper footing, the progress it had made to reduce poverty, and the sound public expenditure policy it had pursued contributed to this recognition. In particular, the country had recorded high economic growth for two years, expanded its export market, and brought down inflationary pressures (IMF, 2005a).

The World Bank and the IMF provide financing for the sale of SOEs and help transitioning economies to open up domestic markets to private investors. However, like financial institutions in the private sector, the World Bank and IMF prescribe requirements and attach conditions when they review applications and grant loans.

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They make the approval for granting of the loans conditional on accepting the stated economic prescriptions. Engler (2003) has noted that conditions under which the World Bank and the IMF approve loans and the required guarantee behind the loans have generated a growing worldwide opposition to these institutions. Donor governments that are encouraging heavily indebted developing countries to privatize the economy and sell SOEs to private investors are perceived with a similar degree of negativity. Their use of export credit agencies, public institutions that provide insurance, and loan guarantees to companies that invest in developing countries has created the perception that those loans are made to advance the interests of the lending institutions and not necessarily to help the receiving countries (Engler, 2003). As noted earlier, however, there is no basis for making such charges in the case of Ethiopia. No credible literature on this matter was found during the course of the research.

Conclusion

The literature on privatization has been growing steadily and may be examined from various angles. In particular, the literature may be examined from two broad perspectives: the macroeconomic or microeconomic point of view. A macroeconomic perspective will give a general picture of privatization, while a microeconomic analysis will show the contribution of each individual unit of the program. For example, it is possible to find out the level of efficiency and the roles of inflation and interest rates before and after converting SOEs into private organizations.

Privatization of SOEs has been going on in Great Britain, Europe, Asia and Africa since the 1970s and 1980s (Andrisani & Simon, n.d.). It gained traction and momentum in developing countries only after the collapse of the Soviet Union and the subsequent liberation of the nations of Eastern and Central Europe from the rigid system of planned economies. These newly liberated nations did not hesitate to start privatization programs to develop their economies.

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Ethiopia's privatization program was conceived after the failure of planned economies to generate a viable economic growth and development in Russia and Eastern and Central Europe. The decisions of Russia and other former Soviet bloc nations to turn to market economies evidently helped to persuade Ethiopia and many other former socialist nations to privatize their economies. The clear failures of the economies of these former socialist states may also partially explain the strong stand taken by the Ethiopian government to provide consistent support to the privatization efforts.

Historical, cultural and political forces are powerful and have the capacity to influence national programs such as privatization. While it may not be clear, these forces have played a role in the planning and development of the privatization program of Ethiopia. The Ethiopian government designed the program to accelerate the economic development of the country. SOEs were a burden to the governments and the people and were sold to free resources for deployment in other areas where they could be used more efficiently. The World Bank and the IMF acted as catalysts in stimulating and pushing the privatization processes.

Privatization is a broad subject that requires further research. Its theoretical base and application are still evolving and have not yet been firmly established. Privatization in a market economy is relatively easy, while privatization in a transitioning economy is much more difficult. Gaining a better understanding of the subject matter will help to identify the prerequisites for an effective privatization program.

Summary

The evidence presented in the literature supported the contention that privatizing SOEs increases efficiency and productivity in a competitive environment. The literature indicated that privatization raises the level of efficiency and reduces waste. Privatized enterprises outperform SOEs in many areas of economic

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performance, and privatized firms operate with a smaller workforce, producing a higher rate of return for the owners (Havrylyshyn & McGrettigan, 1999)

The literature review stresses the importance of strong national institutions in implementing privatization programs. Such institutions are necessary to carry out the policies and directives of the privatization agency. Strong institutions are lacking in transitioning economies, and creating them requires the passing of new laws through the participation of the legislative body. This study followed a case study research method and a relevant research design that would help to explore the challenges the Ethiopian privatization program faced and continues to face in its progressive privatization efforts. One of the key concepts in the privatization program of Ethiopia was context. The forces of history, culture and the environment were presented and explained

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CHAPTER 3: METHODOLOGY

The purpose of the study was to investigate the challenges Ethiopia faced in privatizing its state-owned enterprises (SOEs). In the process, the general experiences of a few countries that have transitioned from a command economy to the free market system were briefly explored. The subject of the case study, Ethiopia, began laying the foundation for the privatization of its SOEs after a new government came to power in 1991 (United Nations, 2004). The research explored the emergence of privatization theories and practices in transitioning economies and the privatization efforts of some developing countries and former socialist nations that adopted the free market system since the early 1980s. Where appropriate, some comparison of the experiences of these countries to the experience of Ethiopia has been made. The findings focused on the research questions and showed the common challenges privatization posed to Ethiopia and other similar transitioning economies.

Research Design

The research design is influenced by many factors. The theoretical framework employed in the analysis, the purpose of the study, and the problem under investigation influence the type of research design (Dusick, 2004). This study is designed to answer the research questions that are focused on the challenges of privatization in Ethiopia. The study proceeded by addressing the core issues contained in the problem and purpose statements. Privatizing in a transitioning economy is a challenging task and as the experience of countries that transitioned showed, there are no clear guidelines. The present study is exploratory and is designed and directed at answering the research questions, to facilitate future empirical studies on the subject (Yin, 2003).

The research used four important parameters to explain and analyze the privatization program of Ethiopia: context, input, process, and outcome. Ernst et al. (1999) used these four parameters in their analytical framework when studying and

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evaluating the privatization program of Morocco. The parameters are useful tools that can help to explain a complex process such as privatization.

Context refers to the overall social, political, and economic environment under which the privatization program operates. A privatization program is dynamic and will be impacted by internal and external forces and by any previous reforms or changes that may have taken place (Ernst et al., 1999). The input refers to the types of resources that are employed for the privatization program. The managerial and technical knowledge and skill required for the privatization of SOEs are included in the input. The context and the input determine the type of process that will be used during privatization.

The process includes the enterprise selection, the valuation, the selection of investors, the choice of privatization modalities, the legal and regulatory framework, the state institutions, and the interorganizational coordination and communication. The underlying factors that shape and guide the privatization program such as decision-making, openness, transparency, and participation are part of the process. The outcome is the direct result of the privatization program. The selected four parameters have common characteristics and interrelationships that will help to analyze and explain the privatization program of Ethiopia.

The main challenges that faced and continue to face the Ethiopian privatization program were captured from the contents of the publications that were examined. The research focused on the written publications related to the inception and implementation of the privatization of SOEs in Ethiopia. To discover features, which may not be found in the study, may require quantification of themes and concepts through a count of the number of times they occur (Neuman, 2003). Neuman indicated that a study might further require recording each type of theme or concept for frequency and intensity to give meaning to the study. Content analysis follows scientific principles of objectivity and consistency in the analysis of documentary evidence. The application of these scientific principles makes the task of

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analyzing content and coding data into the relevant categories easier. The number of categories was decided as the study progressed.

Researchers use units of analysis to determine the amount of text that is given a code to measure themes or patterns (Neuman, 2003). Depending on the nature of the research, the specific units of analysis are generally determined as the investigation proceeds and the study develops. The study followed strict guidelines and precautions to avoid bias and to prevent leading the findings to a preconceived result. The specific units of analysis were not set in advance and were selected from the population of publications relating to the privatization program of Ethiopia (Creswell, 2002).

Developing a theory to explain a privatization program requires a longer time frame to observe the entire implementation process. Other countries that have privatized their economies also lacked an adequate theoretical basis or framework for the privatization programs they adopted (Schusselbauer, 1999). There is no established theoretical model or framework yet that might provide reliable guidelines for a privatization program. The aim of the study was, therefore, to identify the common themes and concepts that characterized the inception, execution, and implementation of Ethiopia’s privatization program. The knowledge acquired from the study would help in developing a theory or model to facilitate the privatization of SOEs. The uniqueness of the case, however, may prevent the findings from being easily generalized and replicated to other similar situations.

Appropriateness and Feasibility of the Design

Researchers use qualitative research methods to study social and cultural phenomena and employ the case study method to study specific events or phenomena (Myers, 1997). A qualitative case study research method is considered the most effective approach when investigating an event such as privatization that takes place over an extended period (Neuman, 2003). The method is appropriate for this research because of the historical nature of the study as it deals with the privatization of SOEs

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in a transition period. A qualitative research is the most appropriate method to follow when seeking to gain a holistic view of a subject (Miles & Haberman, 1994).

The study did not have a formal hypothesis, and no single fundamental theory guided the research. However, the research followed the basic proposition that a transitioning economy such as Ethiopia would require a longer period to privatize compared to developed Western countries such as the United Kingdom. The basic preconditions required for an effective privatization program to take place are lacking in a transitioning economy. The state institutions that will design and implement a privatization program are absent. A transitioning economy will experience huge economic hardships and financial difficulties in privatizing its SOEs compared with privatization in a developed Western country where the state institutions required to support the privatization process are already present (Antanassov, 2004).

The privatization program in Ethiopia has not been studied thoroughly thus far. It is relatively new, and the implementation is still ongoing. The focus of the study will remain the challenges facing the privatization program as the country makes full transition from a command economy to a market economy. The difficulty of implementing a privatization program in a society where the necessary preconditions for an effective privatization program to take place are lacking was explored and studied thoroughly. The study focused on the research questions stated earlier. The data gathered from the publications have been coded and provided in the accompanying tables. They provided the input to explain the roles of the international financial institutions that are actively involved in directing and supporting the privatization programs in Ethiopia and other developing countries. No survey was conducted for the study as it was based on expert knowledge of privatization of SOEs from published sources.

Population

The population of the study consisted of publications covering the period between 1991 and 2006 on the privatization program of Ethiopia. Preparations for

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privatization began in Ethiopia in 1991 when a new government came to power and the implementation process has been ongoing since that date (Abraham, 2001). The publications cover the planning, organizing an implementing of the program.

The publications on the privatization program came from various sources, different authors, agencies of the Ethiopian government, the World Bank and the IMF, journals and periodicals. Giving an accurate estimate of the number of such publications that are available on the privatization program of Ethiopia is, therefore, difficult. Executing a Google search, for instance, using key words “privatization, Ethiopia, state owned enterprises" yielded about 230,000 sources which would include all references to the search words. It does not provide the number of publications or articles, which would be a fraction of these sources. The number generated by a search engine may also vary at every request, going down dramatically when more specific search parameters like the range of years are included. Publications that are not placed on the web yet including documents that have not been released to the public are not included in any source number generated by a search engine. Hence, there is no way of determining or knowing the number of publications available on the privatization program of Ethiopia published between 1991 and 2006. Under these circumstances, it is best to leave the population as unknown or infinite as suggested by Miles & Haberman (1994)

Sampling Frame

A sample may be selected in many ways, depending on the nature and type of the study. The sampling frame is constructed to cover most of the units of the larger population, although it may not always be representative of the population (Yin, 2003). In this study, the sample of articles was selected from the publications of the Ethiopian government, the World Bank and IMF, donor organizations and independent researchers.

The selection of the sample was made through a purposeful random sampling method. A purposeful random sampling method attempts to select the sample in

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accordance with the criteria that fit the purpose of the research. Researchers generally use random sampling when using content analysis to define the sample from the population of articles (Neuman, 2003). Purposeful random sampling method is also widely used in qualitative research (Miles & Huberman, 1994). Suri (1999) also states that in qualitative research, purposeful sampling and relevance are permitted and that researchers may use relevance as a criterion for making the selection.

Purposeful random sampling is considered appropriate to select the sample for this study, as the number of published literature on the privatization program of Ethiopia since the privatization process began in 1991 could not be determined. 42 articles were selected for the study from the list of articles published on the subject. The articles selected for the sample are related to various aspects of privatization and are listed in Tables 1 to 3. Data from the selected articles were collected and analyzed, conclusion drawn and recommendations made.

Data Collection

Qualitative researchers generally use themes, concepts, and ideas that emerge from the study to make generalizations and conclusions on the subject of the study (Salkind, 2003). Researchers extract and refine the concepts based on the words, phrases, sentences, or whole paragraphs grounded in the data. The data are then organized into categories according to the similarities of features, themes, and concepts and are subsequently coded. Coding represents an important feature of research in qualitative studies. Researchers use coding as a data management tool to organize related information into units to help them in the analysis and interpretation of the findings. Codes help to segregate data into distinct theoretical models and emerging themes (Neuman, 2003).

The purpose of the research was to find out the challenges that faced and continue to face the Ethiopian privatization program. The coding system followed latent coding instead of manifest coding (Neuman, 2003). The important themes and

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concepts that emerged from the sample literature were recorded and examined. The coding categories were developed before and during the data collection stage. .

The examined content focused on the strategy, goals, and objectives of the Ethiopian government and its agencies, and that of donor organizations and international financial institutions in addressing the challenges of privatization. The identified concepts were extracted and coded as they emerged during the research process. The contents of the publications defined the coding units (Stemler, 2001). The classification of the codes was based on the emerging themes and concepts that showed similarities and commonalities of challenges of privatizing SOEs in Ethiopia. The final number of codes and articles was determined after the data collection was completed. The themes and concepts that emerged during the research process were captured from the key words, phrases, sentences and main ideas expressed in the literature.

The coding of the themes and concepts that emerged from the articles was not based on frequency of words, phrases, or sentences, although that was considered. The themes were primarily derived from the context of the examined literature. The context of the words, phrases, or sentences used to describe an event, a phenomenon, or an action was considered more important than the number of times they occurred.

Descriptive words or set of words or phrases that constitute a concept, sentences or statements tied to the privatization program were extracted from the content for review and analysis. Sentences or statements that are quoted directly from the content are shown with page numbers. The main ideas were derived from the key words, sentences or statements. Reference to the dependent variable and the research questions was considered important and was used in the selection of the words, phrases, sentences or statements. There was no preset or predefined set of words or concepts.

In a survey or questionnaire that employs the content analysis technique, an attempt is made to quantify the findings by establishing metrics of measurement. No

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survey or questionnaire is used in the study. The views and perspectives of the Ethiopian government, the World Bank, the IMF and donor organizations as well as that of independent researchers were synthesized and appropriate conclusions drawn from the emerging thoughts, themes, and concepts. The common themes and concepts that run through the three reports were then summarized, consolidated, and discussed. Necessary care and precaution was taken in the collection of the data as case studies generally produce data that cannot be reduced to mechanical manipulation or analysis (Yin, 2003).

There are many ways to categorize and organize data in a qualitative case study (Mayring, 2000). Unlike quantitative research methods, which have standard guidelines to summarize data, a qualitative research gives researchers flexibility to organize and summarize the data. Familiarity with the culture, history, and traditions of the country in which the content was recorded is helpful to qualitative researchers. Words, phrases, and sentences may carry different meanings or ideas depending on context, and researchers familiar with the cultural context will likely give a more accurate interpretation of the data than researchers who are not familiar with the culture.

Synthesizing a report is an integral part of conducting a research (Suri, 1999). In this research, the perspectives of three different groups on the privatization program of Ethiopia have been synthesized and recorded. The policies and actions of the Ethiopian government in conceiving, planning, and executing the privatization program were analyzed, and the emerging themes and concepts reported. The views and perspectives of the World Bank, the IMF, and donor organizations as a group were also studied, and the findings recorded. Finally, the reports and the analyses provided by independent researchers were summarized, recorded, and integrated with those of the Ethiopian government and the World Bank, IMF, and donor organizations.

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Validity

Validity in research refers to the meaningfulness and accuracy of the data used in measuring the intended purpose of the research (Salkind, 2003). The integrity and source of the data used for the research is, therefore, crucial. The validity of qualitative research is directly related to the work of researchers in ensuring the correctness of the information or data collected. At every step of the research, checking and verifying the consistency and accuracy of the information or data collected is essential.

Qualitative research is concerned more with internal validity than external validity (Creswell, 2002). Internal validity refers to the accuracy of the findings from the point of view of researchers while external validity refers to the extent to which one may generalize and transfer the result of the study to other similar situations (Salkind, 2003). Generalizability and reliability play a less important role in qualitative research with some even questioning the application and association of external validity with qualitative research (Leedy & Ormond, 2001). Other qualitative researchers have suggested terms such as credibility would be more appropriate than validity for a qualitative method of inquiry (Schlesinger, 2005). Qualitative case study suffers from inherent limitation and there is no universally agreed standard to judge a qualitative study (Rolfe, 2004).

Qualitative researchers use various techniques to demonstrate the accuracy of their findings. They create believability through the application of logic, coherence and insight, which contrasts with the method employed by quantitative researchers who use a quantitative process of verification to demonstrate the validity of the research (Creswell, 2002). The findings of a qualitative study must show the application of scientific method in gathering, analyzing and interpreting the data.

A variety of methods were used in this research to ensure that the articles collected were written and published by credible sources and related to the topic of the study. Necessary care and precaution was taken at every step in the research

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process. The sample literature was selected from publications published between 1991 and 2006. Most articles were taken from government or government sponsored sources such as the Ethiopian Privatization Agency and Walta Information Center. Many other were taken from publications of the World Bank, the IMF and the United Nations. The information from which the data were extracted was verified through a process of triangulation and there were supporting facts to corroborate the common themes and concepts (Leedy & Ormond, 2001).

The ability to make inference and to draw conclusion depends on the reliability and trustworthiness of the data employed, which is a limitation that needs to be recognized in qualitative research (Kohlbacher, 2005). The study on the privatization program of Ethiopia is unique as it applies to the experience of one country with many distinctive qualities and characteristics thereby limiting the results of the study from being easily generalized or replicated. The general conclusions and recommendations are, however, beneficial and may be used to explain the privatization program of other similarly situated developing countries.

Data Analysis

Data were analyzed during and after the data collection process. As more data became available, the analysis continued, and the findings were integrated with the original result. The qualitative nature of the research allowed collection and analysis of data to proceed simultaneously. An important principle in data analysis is to keep the analysis focused on the original purpose of the study (Neuman, 2003).

The data analysis focused on the contents of the publications on the privatization program of Ethiopia. The research used Atlas.ti software for part of the collection and analysis of data. Sufficient sources and references for the collected data are provided to enable external observers and researchers to see the merits of the analysis and the validity and reliability of the data collected. The specific steps, including the analytical methods and procedures used are clearly identified in the

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study. The concepts of context, input, process and outcome have been used as a basic analytical framework for the analysis and interpretation of the data (Ernst et al, 1999).

The purpose of the analysis was to capture the common themes and concepts that emerge from the collected data related to the challenges of privatizing SOEs in Ethiopia. The absence of a rigid formal hypothesis allowed a higher degree of flexibility to explore, evaluate, and interpret the data. The prevailing thinking of the leaders of the Ethiopian government in planning, organizing, and implementing the privatization program and the reasons for the support of the World Bank, the IMF and donor countries were investigated and the views of independent researchers were captured and recorded.

Setting a clear purpose for the research was essential in determining whether to code for existence or frequency of a concept. A study would require the recording of each type of theme or concept for frequency, direction, intensity, or space to make some kind of measurement (Neuman, 2003). Measurement in content analysis requires structured observations. The study focused on the descriptive words, phrases, sentences, or ideas related to the dependent variables or the research questions for evaluation and qualitative measurement.

Counting the frequency, the number of times words, phrases, or sentences occur to describe a subject, is a metric that is used to give a quantitative aspect to a study. The frequency of words, phrases, or sentences alone may not necessarily reveal the degree of commitment and the true aim and purpose of the policy makers. It is the intensity or power used in expressing the ideas or concepts that reveal commitment. The intensity and passion of the policy makers in the design and development of the program can best be extracted or derived from the context in which they are expressed. Although considered, frequency counting was not used in this study. Emphasis was placed on qualitative measurement based on the context of the words, phrases, and sentences and the major ideas or concepts contained in the articles. Generalizations have been made where necessary and appropriate, irrelevant data

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have been left out, and only relevant content has been considered. The overriding objective in coding was to extract as much relevant information as possible within the constraints of the space and time.

A latent coding system requires evaluation and judgment calls based on the application of scientific principles in interpreting the content that may not be easily decipherable (Neuman, 2003). Researchers with knowledge and understanding of the culture and traditions of the country being studied have an advantage over others who lack such knowledge. Researchers may use judgment calls and observation in interpreting raw data in the most scientific and objective way (Trochim, 2006). Interpreting content that may be implicit, doubtful or latent is a challenge that faces researchers frequently.

Summary

The research is centered on the challenges that confront the privatization program of Ethiopia in the sale of its SOEs. All data were collected from published sources. Researcher bias should be minimal, as all conclusions are based on data collected from publications. The data collected are directly related to answering the research questions. The qualitative nature of the data and the uniqueness of the subject of the study, however, limit the generalizability and replicability of the study and its application to other similar situations without some accompanying explanation.

Methodology is an important factor in conducting a study. By following the above-stated methodology, the challenges that faced the Ethiopian privatization program are explored and analyzed in line with the purpose of the study. Chapter 4 will be devoted to the analysis of the collected data to arrive at the result.

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CHAPTER 4: FINDINGS, ANALYSIS, AND RESULTS

The study presents the emergence of privatization as a viable national economic development policy that many developing countries are presently pursuing. Ethiopia is a developing country, which, having adopted a privatization program in the early 1990s is restructuring and privatizing its economy (Abraham, 2001). Transitioning from a command economy to a market economy requires transforming the whole society as was the case in the former socialist states of Eastern Europe and Russia when they adopted privatization policies beginning in the late 1980s (Castater, 2003).

Ethiopia faced the challenges of transformation when it began privatizing its SOEs and started transitioning to the free market system beginning in 1991 (Abraham, 2001). The policy makers had to develop a plan and evaluate the impact the privatization program would have on the people. They had to recognize and accept the reality that the process was going to be long and difficult, requiring long-term planning, organizing, and implementing.

Chapter 3 presented the methodology employed in the collection and analysis of the data for the study. This chapter reports the findings using the data gathered. The key words, phrases, sentences or main ideas, relevant to the research questions and dependent variables were selected from the sample publications and recorded. The emerging themes and concepts are reported in the findings.

Situation Assessment

This section recaptured the internal and external forces that affected the privatization program of Ethiopia. In particular, the study was conceived in a global context, and its various components were addressed with the use of an analytical framework. The research used four parameters to evaluate, review, analyze, and explain the privatization program. The parameters are context, input, process, and outcome. Ernst et al. (1999) used similar parameters as tools of analysis in their study

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of the privatization program of Morocco. The analytical framework is depicted in Figure 1.

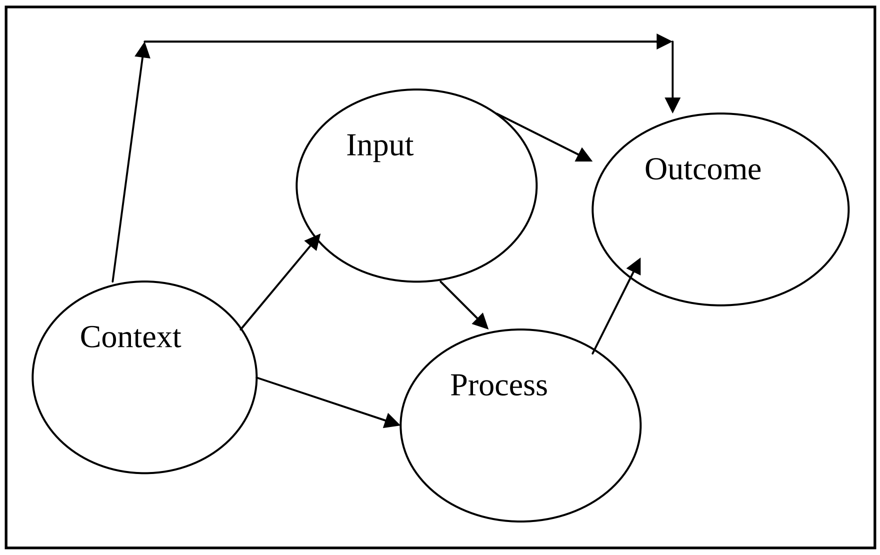

Figure 1. Analytical framework of the study.

Context is important in privatization. The overall social, political, and economic environment under which the privatization program is conceived and implemented has the potential to affect the outcome. A national privatization program is significant, for it would touch the lives of everyone in the society. Historical, social, and cultural forces are subtle and potent and have the capacity to influence the course of any privatization or economic development program. A brief history of the country, its social, political and the cultural heritage has been included in the literature review.

Input is an important factor in the privatization process, for the input influences the type of process that will be adopted by the designers of the privatization program (Ernst et al., 1999). The privatized assets, the shares and their distribution, and the conditions of the sale and the possible impact they would make on the economy are the outcome of a privatization program. Employment, GDP and FDI are part of the outcome of a privatization program as they have a potential to make a significant impact on the economy and affect the society as a whole either positively or negatively.

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Key Factors

The study focused on the challenges of privatization and the goals and objectives of the government of Ethiopia in conceiving and implementing the privatization program. The study captured these challenges and the reasons for the support of the privatization program from the publications of the Ethiopian government, the World Bank, the IMF, donor countries and independent researchers. The publication of the African Development Bank is reviewed along with that of the World Bank and the IMF. Donor countries channel their aid as a group through organizations and their views were captured from the publication of the Development Assistance Group, AGOA and the United Nations.

An economy that is transitioning from a command economy to a market economy goes through significant changes during the period of its transformation. The Ethiopian economy has been going through these changes and transformations since the beginning of the privatization program. The privatization process is long and comprehensive requiring the involvement of many government organizations. Developing countries do not have well-established institutions or adequate resources available to support a smooth transition. The legal institutions to adjudicate property rights swiftly or the regulatory bodies to check and control a free market economy do not exist or, if they do, are ill equipped to provide efficient service. Ethiopia did not have market-supporting institutions or properly organized regulatory bodies in place when the government conceived and developed the privatization program.

The process of privatization begins with the selection of the enterprise that will be sold to a private investor followed by due diligence when all relevant factors related to the sale are considered. The enterprise is subsequently audited, and appropriate steps are taken to satisfy all requirements. Necessary papers are filed to convert the enterprise into a public share company. The bid documents are issued and prepared, and the enterprise is sold to the highest qualified bidder. After the winner is declared, the transfer is made to the new owner(s). A postprivatization review is made

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at a later date to ensure that the buyers are implementing the agreement properly (Ethiopian Privatization Agency, 2002a). Figure 2 provides a diagrammatic representation of the privatization process of Ethiopia.

Government Selects enterprises to be privatized

↓

Selected enterprises are informed and assigned to professionals

↓

Technical committee is set up to study each selected enterprise

↓

The study is evaluated at every level and presented to the Board for decision

↓

The Board makes decision, sets price and the enterprise is offered for sale

↓

Received proposals are evaluated by the bid committee and the Board gives decision on the bid

↓

Bidder is informed if decision is reached in favor of the sale and agreement signed.

↓

Inspectors from the Ministry of Finance hand over the enterprise to the new owner(s)

↓

General Manager decides on any minor issues of transfer and major issues referred to Board

↓

Final settlement and payment made and transfer completed

↓

Post-privatization monitoring begins

Figure 2. A diagrammatic description of the privatization process.

Note. The figure is adapted from the pictorial presentation presented at the Ethiopian Privatization Agency website

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The independent variable in the study is privatization, and the dependent variables are GDP, FDI and employment. The study did not have a stated hypothesis. It was guided by the basic proposition that since transitioning economies lack market-supporting institutions, leaders require a much longer period to plan and execute a privatization program. The lack of adequate number of market-supporting institutions has placed the Ethiopian economy at a comparative disadvantage to pursue a vigorous privatization program. The impact of privatization on the dependent variables is reviewed following the report of the findings to evaluate the relative changes that may have resulted from the privatization program.

Events

A sample literature was selected from publications issued by the Ethiopian government, the World Bank and IMF, donor organizations, and independent researchers. The sample literature was randomly, but purposefully selected from the population of publications available on the privatization program of Ethiopia. Relevance to the research questions and dependent variables was an important factor that was used in the selection of the of the sample literature. The sample literature is not necessarily a representative of the total population (Yin, 2003). In this study, the population, the number of publications that is available on the privatization program of Ethiopia, is unknown.

42 articles covering the period from 1991 to 2006 were selected as a sample from the literature available on the subject matter from the target population. The articles were downloaded from their respective websites for in-depth review and analysis. Some of the articles may not have exact dates, but they are selected from the list of articles that have the same time frame. The lists of articles are shown in Tables 1 to 3. Table 1 provides a list of Ethiopian government publications. Table 2 lists publications of the World Bank, IMF, and donor countries, and Table 3 has a list of works published by independent researchers.

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Table 1

Ethiopian Government Publications

Author	Articles
Addis Tribune, (n.d)	Controversial urban land lease reform discussed.
Embassy of Ethiopia in China, (n.d.)	Proclamation No. 280/2002. Re-Enactment of the Investment Proclamation.
Ethiopian Investment Commission, (n.d.)	The Ethiopian Investment Commission.
Ethiopian Privatization Agency, (2002b).	Country profile.
Ethiopian Privatization Agency, (2002c).	Features: Some Points about how the agency carries out its work.
Ethiopian Privatization Agency, (2002d)	Postprivatization monitoring.
Ethiopian Privatization Agency, (2002e).	Privatization: What it means and why we need it.
Federal Democratic Republic of Ethiopia, (2002)	Ethiopia: Sustainable Development and Poverty Reduction Program.
Institute for Global Ethics, (2002)	Ethiopia arrests 53 executives for alleged graft.
Parliament of the Federal Republic of Ethiopia, (1996)	Establishment of the Board of Trustees of privatized public enterprises.

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Parliament of the Federal Republic of Ethiopia, (1998)	A Proclamation to provide for the privatization of public enterprises.
Privatization and Public Enterprises Supervising Authority (PPESA), (2004).	Notice Board. Tender Notice. Invitation to bid for the partial or total acquisition of government owned public enterprises.
Peoples Daily, (2001)	Ethiopian dignities jailed in Anti-Corruption Campaign.
Peoples Daily, (2001)	Ethiopian telecom sector not ready for privatization: Minister.
Peoples Daily Online, (2006)	Ethiopian PM recounts steady economic growth.
United World, (2002).	Interview with Meles Zenawi.
Walta Information Center, (2004).	EPA says privatization not progressing at desired pace.
Walta Information Center, (n.d.a.).	906 investment projects licensed in just six months: Investment Agency.
Walta Information Center, (n.d.b.)	EPA announces long-term lease payment plan.

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Table 2

World Bank, IMF, and Donor Countries' Publications

Author	Articles
Addis Fortune, (n.d.)	Ethiopia: With caution, World Bank lends Ethiopia $274 million.
African Development Bank, (2006)	Ethiopia 2006-2009 (Country Strategy Paper).
AGOA, (n.d.)	Summary of the African Growth and Opportunity Act.
Andrews, Lodweyk, & Powell, (2005)	Ethiopia: Scaling up.
Development Assistance Group, (2002)	Key Elements of a strategic framework for DAG support to civil society engagement in the Sustainable Development and Poverty Reduction Program (SDPRP).
Eitb24, (2006)	Ethiopia among 17 chosen countries for World Bank debt relief.
IMF, (1998)	Ethiopia—Enhanced Structural Adjustment Facility medium-term economic and financial policy framework paper, 1998/99-2000/01.
IMF, (2004a).	The Federal Democratic Republic of Ethiopia—Letter of intent.
IMF, (2005a)	IMF to Extend 100 Percent debt relief to Ethiopia under the Multilateral Debt Relief Initiative.
IMF, (2005b)	The Federal Democratic Republic of Ethiopia: Joint Staff Advisory Note of the Poverty Reduction Strategy Paper - 2003/04 Annual Progress Report.

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The Daily Monitor, (2006)	Ethiopia: WTO accession helps develop Ethiopia's economy.
U.S. Embassy, (2005)	Statement by the Development Assistance Group (DAG).
United Nations, (2002)	Final review: United Nations new agenda for the development of Africa.
Walta Information Center (2006)	The World Bank in Ethiopia.

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Table 3

Independent Researchers' Publications

Author	Articles
African Business, (2000)	Ethiopia's privatization feelers.
Ethiopian Reporter, (n.d.)	In an economy like Ethiopia's it is going to be extremely important to stimulate and spark a process of economic diversification away from traditional products.
Ford, (2005)	Ethiopia.
Hanson, (2004)	Ethiopia: Economic performance and the role of the private sector.
Kassahun, (2002)	Structural adjustment and macroeconomic reform in Ethiopia.
Lambert, (2000)	The forgotten investors of Ethiopia.
Nyssen, (1999)	Land privatization will inevitably induce desperation sales and migration to towns.
Pangaea Partners, (n.d.)	Privatization in Ethiopia.
West & Central Africa Monitor, (2002)	Food for thought.

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Findings

The findings embody the emerging thoughts from the sample literature selected from the publications of the Ethiopian government, the World Bank and IMF, and donor countries as well as independent researchers. By following a consistent coding system, the emerging themes and concepts were identified for each of these three groups, subsequently analyzed, explained under each group, and finally consolidated.

Tables 4 to 14 contain the coded data for the Ethiopian government, the World Bank, the IMF, donor organizations and independent researchers. The contributions and inputs of the agencies and the authors that produced the publications are presented in the tables in the form of key words, phrases, sentences and main ideas. The main ideas are developed from the key words, phrases, sentences or statements to show the emerging direction and thinking of the organization or the author.

Coded Data for Ethiopian Government Publications

In this section, data from the Ethiopian government publications are coded in tables under the following topics: (a) duties and responsibilities of the privatization agency, (b) improving investment prospects and opportunities, (c) land and poverty reduction, (d) impediments to privatization, and (e) interview with the prime minister. Key words and phrases, sentences and main ideas are identified for each of these topics. The main ideas reflect the central idea of the article and any direct quotations are indicated with page numbers. Tables 4 through 8 present the coded data

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Table 4

Duties and Responsibilities of the Privatization Agency

Articles/publications	Key words, phrases, sentences and main ideas
Establishment of the Board of Trustees of Privatized Public Enterprises. (Parliament of the Federal Republic of Ethiopia, 1996)	The key words and phrases are direct, supervise, submit, obtain approval, settle debt and approve annual budget. The main responsibilities of the Board are collecting outstanding receivables as of the date of privatization and settling the debt of the enterprise, closing the books and following up on any outstanding issues relating to the sold enterprises.
Privatization: What It Means And Why We Need It. (Ethiopian Privatization Agency, 2002e)	The key words and phrases are cost, poor performance, reform efforts, SOE losses, revenue, competition, divestiture, sales, assets, equity, public debt, efficiency, capital structure, debt write-off, monopolistic behavior, sustainable gains, regulatory framework and corporate governance. The main idea of the publication is centered on the role of SOEs and on the extra efficiency of private firms compared to SOEs. Privatized firms have shown an increased return in sales, assets, and equity by creating internal efficiency. Privatization benefits consumers by increasing competition. There would be additional benefits to consumers when the emergence of monopolistic behavior is curtailed and the government deregulates first and establishes adequate tariff regulation before starting the privatization

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	process. There is a need to shake up the management and corporate governance of SOEs.
A Proclamation to Provide for the Privatization of Public Enterprises. (Parliament of the Federal Republic of Ethiopia,1998)	The key words and phrases are preprivatization, valuation, bid, domestic investors, compliance and postprivatization monitoring. The purpose of the proclamation revolves around generating revenue needed for financing development activities, re-orienting the role of the government in the economy, promoting and expanding development through the participation of the private sector. EPA is re-established as an autonomous institution under the federal government
Post-Privatization Monitoring. (Ethiopian Privatization Agency, 2002d)	The key words and phrases are commitment, evaluating impact after sale, investor obligation, submit company analysis, strength, weakness, marketing plan, discharge, responsibility, work in harmony and free market economy. The central idea of the article revolves on the responsibility of the agency in following up and ensuring that the commitments made are respected. The representatives of the Agency retain the right to inspect the enterprise at any time. The objective of the EPA is to sell the SOEs to investors that have the best qualifications to implement the business plan they present. Postprivatization checks are made to ensure that the purchaser of the SOEs has complied with all the required government regulations.

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EPA Announces Long-term Lease Payment Plan. (Walta Information Center, n.d.b)	The key words and phrases are long-term payment, size and profitability. A long-term payment plan was developed to help local entrepreneurs with limited financial resources to buy public enterprises. A down payment ranging from 10% to two thirds of the total cost of the privatized enterprise was all that was needed.
Features: Some Points About How The Agency Carries Out Its Work. (Ethiopian Privatization Agency, 2002c)	The key words and phrases are asset valuation, dispatching questionnaires, business valuation, depreciated replacement cost and open market value. When the Agency receives the list of enterprises to be privatized from the Public Enterprises Supervising Authority (PESA), it sends out questionnaires to the concerned enterprises. The agency carries out two types of valuations to determine the fair value of the SOE: asset valuation and business valuation.
906 Investment Projects Licensed In Just Six Months: Investment Agency. (Walta Information Center, n.d.a)	The key words and phrases are foreign and domestic investors, friendly attractive incentive schemes, investment opportunities and business-friendly atmosphere. The increased flow of investments in the country resulted from the investment-friendly policies and the investment opportunities created to attract foreign investment
Notice Board. Tender Notice. Invitation to Bid for The Partial or Total	The Key words and phrases are 100% equity, operating and developing the enterprises and prospective investors. The federal government owns 100% equity in the enterprises. The Privatization and

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Acquisition of Government Owned Public Enterprises. (Privatization and Public Enterprises Supervising Authority (PPESA, 2004)	Public Enterprises Supervising Authority (PPESA), invites all prospective investors to submit bids for the acquisition of the stated enterprises. Prospective investors are advised to submit bids in accordance with the stated procedures
Country Profile. (Ethiopian Privatization Agency, 2002b)	The key words and phrases are populous, road sector, hydropower generation, state-owned, telecommunication, legally protected, expropriation, nationalization, broad macroeconomic reforms, structure of the economy, market-oriented, private sector, economic growth, domestic and foreign investors. The Population of Ethiopia is projected to be 83,400,000 by 2010 creating a large market. Engaging strategic partners in the government-owned enterprises and encouraging domestic and foreign investors through incentives is an important objective of EPA, which is charged with the responsibility of generating revenue and promoting economic development. Rehabilitating and upgrading the road network, attracting investment in hydropower generation of electricity and expanding the telecommunication network are foremost in the economic development program.

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Table 5

Improving Investment Prospects and Opportunities

Articles/Publications	Key words, phrases, sentences and main ideas
The Ethiopian Investment Commission. (Ethiopian Investment Commission, n.d.)	The key words and phrases are coordinating, promoting, and facilitating. The Ethiopian Investment Commission is a government institution that coordinates, promotes and facilitates private and mostly foreign investment and is a one-stop shop that provides all kinds of services to investors.
Proclamation No. 280/2002. Re-Enactment of the Investment Proclamation. (The Embassy of Ethiopia in China, n.d.)	The key words and phrases are joint ventures, foreign investors, minimum capital, reinvesting profits, transfer of technology, loans, utilization of foreign currency and remittance of funds, investment guarantees and investment administration. The publication identified the main objectives of the investment policy and the areas of investment reserved for the government, joint investment with the government, domestic and foreign investors. The type of businesses that may be formed, where they may be incorporated and the amount of capital needed by foreign investors is stated. The need for investment permits is reiterated and assurance against expropriation is given.

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Table 6

Land and Poverty Reduction

Articles/Publications	Key words, phrases, sentences and main ideas
Controversial Urban Land Lease Reform Discussed. (Addis Tribune, n.d}	The key words and phrases are public hearing, urban land lease, public interest, leasehold and property of state and the public. Planned development of cities and towns will be covered in the draft proclamation and the enactment would be made in accordance with the primary needs of states, cities and towns. Land belongs to the people and local governments will regulate lease payment.
Ethiopia: Sustainable Development and Poverty Reduction Program. (Federal Democratic Republic of Ethiopia, 2002)	The key words and phrases are accelerated development, free market, agriculture, strengthening private sector, institutional efficiency, reform, enforcing contracts, ensuring property rights, maintaining peace and stability, improving capacity building, devolution and empowerment, strong revenue performance, improving monetary and financial sector, reducing deficit, reorienting investment, containing inflation, competitiveness, good quality infrastructure and sustained economic development. The fundamental development objective of the government is to build a free-market economic system that will facilitate rapid economic development and free the country from dependence on food aid. Agriculture is the primary source that will generate economic activities and fuel growth in other sectors of the economy. The main objective of the government's poverty reduction strategy is to reduce

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poverty without sacrificing macroeconomic stability. “The Ethiopian economy must grow in real terms by 5.7% per annum until 2015 to reduce poverty by half from its current level” (p. II). Maintaining capacity building and competitiveness are necessary to foster sustained economic development. Infrastructure services, particularly in telecommunications, power, and logistics are vital for development. The role of the private sector for sustained, pro-poor economic development is set out clearly in the government's legal, institutional development policy, strategy and programs.

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Table 7

Impediments to Privatization

Articles/publications	Key words, phrases, sentences and main ideas
Ethiopia Arrests 53 Executives for Alleged Graft (Institute for Global Ethics, 2002).	The key words and phrases are abusing positions, illegal loans, overdrafts, anticorruption, ethics, graft, fraud and top executives. 53 people including the president of the state-owned Commercial Bank of Ethiopia were detained. Taking legal action against officials who abuse their position is a good deterrent against corruption and will teach lasting lessons to officials who abuse their positions
Ethiopian Dignities Jailed in Anti-Corruption Campaign. (*Peoples Daily*, 2001)	The key words and phrases are top officials and businessmen, arrested, parliament bill, federal ethics and anticorruption commission, senior government officials and businessmen and crackdown against corruption. The officials were arrested following reports that they have awarded large contracts for personal benefits. The government has worked with Parliament to establish anti-corruption commission.
EPA Says Privatization Not Progressing at Desired Pace. (Walta Information Center, 2004)	The key words and phrases are financial constraint, indigenous entrepreneurs, slow information, failure to obtain bank loan, attract foreign investors, low capital, effective administrative capacity and efficiency. Transference of state-owned enterprises to the private sector is not moving at the desired pace. Combining Government Enterprises Supervising Authority and EPA under one leadership and merging their functions is

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	expected to create efficiency and accelerate the pace of development
Ethiopian Telecom Sector Not Ready for Privatization: Minister. (*Peoples Daily*, 2001)	The key words and phrases are privatizing, telecommunication and energy sector, capacity, developing rural Ethiopia and contradictory. The statement of the Infrastructure minister that the telecommunication and energy sectors, two huge components of the economy, were not ready for privatization raised questions. Observers noted that the minister's statement appeared to contradict what the country's Prime Minister said a month earlier. The Prime Minister had said that about 30 or 40% of the country's telecommunication corporations would be sold to private investors in the coming years

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Table 8

Interview with the Prime Minister

Articles/Publications	Key words, phrases, sentences and main ideas
Ethiopian PM Recounts Steady Economic Growth. (*Peoples Daily Online*, 2006).	The key words and phrases are stable economy, rapid development, encouraging gains, aggregate economic growth, export, investment and finance performance, exportable agricultural goods, 33% growth, foreign investment, attaining GDP growth and local revenue. The economic growth is the result of the ongoing implementation of the privatization and development strategies. The country's market-driven agricultural production strategy has shown a 33% growth rate. The prime minister expected the GDP growth for the year to be comparable to the 14.97% growth registered in the previous year. The local revenue performance has also shown a comparative growth.
Interview with Meles Zenawi. (United World, 2002).	The key words and phrases are trade and investment, fight poverty, ensure good governance and stability, fight terrorism, prevent destabilizing interests, NEPAD framework, various levels of partnerships, primary school attendance rate, higher education, primary health care, food security, raw materials, larger market, surplus manpower, peace, trade and investment, AGOA treaty, private sector investment, hydropower potential, exporting electricity, telecommunication, building infrastructure and sustainable development. Trade and investment promote growth and

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development and are important tools to fight poverty. Nations should observe the rule of law. The goals of the government are to foster sustainable growth, good governance, democracy, and fighting poverty. Partnership between the government, the private sector, and the civil society as promoted by NEPAD should be pursued and opportunities created by AGOA should be explored. The primary objective of the government is to transition from agriculture to agro processing and labor-intensive industries. Creating investment opportunities will attract foreign direct investment from the United States and from the significant Ethiopian community living abroad.

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Emerging Themes and Concepts from Ethiopian Government Publications

The main message contained in the selected sample literature of the Ethiopian government publications revolved around the following key words and phrases: *privatization, efficiency, development, foreign investment, and revenue.* By focusing on these key words and phrases, one can detect the central message contained in these publications. The themes and concepts become apparent and understandable.

The primary goal of the policy makers of the privatization program was the creation of a business-friendly environment that would attract investment. Both domestic and foreign investors are selective and would not invest their capital before they see the presence of some basic preconditions. The framers of the privatization program were cognizant of this basic investor requirement. Accordingly, they put in place a plan that addresses this basic concern of investors.

The framers established EPA to coordinate all privatization activities and defined its duties and responsibilities as shown in Table 4. EPA was re-established as an autonomous institution under the federal government (Parliament of the Federal Republic of Ethiopia, 1998) with an expanded mandate. Foreign investors were invited and encouraged to invest in a broad range of industries and were offered tax incentives as well as assurance from expropriation and nationalization.

The government mandated EPA to handle all matters pertaining to privatization. The Agency would select and prepare SOEs for sale to investors and raise revenue, which would help to develop and transform the economy. The duties and responsibilities of the Agency were to lay down the foundation for a sound privatization program. The Agency was further mandated to monitor postprivatization issues to ensure that investors who bought the enterprises were implementing the program they agreed to at the time of purchase. The objective of the government was to sell SOEs to investors that had the best business plans for the growth of the enterprise and for the development of the economy.

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The privatization program recognized the importance of due process and the rule of law and made restitution an integral part of the program. All properties taken in violation of the law were to be restored to their rightful owners. The restitution process required registering any claims of unlawful seizure of properties with EPA, which would then collect evidence to substantiate the legitimacy of the claims and forward them to the general manager for disposition (Ethiopian Privatization Agency, 2002c).

Several proclamations issued by the government reinforced and clarified the privatization program. Proclamation 146/1998 clarified the role of EPA and mandated the organization to reorient the direction of the government into fostering economic development through the participation of the private sector (Parliament of the Federal Republic of Ethiopia, 1998.). Proclamation No. 280/2002, the re-enacted investment proclamation, promoted economic development by expanding investment opportunities (The Embassy of Ethiopia in China, n.d.). Transparency and efficiency in all economic activities were required. Although some areas of investment were reserved for the government and domestic investors, foreign investors were fully encouraged to participate in larger investment activities. The amount of capital required was further defined, and the procedure for obtaining investment permits was clarified. Proclamation No. 17/1996 created the Board of Trustees of Privatized Public Enterprises for the purpose of collecting receivables, taking over debts and obligations, and following up settlement pending legal claims (Parliament of the Federal Republic of Ethiopia, 1996).

The framers of the privatization program were careful to make sufficient provision for postprivatization monitoring activities. The primary purpose of the postprivatization provision was to give the framers a feedback on how the program was working. They realized that privatization takes a long time and its full effect may not be realized in the short term (Ethiopian Privatization Agency, 2002d).

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Efficiency appeared to be at the core of the privatization program. EPA reviewed the theory and applicability of privatization in many developing countries and cited benefits in the areas of increase in efficiency, reduction of cost, benefits to consumers, increase in competition, and the prevention of monopolistic behavior (Ethiopian Privatization Agency, 2002e). EPA cited studies that indicated significant benefits that were realized, including the increased returns that privatized enterprises showed in sales, improved equity, internal efficiency and capital, and a marginal increase in the workforce (Ethiopian Privatization Agency, 2002e). Transparency and efficiency, as noted earlier when citing the re-enacted investment proclamation, were encouraged in all economic activities.

The privatization of SOEs progressed well. The Ethiopian Investment Commission continued to perform its duty of coordinating, promoting, and facilitating private investment, most notably foreign investment activities (Ethiopian Investment Commission, n.d). The potential of the country as a large market was brought into focus and attracting development partners and foreign investment became an integral part of the privatization program (Ethiopian Privatization Agency, 2002b). Bidding invitations were advertised on a regular basis for the total or partial acquisition of SOEs (Privatization and Public Enterprises Supervising Authority (PRESA), 2004). Many new projects were approved and economic activities continued to expand with 906 new investment projects being approved in a matter of six months (Walta Information Center, n.d.a).

The increase in economic activities gave support to the privatization program of SOEs that was underway. All segments of the population were invited to participate. The program was designed to be inclusive to attract as many investors as possible. To accommodate the needs of some investors who did not have the financial resources to buy an enterprise, a long-term payment plan was introduced. Local entrepreneurs were encouraged to buy the public enterprises. An investor could buy

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an enterprise with an advance payment ranging from 10% to two thirds of the total cost of the enterprise (Walta Information Center, n.d.b.).

EPA carried out a list of activities before an enterprise was declared fit for privatization. The assets and the goodwill of the enterprise were appraised, and the enterprise was converted into a share company. The bids were presented in a systematic way following the procedure set up by the Agency. The Agency made every effort necessary to follow good governance and ethical standards and worked in partnership with stakeholders. Corruption was unacceptable, and investigation would commence on any such report Steps were taken to establish a federal Ethics and Anti-Corruptions Commission to root out any form of corruption that posed a threat to the privatization and economic development process (Institute for Global Ethics, 2002).

Although the privatization effort was progressing well and many investment projects were being licensed in a short period, EPA noted that the progress was not satisfactory. More effort was needed to expedite the privatization drive to accelerate the process of development. The SOEs were not transferring to the private sector as speedily as expected, and the government found it necessary to merge the function of the Public Enterprise Supervising Authority and EPA under one leadership to increase efficiency (Walta Information Center, 2004). Other impediments to the privatization effort were also slowly emerging. Corruptions continued to become a significant issue, and in an effort to prevent it from spreading, vigorous steps were taken. Numerous corruption cases were brought to the attention of the Federal Ethics and Anti-Corruption Commission, and many owners of businesses and EPA officials were arrested (Institute for Global Ethics, 2002).

At the national level, an apparent lack of coordination amongst the leadership of the government was noted. On the question of privatizing the telecommunication sector, for instance, a state minister and the prime minister appeared to contradict each other when they addressed the issue in public. At one point, it appeared that the

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government had decided not to privatize the telecommunication sector, but this decision was changed later. The apparent contradiction in the statements of the state minister and the prime minister was evidently due to the fast momentum of the changes taking place and the lack of communication on the changes in the privatization policy that had been made in the telecommunications sector ("Ethiopian Telecom", 2001).

In an interview the prime minister gave to the media, he recounted the government's efforts and strategy in continuing the economic development of the country. In particular, he mentioned how the agricultural sector showed significant gains in the volume of production ("Ethiopian PM Recounts," 2006). The prime minister further mentioned how investment could be used as a weapon against poverty and stressed the need for the rule of law, sustainable growth, good governance, democracy, peace, and stability to attract foreign investment. The prime minister further recalled the importance of regional, national, and global partnership for fast economic development and emphasized the excellent relations Ethiopia has with the United States and the large Ethiopian community living abroad. He stressed the importance of primary education and health care in advancing privatization and economic development and the need to stay vigilant to meet the challenges of drought in the agriculture-led industrialization plan (ADLI) that placed agriculture at the center of the development program (United World, 2002).

Land continued to be a challenging question in the privatization program. The parliament held a public hearing on the leasing of land. The government maintained that the leasing of land would be designed to promote economic development throughout the country and the government would continue to administer land on behalf of the public (Addis Tribune, n.d). The privatization program envisages land as the engine of growth and development that will fuel the overall economic growth and development of the country ("Federal Democratic," 2002).

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The overarching objective of privatization, the government noted, was to reduce poverty while maintaining macroeconomic stability and maintaining a growth level of 5.7% in real terms to halve poverty by 2015 (“Federal Democratic,” 2002). Agricultural development would continue as an engine of growth, and development. Other sectors of the economy, relative to human resources and strengthening of institutions will be advanced. Capacity building would continue and effective working mechanisms amongst the public sector, the private sector, the NGOs, and the community would be developed. The availability of financial resources, equity, and debt finance would be enhanced to promote the growth of the private sector and to foster a competitive atmosphere where peace and stability will prevail (“Federal Democratic,” 2002).

Coded Data for the World Bank, IMF, and Donor Countries’ Publications

In this section, data from publications of the World Bank, the IMF, and donor countries or organizations are coded in Tables 9, 10 and 11 under the following headings: (a) debt relief, (b) poverty and structural issues, and (c) the roles and views of donor countries. Key words and phrases, sentences and main ideas are identified for each of these topics. The main ideas reflect the central idea of the article and any direct quotations are indicated with page numbers.

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Table 9

Debt Relief

Articles/Publications	Key words, phrases, sentences and main ideas
Ethiopia Among 17 Chosen Countries For World Bank Debt Relief. (Eitb24, 2006).	The key words and phrases are impoverished, Heavily Indebted Poor Countries (HIPC), debt cancellation, and capacity of the International Development Association (IDA). Debt relief, available to countries that graduated from HIPC, is designed to reward countries that show good economic performance. The relief is expected to improve the financial position of poor countries and help them to meet the Millennium Development Goals (MDGs). The World Bank and the IMF support debt relief. Debt cancellation could deplete the financial resources of the World Bank and limit its ability to keep lending to other poor countries.
IMF to Extend 100 Percent Debt Relief to Ethiopia Under the Multilateral Debt Relief Initiative. (IMF 2005a).	The key words and phrases are Millennium Development Goals, macroeconomic performance, poverty reduction, sound public expenditure management, macroeconomic stability internal control and audit. Ethiopia has shown two years of significant economic growth and has expanded exports while keeping a lid on inflation. Recent economic performance indicates debt relief will be used effectively. Ethiopia's commitment to respond to changing macroeconomic pressures is encouraging. The IMF will assist Ethiopia to develop a strong and

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stable economy that will generate a sustainable pace of development.

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Table 10

Poverty and Structural Issues

Articles/Publications	Key words, phrases, sentences and main ideas
Ethiopia: Scaling Up. (Andrews, Lodweyk, & Powell, 2005).	The key words and phrases are poorest countries, development challenge, frequent drought, food shortage, landlocked, bitter border war, bottom 10 United Nations (UN) Human Development Index, UN Millennium Development Goals, trade repercussions, agriculture reforms, faster economic growth, higher development assistance, capacity and poverty reduction. Ethiopia is amongst the poorest countries in the world with the biggest development challenges. Frequent drought, food shortage and being landlocked have challenged development efforts. Ethiopia has been targeted for extra assistance by donor countries because of its growth potentials. Drought has negatively affected the economic growth of Ethiopia in the 1990s. Growth in the agriculture sector requires reforms in tenure, risk management, access to finance and reversing the degradation of the environment. The key challenges remain developing capacity for effective implementation of the poverty reduction program and attracting aid to accelerate development.

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Ethiopia: With Caution, World Bank Lends Ethiopia $274 Million. (Addis Fortune, n.d.).	The key words and phrases are triggering market-friendly reforms, Rural Capacity Building Project, rural electrification program and capacity in financial sector. The increasing price of bitumen in the international market will inflate the cost of road constructions in Ethiopia. Expansion should proceed at a sustainable level. Ethiopia wants to expand access to electricity in small and medium-sized towns and villages across the country. The World Bank supports the participation of women in agriculture, improving capacity in the financial sector and upgrading the regulatory capacity of the National Bank.
Ethiopia 2006-2009. (African Development Bank, 2006).	The key words and phrases are good governance, zero tolerance of corruption, improvement in public expenditure, private sector, accelerate growth, Millennium Development Goal (MDG), financial sector, land reform, pro-poor spending, rigidity in pricing, revenue maximization, inadequacy of valuation skills, workforce, conflicting/overlapping responsibilities, weak regulatory capacity, macroeconomic risks, agriculture, starting a business, registering property, obtaining credit, protecting investors, paying taxes and enforcing contracts. The government's efforts to promote "good governance were also commended, particularly its

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	zero tolerance for corruption and improvement in public expenditure management” (p. 1). Achieving the Millennium Development Goal (MDG) of halving income poverty by 2015 is important. Donors remained engaged in the development efforts although they suspended aid due to the election irregularities of 2005. They recognized the deep- rooted poverty and the need to protect the provision of basic services to the poor. Significant progress was achieved and over 200 enterprises were sold despite some signs of weakness in Ethiopia’s privatization commitment. Merging institutions that perform the same functions, financial aid reform and strengthening the judiciary will remove constraints that impede private sector development. The agricultural sector employs about 80% of the population, generates most of the export revenue and accounts for close to 50% of GDP.
Ethiopia—Enhanced Structural Adjustment Facility (ESAF) Medium-Term Economic and Financial Policy Framework Paper, 1998/99-2000/01.	The key words and phrases are output, inflation, deficit, export, growth and price stability, controls on retail prices, maximum import tariff rate, smallholder farmers, domestic investors, FDI development, financial resources, technological and managerial know-how, entrepreneurship, consolidating financial statements, monetary and exchange rate policies, interest rates, stable

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(IMF, 1998). macroeconomic environment, credit, fiscal policy, reforms, global markets, heavily indebted country, debt on non-concessional terms, market-based economy, rural development, poverty reduction, infrastructure, private sector development, regular consultation, Civil Service Reform (CSR), agricultural and rural development, long-term external debt sustainability, HIPC Initiative, debt sustainability and technical assistance. Ethiopia deepened the reform process while strengthening macroeconomic performance and the economy performed better than expected in 1996/97 due to additional structural reform and liberalization measures. Providing incentives to small farmers and domestic entrepreneurs will improve Ethiopia's growth prospects. Foreign direct investment will play an increasingly important role in Ethiopia's development. Avoiding borrowing to finance budget deficits will minimize inflationary pressures. Consolidating the financial statements of major public enterprises will help in monitoring fiscal policy. Serious steps have been undertaken to facilitate the integration of the Ethiopian economy into the global market and to avoid borrowing on non-concessional terms. There is progress in establishing a market-based economy, providing health, education and

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	other social services as well building roads to promote rural development. Promoting private sector development, reforming the civil service are important development strategies of the government. Attaining long-term external debt sustainability and technical assistance are necessary to continue the economic and structural reform programs.
The Federal Democratic Republic of Ethiopia—Letter of Intent. (IMF, 2004a).	The key words and phrases are Poverty Reduction and Growth Facility (PRGF), budget discipline, public debt strategy, sustainable path and public spending and poverty-related expenditures. In 2003/04, real GDP increased by 11.6% reflecting a sharp recovery in agricultural products that grew by 18 9% and inflation fell by an about 12% in 12 months. The quantitative and the structural performance criteria set for 2004 have been achieved. The government is confident that the objectives of the program will be achieved and the prescribed measures will be adopted.
The Federal Democratic Republic of Ethiopia: Joint Staff Advisory Note of the Poverty Reduction Strategy Paper - 2003/04 Annual	The key words and phrases are GDP growth, decline in inflation, budget, donor participation, capacity, public expenditure management, poverty reduction, food production, agricultural performance, reform, telecommunication, financial sector, institutional transformation, social services, education, health, poverty impact

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Progress Report. (IMF, 2005b).	analysis and data gathering and integration. Growth in 2004-05 may be 7-9% and steps were being taken to improve aid harmonization. Excessive domestic bank financing of budget deficit could crowd out private sector borrowing. Improvement in Public expenditure management is noted. Authorities are urged “discuss their strategy for consolidating the gains achieved under the Enhanced HIPC Initiative and for ensuring long-term debt sustainability” (p. 3). Agricultural performance has been improving and positive developments are noted in the private sector. Notable improvement in the financial sector and in capacity building was registered as well as improvements in education and health services.
The World Bank in Ethiopia. (Walta Information Center, 2006).	The key words and phrases are sustainable growth, infrastructure, delivery of social services, food insecurity, development of private activity, economic performance, developing capacity of financial sector, building capacity of small and medium enterprises, information and communication technologies, increased access to markets, public services, roads and energy, Millennium Development Goals, development partner, national development strategy and international donors. The World Bank assists development programs in Ethiopia in two major

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ways. First, the Bank brings fast and focused sustainable growth in the country by supporting infrastructure development, delivery of social services, reducing food insecurity, and the development of private activity. Second, the Bank supports good governance to make growth sustainable that will help the poor. Major components of the development strategy include an emphasis on the complementarities between small town and rural development, a focus on region-specific growth strategies that are built on competitive advantages and capacity building. The Bank provides technical assistance to the government in its privatization efforts and strengthens the voices of the poor and marginalized groups in the development process. The Bank is a close development partner of Ethiopia accounting for about half of the resources provided by international donors to Ethiopia.

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Table 11

Roles and Views of Donor Countries

Articles/Publications	Key words, phrases, sentences and main ideas
Final Review: United Nations New Agenda for the Development of Africa. (United Nations, 2002).	The key words and phrases are poor economic performance, more flexibility, results disappointing, development aid, New Partnership for Africa's Development (NEPAD), peace and security, free markets, privatization and market-liberalization. The 1990s were not different from any other decade for Africa in economic performance as there was poor economic performance across the continent. . A sharp drop in the inflow of development aid, deteriorating market conditions, poor governance and ravaging conflict has worsened the plight of Africans. The United Nations should coordinate the activities of the World Bank and the IMF to improve their effectiveness. The growth in the region is about 3% per year, much below the 6% goal set in 1991 by the international community. The plan of action that was adopted by the U.N. General Assembly should be abandoned as it has failed and should be replaced by the New partnership for Africa's Development (NEPAD) that was approved by many African countries. The past decade has demonstrated that free markets and privatization alone have limited contributions for economic development. Donors need to keep their commitments, grant debt

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	relief while African countries improve the level of peace and security that prevails in their respective countries.
Statement By The Development Assistance Group. (U.S. Embassy, 2005).	The key words and phrases are civil unrest, political disturbances, building a strong democracy, collectively reviewing development programs, stakeholders and development cooperation. The Development Assistance Group (DAG) in Ethiopia is represented by African Development Bank (ADB), Austria, Belgium, Canada, United Kingdom, EC Delegation, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Sweden, the United States and the World Bank. DAG expressed concern about political disturbances and their effect on sustainable development. The development cooperation of DAG with Ethiopia was placed under review to ensure that the contributions are delivered to the poor without regard to political affiliation. DAG addressed underlying issues that impede progress and stressed the importance of strengthening democratic principles and institutions that promote sustainable development.
Summary of the African Growth and Opportunity Act. (AGOA, n.d.).	The key words and phrases are preferential access, sub-Saharan African countries, liberal access to U.S. markets, reform, effective partnership for U.S. firms, country and product eligibility, compliance, market-based economies, the rule of law and

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	political pluralism, elimination of barriers, protection of intellectual property, combat corruption, policies to reduce poverty, protection of human rights, worker rights and elimination of certain child labor practices. President Bush signed the African Growth and Opportunity Act (AGOA) into law on May 18, 2000, as Title 1 of The Trade and Development Act of 2000. AGOA encourages African countries to introduce free market reforms and open up their markets and gives preferential access to sub-Saharan countries until 2015. The lists of products that may be exported to the United States by eligible sub-Saharan African countries duty free are expanded. The Act authorizes the President to give preferential treatment and eligibility to countries to receive AGOA benefits if they implement free markets and establish economic reforms.
Ethiopia: WTO Accession Helps Develop Ethiopia's Economy: Experts. (*The Daily Monitor*, 2006).	The key words and phrases are internal development, major pains while acceding to WTO (World Trade Organization), legal and regulatory regimes, conformity with the WTO agreements and international standards, trading partners, foreign markets, obstacles, foreign investors and least developed countries (LDCs). The accession process will help Ethiopia to examine its laws, regulations, and proclamations and to improve their

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	competitiveness and conformity with international standards. The reforms required to qualify for WTO membership will generate benefits in preparing and developing the economy, reducing costs of operation and removing obstacles that stand in the way. WTO membership will attract foreign investors and increase exports creating additional employment opportunities. LDCs that join WTO generally realize gradual increase in economic growth while those that do not join stay flat or have negative growth.
Key Elements of a Strategic Framework for DAG Support to Civil society Engagement in the Sustainable Development and Poverty Reduction Program (SDPRP). (Development Assistance Group, 2002).	The key words and phrases are reform program, reorienting the economy, market-based economy, democratic, human rights, pro-poor, development process and activities, capacity assessment, civil society, direct capacity development support, opportunities to access knowledge, networking assistance, monitoring poverty and policy implementation, support modality, collaborative program monitoring and evaluation , partnership statement, mandate and risk. "The Government of the Federal Democratic Republic of Ethiopia (GFDRE) has embarked on a reform program aimed at reorienting the economy from a command to a market based economy, and adopted a new constitution that guarantees democratic and human rights" (p. 2). Civil Society Organizations (CSOs) need to build their capacities in (a) poverty and

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policy analysis, (b) policy dissemination and advocacy, (c) networking and coalition building, and (d) pro-poor budgeting and expenditure. Supporting organizations that have a comparative advantage to use multimedia mass communication is a good strategy. The Small Grants Program has three levels and may range from US$ 5,000 to US$50,000 per annum. The unknown level of support of the government to the CSOs to perform their mandate is a major risk of the program.

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Emerging Themes and Concepts from World Bank, IMF, and Donor Countries' Publications

The recurring key words and phrases that conveyed the themes and concepts and the main ideas embedded in the publications of the World Bank, the IMF, and donor organizations were relatively easy to identify. They revolved around a few key words or phrases. They were *debt relief, capacity, macroeconomic, poverty reduction, and Millennium Development Goals (MDGs).*

Debt was an important factor in the privatization process, both from the point of view of the donor countries and the receiving nation. As a heavily indebted nation, Ethiopia needed debt relief to put aside its financial obligations and address more demanding economic issues (IMF, 2005a).The granters of the debt relief, rich industrialized countries probably derived a sense of satisfaction in relieving a desperately poor country from its financial obligations. It looked like a win-win situation, both for the granting nations and for the receiving one.

The debt relief was granted, as stated in Table 9, to allow Ethiopia to redirect and channel its debt-servicing resources to poverty reduction and development efforts. Through the World Bank and IMF programs, debt relief is available to countries like Ethiopia that graduated from the Heavily Indebted Poor Countries (HIPC) program that was approved in 1996 (Eitb24, 2006). Despite inherent concern that the debt relief program would deplete the financial resources of the lending organization, it has continued to be granted to those that qualify. The World Bank and the IMF are encouraged by Ethiopia's privatization efforts and believe the country may achieve the MDGs set by the United Nations, one of which is halving poverty by 2015 (Eitb24, 2006).

The lending financial institutions and the donor community believe that Ethiopia presents the world with one of the biggest development challenges. The country is landlocked, suffers from frequent drought and is very low on the United Nations Human Development Index. It needs a higher level of development

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assistance to accelerate its economic growth and to eradicate poverty (Andrews et al., 2005). That is why the World Bank, the IMF, and donor countries continue to pour millions of dollars in development aid to Ethiopia. The aid is expected to help the country to unlock its development growth potential and to strengthen its infrastructure in the areas of electrification, road construction, and agriculture.

Ethiopia has received praise for its good governance and zero tolerance of corruption (African Development Bank, 2006). The World Bank, the IMF, and donor countries appeared satisfied with Ethiopia's adoption of good public expenditure management in pursuing private sector growth and development. Achieving the MDG of halving poverty by 2015 is a very important goal for Ethiopia. The success of this and other development goals depends on following through with the objectives set by the privatization program. Improving the financial sector, accelerating land reform, and pursuing privatization are essential for economic growth and development.

Over 200 public enterprises were sold during the initial phase of the privatization program (Pangaea Partners, n.d.). While this accomplishment was encouraging, the African Development Bank, reported a slow down of commitment in the Ethiopian privatization program. At a later stage, private sector development came under serious threat. Despite the apparent lack of enthusiasm on the part of Ethiopia, however, the World Bank, the IMF, and donor organizations remained engaged and did not withdraw, although they suspended aid for a while after the election irregularities of 2005. They collectively resolved to remain engaged as the level of poverty was deep and the need for assistance was great, requiring continued development aid (African Development Bank, 2006).

The publications of the World Bank, the IMF, and the donor communities showed that Ethiopia was going through many challenges in the privatization process. Some of these challenges included price rigidity, lack of valuation skills, and absorbing workers when enterprises were privatized. The consolidation of the overlapping responsibilities of the Public Enterprises Supervisory Authority and the

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Ethiopian Privatization Agency that resulted in the merger of the two organizations was a good move. There were other challenges that remained, however. Building a strong regulatory capacity to open up the financial sector for foreign investment, reforming the judiciary to enforce a contract and property rights effectively, strengthening the weak judiciary, and expanding infrastructures and business services needed to be addressed (African Development Bank, 2006).

The World Bank, IMF, and donor organizations saw the reform efforts of Ethiopia as a serious attempt to attain fast and broad-based economic growth without sacrificing macroeconomic stability. With the continued pursuit of prudent fiscal and monetary policy, the country was working towards implementing structural reforms and attaining its economic development objectives (IMF, 2005b). The IMF noted that Ethiopia moved forward with its private sector growth and development by providing incentives to small farmers and domestic entrepreneurs, attracting FDI, reforming the private sector, and minimizing inflationary pressures. Ethiopia was also making effort to integrate its economy gradually to the global market by controlling current expenditure and consolidating the financial statement of the major public enterprises (IMF, 2005b).

Steps were being taken to avoid heavy indebtedness as Ethiopia moved forward in privatizing its economy by adopting the free market system. The country's economic policy is focused on promoting rural development and the reduction of poverty by providing education, health, and other social services. Promoting exports, reforming the civil service, and fostering private sector development were an integral part of the economic policy. The World Bank, the IMF and donor organizations noted Ethiopia's need for technical assistance in foreign exchange markets, banking, and tax administration to bolster the effectiveness of the economic and structural reform programs (IMF, 2005b).

In its Letter of Intent to the World Bank, the Ethiopian government described its economic performance (IMF, 2004a). The document, although issued by the

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Ethiopian government was treated as a World Bank and IMF publication. It was similar in content to other World Bank and IMF publications and was published on the IMF website. The government may have also received assistance similar to the 1998/ 99 -2000/2001 Policy Framework paper that was prepared in collaboration with the staffs of the IMF and the World Bank (IMF, 1998).

The Letter of Intent mentioned a sharp recovery in agricultural output that contributed to GDP and brought inflation under control. The government was able to meet the quantitative and structural performance measures and redirect its economy to achieve its economic objectives. In its annual progress report, the IMF noted that Ethiopia was making progress in its planned economic performance and reported growth in GDP and in harmonizing aid projects, minimizing macroeconomic risks, coordination of budgets and expenditures, and long-term poverty reduction (IMF, 2005b). The IMF report also noted the need for greater private sector involvement in agriculture and in the acceleration of the reforms in private sector development and institutional transformation and capacity building measures.

The World Bank Country Director for Ethiopia, in an interview given to the media identified two major objectives of the World Bank in the privatization program of Ethiopia: bringing fast and sustainable development and supporting good governance. The major components of the development strategy of the World Bank were identified as small town and rural development and a focus on growth centers. Infrastructure, capacity building, governance, and rural development relative to food security constituted the four major targeted areas of development. The Bank wants to strengthen the voice and influence of the poor and marginalized groups and mobilize the public behind the national development strategy in the execution of the privatization and economic development program of the nation. The objective of the World Bank is to ensure continued development, in partnership with other international donors by immunizing the development program from political shocks (Walta Information Center, 2006)

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A study sponsored by the United Nations to evaluate Africa's economic prospects, as outlined in Table 11 concluded that African governments should devise their own development strategies to stimulate and advance their economic development. The UN-sponsored study recommended that African countries should be allowed to improve their political and economic governance and be granted better terms of trade and reward with more debt relief when they attain the set objective (United Nations, 2002). The study panel, after reviewing the disappointing economic growth of the 1990s recommended that the United Nations should help to coordinate the activities of the World Bank and the IMF so that the aid channeled through these organizations could be more useful, effective, and relevant to Africa. The panel observed that development driven by free markets and privatization alone can be disappointing. Instead, they recommended replacing the aid plan of the donor countries with the New Partnership for Africa's Development (NEPAD). As it stands now, the panel observed, the strategy of requiring market liberalization and improving governance alone may not be effective (United Nations, 2002).

The Development Assistance Group (DAG) in Ethiopia is channeling aid to Ethiopia as a block. The present members of DAG are the Africa Development Bank (ADB), Austria, Belgium, Canada, the United Kingdom, the European Community Delegation, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Sweden, the United States, and the World Bank. DAG acts in concert on issues of cooperative development programs and in reaffirming that the aid it provides will strengthen democracy and sustainable economic development. DAG issued a joint statement relative to the election irregularities of May 2005 in Ethiopia, stating that political disturbances will have an impact on sustainable development and threatened to review the aid it was granting (U.S. Embassy, 2005).

The African Growth and Opportunity Act (AGOA) was designed to promote development in Africa. President Bush signed it on May 18, 2000, as Title 1 of The Trade and Development Act. Ethiopia, as a beneficiary of AGOA, receives

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preferential access for its exports to the United States. Beneficiary sub-Saharan African countries will receive this benefit until 2015. AGOA was recently amended to clarify and increase benefits to beneficiary countries, to reinforce African reform efforts, and to provide improved access to the United States. The amendment clarified the provision of technical expertise, credit, and markets and the initiation of a high-level dialogue on trade and investment. In particular, AGOA stressed the need for free markets, rule of law, political pluralism, elimination of trade barriers, reduction of poverty, and the availability of health and other human services (AGOA, n.d.).

Ethiopia is in the process of joining the World Trade Organization (WTO). Accession to WTO, which is available to countries that have opened up their markets to international competition, is expected to give lasting benefits to Ethiopia. Least developed countries (LDCs) that join WTO generally experience some economic growth, while those that do not join will not experience any economic growth or may even have a negative growth (“Ethiopia: WTO Accession,” 2006).

Accession to WTO will open the Ethiopian market to foreign goods, which may negatively affect domestic producers. Experts advise that the pain and injury to domestic producers that will result from the competition will be temporary. The advantages will outweigh the disadvantages. The exposure will prepare Ethiopian producers to learn to compete in local markets before they enter the international marketplace. Further, the competitive economic environment that will be created during the accession process will facilitate the internal development of the economy and gradually remove barriers and impediments (“Ethiopia: WTO Accession,” 2006).

The Development Assistance Group Ethiopia (2002) reported that Civil Society Organizations (CSOs) play a very important role in development, and working with them and engaging their services will facilitate economic development and poverty reduction. Providing technical advice and training to CSOs will increase their effectiveness and negotiating skills and strengthen their capacity in the administration of development aid. The effectiveness of CSOs to perform their

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mandate will largely depend on the level of support they receive from the government.

Coded Data for Independent Researchers' Publications

In this section, data from the independent researchers are coded in tables under the following topics: (a) preparing the groundwork for privatization, (b) agriculture and the need for sustainable development, and (c) feedback on the privatization program. Key words and phrases, sentences and main ideas are identified for each of these topics. The main ideas reflect the central idea of the article and any direct quotations are indicated with page numbers. Tables 12, 13, and 14 present the relevant data.

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Table 12

Preparing the Groundwork for Privatization

Articles/Publications	Key words, phrases, sentences and main ideas
Privatization in Ethiopia. (Pangaea Partners, n.d.).	The key words and phrases are price distortions, integrate, world market, dismantle legal restrictions, monopolies, public enterprises, budgetary support, reduction of import tariffs, devaluation of the birr, insolvent enterprises, liberalization of current account, deregulation of interest rates, misguided structural set-up, market economy, small-scale manufacturing, beleaguered economy, sustainable development and transforming centralized and planned economic system. Price control was eliminated, and more frequent foreign exchange auctions were held. The 200 SOEs to be privatized constitute 20% of GDP, and EPA was mandated to guide the privatization process. EPA's main responsibilities included making valuations, submitting recommendations regarding modalities of privatization, coordinating the activities of concerned government offices, and preparing detailed records of manpower, assets, financial and legal affairs of the public enterprises to be privatized. Small retail trade outlets and hotels, small-scale manufacturing and agro-processing enterprises were privatized first through competitive bidding and joint ownership. Medium size and larger enterprises were to be privatized through investment tender, share auctions, management

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	contracts, lease, direct sales, and joint ventures. Achieving economic efficiency and enterprise productivity and increasing government revenue from the sale of privatized enterprises were the main objectives of EPA.
The Forgotten Investors of Ethiopia. (Lambert, 2000)	The key words and phrases are waiting for 25 years, compensation claims to be honored, nationalized family's assets, bank accounts, inaccessible, Multilateral Investment Guarantee Agency (MIGA), serious investment implication, structural reforms, favorable environment and adequate compensation. Ethiopia's effort to attract investors could fail unless a resolution is found to pending claims. No steps have been taken to compensate the family although the government is committed to allow such compensation. International law and World Bank guidelines require compensation of claims in a freely convertible currency based on fair market value with interest payment when there is a delay. The economic achievement of the country and the structural reforms it has adopted has created a favorable environment for the attraction of foreign investment. The 1996 Ethiopian Investment Code assures investors that the government guarantees adequate compensation when expropriation is justified on national interest grounds.

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Table 13

Agriculture and the Need for Sustainable Development

Articles/publications	Key words, phrases, sentences and main ideas
Land Privatization Will Inevitably Induce Desperation Sales and Migration to Towns. (Nyssen, 1999).	The key words and phrases are huge involvement of farmers, equal share principles redistribution, community ownership, land lost if neglected, tenure not lost even for abandonment, absentee landowners, class of landless people, comparable advantage, leasehold and land reallocation, foreign pressure, huge social problems, unrest, food shortages and speculating merchants. Farmers would not be involved in soil and water conservation in a big way unless land is shared equally. A large number of people from the rural areas will sell their land and move to urban areas in search of employment opportunities that may result in the neglect of agriculture. Although the IMF and the World Bank favor land privatization, intellectuals should admit that agricultural output is higher now than in the past. Speculators are responsible for the present food shortages.
Ethiopia: Economic Performance and the Role of the Private Sector. (Hanson, 2004)	The key words and phrases are transform the dictatorial one-party, violations of human rights, multiparty democratic society, private entrepreneurs, operation of market forces, macroeconomic performance, financial system, legal institutions, business institutions, absence of

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	national standards, limited guidance on disclosure requirements, national auditing standards, lack of financial management and market dominance. Concentrating on agriculture, which employs about 85% of the population, is important for development. Strengthening the private sector and the growth of agricultural exports will improve the economy. Increased investment in education will build capacity to implement development programs. Deepening decentralization to shift decision making closer to the grassroots level will ensure efficient delivery of services, accountability and responsiveness. Improvements in the field of governance and empowering the poor will lay down the framework for private sector growth and development. Increased utilization of water resource could help to overcome drought, prevent food shortage and ensure food security. Private sector growth would be enhanced through reforming the financial system, legal institutions and business institutions.
Structural Adjustment and Macroeconomic Reform in Ethiopia. (Kassahun, 2002).	The key words and phrases are market-oriented, structural adjustment, macroeconomic, liberalizing trade, promotion of the private sector, reorientation of government spending, restructuring of revenues, mobilizing external resources. traditional lending policy, severe balance of payment deficits, conditionality, enhanced structural adjustment,

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needs and challenges of developing countries, ownership, economic development, means of production, central planning, ADLI, stock market, increasing productivity, expanding large-scale private commercial farms, reconstructing the manufacturing sector, underdevelopment of the financial market, lack of purchasing power, HIPC, government revenue, financial intermediation and gross domestic investment. The purpose of the restructuring program is to revitalize the economy by creating a free market friendly system. “Since the early 1980s, structural adjustment has become a dominant development policy in sub-Sahara African (SSA) countries as the IMF and the World Bank became increasingly important sources of finance for developing countries” (p. 1). Conditionality is an important feature of IMF loans that is designed to ensure debt payment. The economies of developing countries have not been able to transform themselves into modern economies without external intervention and assistance. Adjusting loans to meet conditions did not show any better results as non-adjusted loans have led to better economic performance than adjusted loans. Adjusted loans fail primarily due to problems associated with its implementation. Between 1974 and 1991, the Ethiopian economy was managed

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through a central planning system with production, distribution, and exchange under government control. The economy was in a worse position than when it started when the socialist government collapsed in 1991. The new government did not intervene in the production process in a significant way. Prices were deregulated, the labor market liberalized, the state marketing enterprise dismantled, credit and foreign exchange rationing abolished and interest rates were left to the forces of the free market. Ethiopia qualified for debt relief under the HIPC initiative in November 2001. Between 1991/92 and 1997/98 government revenue grew by an average rate of 26% annually.

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Table 14

Feedback on the Privatization Program

Articles/publications	Key words, phrases, sentences and main ideas
In an Economy Like Ethiopia's it is Going to be Extremely important to Stimulate and Spark a Process of Economic Diversification Away From Traditional Products. (Interview with Professor Dani Rodrik, *Ethiopian Reporter*, n.d.).	The key words and phrases are economic development, own agenda, multilateral institutions, refreshing despite heavy pressure, own priorities, pace, vision, genuine technical assistance, goals and priorities from within, demanding reforms, achieving some economic growth, disconnection between the private sector and the political leadership, economic diversification, private investment, ADLI and foreign investment. The Ethiopian government is seriously committed to achieving economic development and has created a program with its own vision and agenda without simply accepting the demands of the donor community and multilateral institutions. The government decides its priorities and move at its own pace despite heavy outside pressures. International assistance is most effective when the priorities and goals are determined from within and technical assistance is given in a genuine way. The benefit of aid will be more useful, when it is provided not in determining the objectives or strategy of the government, but in helping the governments to achieve the goals and strategies it has developed. The standard World Bank/IMF approach requires institutional reforms, liberalization of the economy and reforming privatization that may make it

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	difficult for the governments to undertake. When dealing with an economy like Ethiopia, it is important to stimulate the economy and diversify it away from traditional products. Collaborative effort between the public and private sector is also needed.
Ethiopia's Privatization Feelers. (*Africa Business*, 2000,)	The key words and phrases are privatization of state energy assets, external buyers and investors, and domestic players. The government has issued tenders to external investors who may be interested in getting positions in the country's generation, distribution, and sales of electricity. FDI is need in power generation, distribution and electricity sales. In the next five years, Ethiopia plans to double its power generating capacity.
Ethiopia. (Ford, 2005)	The key words and phrases are growth, poverty reduction, lack FDI, infrastructure investment promotion, agricultural efficiency, food security, improved investment environment, administrative efficiency, decentralization, debt cancellation, broad-based, rigorous economic program, crippling levels of debt and agricultural land. Improvements in labor productivity and human capital are needed to attract foreign investment. The World Bank is optimistic about prospects for the future and expressed satisfaction with what has been achieved so far. Ethiopia reached HIPC completion point in April 2004 and received debt cancellation. Ethiopia is developing a comprehensive debt management strategy to ensure its debt remains in

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	check.
Food For Thought. (*West & Central Africa Monitor,* 2002)	The key words and phrases are slow rate, low level capital expenditure, Poverty Reduction Strategy Paper (PRSP), donor, link support, reform and privatization. Ethiopia has made good economic progress and according to the IMF met all quantitative and structural performance criteria and benchmarks in August 2002. The privatization program is in full swing and is expected to accelerate development. Many large enterprises like Ethiopian Telecommunication corporation have been slated for privatization. The policy is expected to remain broadly unchanged.

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Emerging Themes and Concepts from Independent Researchers' Publications

Independent researchers were in general agreement on many issues of the privatization program. *Governance, corruption, structural adjustment, land and agriculture* were the key words and phrases that emerged from their publications. These key words and phrases recurred frequently and formed the dominant themes and concepts in the literature of independent researchers

Pangaea Partners (n.d.) reported, as shown in Table 12, that privatization gathered momentum and market forces took control following the steps taken to remove and dismantle the command economy. Foreign exchange was deregulated and auctioned frequently. Although only about 200 SOEs were to be privatized, they constituted a good part of the GDP. Elimination of price control, the commercialization of the telecommunication and electricity industries, and the convertibility of the current account were progressively addressed.

The report of Pangaea Partners (n.d.) reaffirmed the responsibility given to EPA to manage the privatization process and to provide valuation and privatization modalities. Preparing competitive bidding, coordinating privatizing activities, and providing all relevant records related to the privatization program are some of the functions of EPA. Small enterprises were privatized in the first round to acquire sufficient hands-on experience that would be useful at a later stage when medium and large-scale enterprises were privatized. Medium and large enterprises were to be sold through tenders, share auctions, management contracts, lease, direct sales, and joint ventures. EPA invited prospective local and foreign investors to participate in the purchase of larger enterprises through joint ventures. The objective of the economic policy was based on redefining the role of the state in the economy and in promoting and enhancing the economic development of the country. Achieving economic efficiency, increasing productivity and raising the revenue of the government were the primary objectives of the government (Pangaea Partners, n.d.).

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Hanson (2004) stated that private sector growth in Ethiopia needed to include agriculture as it is the source of livelihood for a large segment of the population, and rapid export growth of agricultural products would promote and strengthen the private sector. Hanson further pointed out other areas of private sector growth including capacity building through increased investment in education, decentralization in decision making at the grassroots level, and empowering the poor to improve governance. The private sector will flourish when credit is made available, the perceived corruption of the banking sector is removed, and competition is made possible (Hanson, 2004).

Lambert (2000) noted the lack of settlement of the pending compensation claims from expropriated foreign investors has opened Ethiopia's credibility to question. Lambert observed that the compensation process has been slow although international law and World Bank guidelines require prompt compensation in a free convertible currency based on fair market value. Despite Ethiopia's code, which guarantees adequate compensation in case of expropriation, and the provisions of Multilateral Investment Guarantee Agency, the part of the World Bank that guarantees compensation to businesses that invest in other countries, compensation has not been paid to many whose investments were expropriated during the previous socialist regime (Lambert, 2000).

Professor Rodrick of Harvard University, in an interview he gave to the media on his visit to Ethiopia at the invitation of the World Bank, praised the Ethiopian government for charting a course of economic development without succumbing to the wishes of the donor community ("In an Economy Like Ethiopia's," n.d.). Rodrick observed that Ethiopia has a government that is committed to achieving economic development, following its own priorities, and moving at its own pace in accordance with its own vision. He reiterated that international assistance is most useful when it is provided as genuine technical assistance in line with the internal goals and priorities of the recipient county. He indicated that aid would have a positive impact

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when provided to help and not to determine the government's development strategy. To him, the standard World Bank and IMF approach that involves reforming institutions and introducing privatization reforms may not be effective as it will end up overtaxing the governments and provide only short-term benefits.

Agricultural development and the effective utilization of land were considered important for sustainable development. Land privatization remained a contentious issue, as noted in Table 13. Nyssen (1999) reported that land privatization would lead to desperation sales and force farmers to move to towns where they would have limited job opportunities. Nyssen noted that the present land arrangement has enabled farmers to contribute to soil and water conservation. Landlessness would induce depopulation and lead to the neglect of agriculture, which might create food shortages. Nyssen maintained that land privatization was not in the best interest of the people, although the World Bank and IMF would favor it. He indicated that the present food shortages should be blamed on speculators and not on the landholding system.

African Business (2000) reported the government's issuance of tenders to external investors was driven by a need for FDI, as attracting FDI remained one of the primary objectives of the Ethiopian privatization program. The report showed the desire of the government to attract foreign investors to participate in the country's economic development. The government issued the tender to increase its energy-generating capacity and to accelerate its development program through FDI ("Ethiopia's Privatization Feelers," 2000).

The structural program of the World Bank and the IMF is designed to facilitate the creation of a market economy (Kassahun, 2002). The World Bank and the IMF have used structural adjustment as a dominant feature of their loans in an attempt to reorient the economies of developing countries. These financial institutions believe structuring would improve the performance of the economies of the borrowing countries by applying the most effective utilization of resources.

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Conditionality has been an integral part of both the World Bank and the IMF lending programs although studies by the World Bank have shown nonstructured loans to be better in growth, investment, and export performance than structured loans. The failure of structured loans to perform as effectively as nonstructured loans is related to the lack of proper implementation of the program, as sub-Saharan countries did not have the resources to implement the structural programs effectively (Kassahun, 2002).

When the socialist government came to power in Ethiopia in 1974, it introduced a central planning system throughout the country. In its attempt to accelerate economic development and raise the living standard of the masses, the government controlled the production, distribution, and exchange of goods and services. This control became an impediment to the economic development of the country, and when the socialist government collapsed in 1991, the economic situation had worsened considerably (Kassahun, 2002).

One of the major economic programs of the current government that took power in 1991 and started the privatization program is the ADLI program. ADLI is designed to create interdependence between the agricultural and manufacturing sectors and to stimulate productivity through the effective utilization of natural and human resources (Kassahun, 2002). Although there were many impediments to its privatization programs, the government released the forces of the free market. State enterprises and private industries were allowed to set their own production goals, a currency auction system was introduced, the private sector was given a voice in the exports, steps were taken to qualify for debt relief, and the labor market was deregulated. This resulted in the growth of government revenue and gross domestic investment (GDI). Government revenue between 1991/92 and 1997/98 grew by an average rate of 26% annually, while GDI, as a percentage of GDP, rose from 9.2% in 1991/92 to 20.3% in 1997/98 (Kassahun, 2002).

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Ford (2005) sated that Ethiopia has improved the human capital and labor productivity that are necessary to attract FDI and that the World Bank is pleased with Ethiopia's performance and the government's development strategy. Ethiopia has reached the HIPC completion point that will help the country to qualify for debt relief, and the privatization program is continuing (Ford, 2005). The IMF was also pleased with Ethiopia's progress and expected the policy to remain unchanged. The country met the quantitative and structural performance criteria and benchmarks set for attaining by August 2002 ("Food for Thought," 2002).

Comparisons

The findings of the study focused on the challenges of the Ethiopian privatization program. The sample literatures reflected the challenges as seen by the Ethiopian government, the World Bank, the IMF, donor organizations and independent researchers. The main themes and concepts were captured and reported. The following section provides a consolidated report on the main views extracted from the sample literature of the three organizations .The outcome of the privatization program is then explored followed by a postprivatization review with reference to the study variables. A summary is also provided.

Consolidated Report of the Three Group of Publications

The consolidated report on the three groups of publications, namely, those of Ethiopian government, the World Bank, the IMF, and donor organizations, and independent researchers show significant similarities. The themes, concepts and main ideas share many commonalities and complementarities. The small differences that may be observed are insignificant and are essentially differences in approach and not of substance.

The key words and phrases that emerge from the sample literature of the three groups of publications are as follows: *privatization, efficiency, development, foreign investment, revenue, debt relief, capacity, macroeconomic, poverty reduction, Millennium Development Goals (MDGs), governance, corruption, structural*

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adjustment, *land* and *agriculture*. These key words and phrases represent the core issues related to the privatization program. They convey the primary themes and concepts and focusing on them would lead to a higher level of understanding of the privatization program of Ethiopia.

An in-depth analysis of the sample literature reveals the main objectives of the framers of the Ethiopian privatization program. Economic progress and development was clearly the overriding goal of the framers and attracting FDI by creating a business-friendly environment was the chosen path. Guaranteeing foreign investors that their investments would not be expropriated was necessary to build and develop confidence in the minds of investors.

The lack of progress in settling the claims of investors against the previous government, however, was a challenge. Despite this challenge, the framers remained optimistic and considered FDI a key component of the privatization program and saw foreign investors as development partners. EPA was mandated to privatize SOEs and to raise revenue to pay for the enormous expenditures required for privatization and economic development. The government counted on the resources that would be saved and the efficiency that would be created because of the sale of inefficient and burdensome SOEs. Corruption was to be fought at every level, both at the federal and local administrations. The debt relief granted by the lending institutions and donor countries would help the government to redirect its loan-servicing resources for development projects and poverty reduction (IMF, 2005a).

Agriculture emerged as an important component of the privatization effort. There was a clear agreement between the Ethiopian government, the World Bank, the IMF, and other donor organizations on the need for improving the agricultural sector to improve food security. Independent researchers also agreed on this point. The ADLI strategy envisages agricultural development to be at the forefront of the development program. Agriculture is the largest sector of the economy that provides the source of livelihood for the vast majority of the population.

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The Outcome of the Privatization Program

More than a decade has passed since the privatization program of Ethiopia begun. The program was implemented to bring about a far-reaching positive economic transformation in the lives of the people. An appropriate question to ask is if the program has accomplished its goals and objectives.

To answer this question, one needs to check if any meaningful and measurable positive results can be observed on the dependent variables. The dependent variables in this case are employment, GDP and FDI. The proper implementation of the independent variable, the privatization program, is expected to affect one or more of the dependent variables in a significant way. A postprivatization review provided by EPA for 35 sold enterprises gives indications of the effect of the privatization program on employment directly and on GDP and FDI, indirectly.

A Postprivatization Review

Postprivatization monitoring of the sale of SOEs is one of the most important responsibilities of EPA. The law required EPA to conduct a postprivatization review of SOEs sold to investors to ensure that the investors are fulfilling the commitments they made when they bought the SOEs. The responsibility of EPA in this regard is monitoring the activities of the privatized enterprise to ensure that the investors are complying with the agreement made with respect to the implementation of the proposed business plans (Ethiopian Privatization Agency, 2002d)

Enterprises are sold to the most qualified buyer who is equipped to provide the needed managerial and technical expertise to nurture and grow the enterprise (Ethiopian Privatization Agency, 2002d). Time is needed to make a credible evaluation and judgment on how the investor is guiding the organization. The transitioning process is long and challenging. The postprivatization program, by applying objective standards of measurement,

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ensures the implementation of all agreed terms on the conditions of the sale. Continued growth and prosperity is not only good for the enterprise, but also for the economy in generating higher levels of employment, GDP, and FDI.

Employment

The lack of economic development causes a high level of unemployment in developing countries. The lack of employment opportunities, in turn, creates social and political instability and unrest, which in turn contributes to the continued existence of a high level of unemployment. Developing countries are trapped in this vicious cycle. Making economic and political reforms, adopting a new constitution, or electing a new government alone will not prevent social unrest or reduce instability as the present situation in Iraq demonstrates (Alhajji, 2003).

Privatization influences employment and in the short run, causes dislocation of workers. SOEs are noted for employing too many people, many more than the needs of the job (Ethiopian Privatization Agency, 2002e). When the enterprises are sold to private investors, the new owners of the enterprise attempt to trim any excess employment they find in the organization. Profits figure paramount in a privatized firm, and the owners will not hesitate to lay off workers. They trim the workforce and maximize efficiency as they attempt to generate as much profit as possible (Ethiopian Privatization Agency, 2002e). Privatization studies, including those undertaken by the World Bank, indicate that there have been massive layoffs because of privatization (Alhajji, 2003).

Privatization has increased efficiency and profitability in many parts of the world including Eastern Europe and Russia. The loss of employees because of privatization is temporary and does not last for a long time as demonstrated in countries that have been through privatization. The employment situation in Ethiopia is showing improvement. On a national level, the number of people who are economically active is increasing, indicating an improving economic climate and improvement of employment opportunities. Figures provided by the Ethiopian

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Central Statistics Agency for the national economy for the current period have confirmed this improvement. A survey taken for 2005 showed an increase in the labor force from 32,158,392 to 33,088,793 in a period of 12 months (Central Statistical Agency, 2005).

A postprivatization review of 35 enterprises revealed some interesting facts about the privatization program. The review covered enterprises sold between 1995 and 2002. One of the major purposes of the review was to show the effect of privatization on employment of the sold enterprises and its impact on economic activities. The findings showed the change in the total number of employees of the 35 enterprises before and after privatization and the relative change in each of the enterprises. The data provided for the 35 enterprises showed the total number of employees, which stood at 17,973 before privatization, dropped to 15,490 after privatization, a loss of 2483 workers or 13.8% of the workforce (Ethiopian Privatization Agency, 2004). The total number of employees was computed from the data provided for each of the 35 enterprises.

Table 15 below provides additional information on the findings of the postprivatization review on the 35 enterprises. As expected, most of the enterprises showed a decrease in employment after privatization, but a good number, more than 20%, showed an increase. Eight enterprises showed an increase in employment after privatization while seven remained the same or unknown as data was not provided and 20 enterprises showed a decrease. There is also a possible FDI dimension to the results of the postprivatization review. 11 enterprises were sold in U. S. dollars indicating that they were sold to foreign investors, attracting FDI. The sale of 24 enterprises is shown in Ethiopian birr indicating that they were sold to domestic investors. The date for one sale was not provided.

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Table 15

Sale of SOEs and Changes in Levels of Employment

Year privatized	SOEs privatized	Employment increase	Employment decrease	change/ unknown	Sold ETB	Sold USD
1995	8	2	3	3	8	0
1996	3	1	2	0	3	0
1997	3	1	2	0	2	1
1998	12	1	11	0	4	8
1999	0	0	0	0	0	0
2000	6	2	1	3	4	2
2001	1	0	0	1	1	0
2002	1	1	0	0	1	0
Date not recorded	1	0	1	0	1	0
Total	35	8	20	7	24	11

Note. Data from Ethiopian Privatization Agency, *Privatization News* issue of August 2004.

Gross Domestic Product (GDP)

GDP is a measure of economic activity that provides a reliable estimate of the value of goods and services of a nation (Economist, n.d.) GDP comprises all sectors of the economy and has several components. In the case of Ethiopia, the most important component of GDP is agriculture. Most Ethiopians earn their living from agriculture or agriculture related services making agriculture the largest single contributor to the national economy and to GDP (African Development Bank, 2006). This fact has influenced the government to look for development opportunities in the rural areas and to design a development plan that places agriculture at the forefront of the development program (United World, 2002).

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Ethiopia faces enormous challenges of development and poverty reduction. The country's per capita income and human development metrics are among the lowest in the region and in the world and the level of economic development that has taken place so far is very low. The country's heavy dependence on agriculture and its lack of a strong industrial sector is a challenge that needs to be addressed. The industrial sector is still in its infancy and makes only a small contribution to the national economy.

The average growth rate of GDP during the socialist regime that preceded the current government was only 0.57% per annum between 1980/81 and 1990/1991. Excluding the last year, accounting for political disturbance, the average growth rate was only 2.7%. The growth of GDP prior to the beginning of the privatization program was, therefore, very low. During the 10-year period between 1980/81 and 1990/1991, there was four years of negative growth. The growth of agriculture and industry during this period was also low, consistent with the limited growth of GDP. Table 16 gives the growth rate of GDP, agriculture and industry.

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Table 16

Growth of GDP, Agriculture and Industry (1980/81-90/91)

(At current market prices)

Year	Growth rate of real GDP	Agriculture		Industry	
		% of GDP	Growth rate	% of GDP	Growth rate
1980/81		58.1		10.9	
1981/82	0.51	55.7	-3.6	11.8	8.5
1982/83	10.1	57.5	13.6	11.3	5.9
1983/84	-6.3	53.7	-12.5	12.8	5.7
1984/85	-9.7	47.0	-20.9	14.8	4.5
1985/86	9.9	49.6	16.0	13.3	-1.2
1986/87	14.0	51.7	18.8	13.6	16.5
1987/88	-0.1	50.3	-2.8	13.1	-3.8
1988/89	0.3	50.6	1.0	12.2	-6.6
1989/90	4.1	51.2	5.3	11.2	-4.7
1990/91	-4.2	56.3	5.2	9.4	-19.1
Average	1.9	52.9	2.0	12.2	0.57

Note. Data from Ministry of Economic Development and Cooperation (MEDaC), National Income Accounts, Revised Series, 1998 in *Annual Report on the Ethiopian Economy* by (eds) Degafe and Nega. Adapted from "*Structural Adjustment and Macroeconomic Reform in Ethiopia*" by R. Kassahun, 2002.

The growth of GDP showed improvement following the preparation and implementation of the privatization program. Although the sale of SOEs started after EPA was established in 1994, the preparation of the economy for the implementation of the privatization program appears to have improved the prospects for the growth of

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GDP beginning from 1992. In the next five years, GDP grew at a comfortable rate with no negative growth (Ethiopian Privatization Agency, 2002b).

GDP continued to grow consistently and the years 2000, 2004, and 2005 showed progressive improvement. The Gross National Income (GNI) improved consistently on a national and per capita basis as well. The GDP grew at a healthy pace, and inflation was under control. The contribution of agriculture was close to 50% of the economy. The industry and services sectors, although relatively smaller, were pointing to continued growth as well (World Bank, 2006). Table 17 presents the growth of Gross National Income and GDP for the three-year period.

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Table 17

Ethiopia Data File

Current US$

Year	2000	2004	2005
GNI, Atlas method	8.1 billion	9.3 billion	11.1 billion
GNI Per Capita, Atlas method	130	130	160
GDP	7.8 billion	9.7 billion	11.2 billion
GDP growth (annual %)	5.4	12.3	8.7

Note. Data taken from the World Bank Group, World Development Indicators database, April 2006

Foreign Direct Investment (FDI)

The examined sample literature of the Ethiopian government indicated the prevailing belief of the framers of the privatization program that FDI would drive the sale of SOEs and generate revenue for the government. The framers recognized at the outset the importance of foreign investment in pushing the privatization process and the role it will play in the national economic development. The government targeted FDI to bring capital, technology, and technical expertise into the country and established the Ethiopian Investment Authority. In particular, the Investment Authority was designed to provide a one-stop facility for foreign investors (Investment Promotion Network, 1999). The desire of the government to fuel the transition to a free market economy was evident. The government was committed to promoting private investment and attracting foreign investors to participate in the privatization program (Ethiopian Privatization Agency, 2002e). The issuance and clarification of proclamations supporting private investment activities reinforced confidence in the privatization program. Proclamation 280/2002 clarified and defined the role of

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foreign investors and capital requirements and provided assurance against expropriation (The Embassy of Ethiopia in China, n.d.).

The years since 1996 have seen an increase in foreign direct investment in Ethiopia. Foreign direct investment was responsible for 20% of total investment from 1992 to 2002 (United Nations, 2004). The United Nations report pointed out the great opportunities the country offered to investors in the areas of agriculture, mining, manufacturing and processing, trade, hotels, and tourism.

The United Nations Conference on Trade and Development and the International Chamber of Trade (UNCTAD-ICC) in association with PriceWaterhouseCoopers conducted an investment study on Ethiopia (Investment Promotion Network, 1999). The result of the study showed the strengths, weaknesses, opportunities, and threats to the country in trade and development. The strength included fast investment approval, the availability of a large domestic market, ongoing economic liberalization, strong recent growth, the fiscal responsibility of the government, and the motivation of its workers. The important opportunities brought out in the study included the ongoing state privatization program and continuing development of the infrastructure most notably the telecommunications sector. Agriculture, mining, manufacturing, tourism, and links with other markets in the region were important engines of growth.

The study noted weaknesses and threats in geopolitics, the landlocked nature of the country, the going border dispute, the low penetration of telephones, the lack of paved roads in the countryside and the growing competition posed by other African countries. The low level of literacy and purchasing power, the slow pace of privatization, and the outstanding compensation claims of foreign investors that dates back to the military regime which preceded the current government were considered a hindrance to the prospect of attracting FDI for accelerated development.

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Summary

The study reviewed the privatization of SOEs by coding and analyzing a sample literature from three different groups of publications: the Ethiopian government as owners of the program, the World Bank, IMF, and donor organizations as sponsors, and independent researchers who saw the implementation of the program from what is considered an objective point of view. The sample literature showed the views of each of these groups on the privatization program were complimentary and the minor differences that are detected are attributable to approach and not of substance.

The Ethiopian privatization program has made a significant impact on the economy. The GDP has continued to grow and FDI has been rising as Ethiopia's attraction for foreign investment continued to improve. Employment opportunities have also trended higher, although there was a temporary setback following the sale of the SOEs as the new owners tried to reduce cost and raise the level of efficiency by reducing the payroll.

The contents of the sample literature showed the desire and commitment of the Ethiopian government to stimulate and accelerate the economic development of the country through the privatization of SOEs. The government used the revenue raised from the sale of SOEs to pay for the growing expenditure and was pleased with the saving of the subsidy that would have been paid to SOEs. Accordingly, the government continued in its privatization drive and did not waver in its commitment to sell inefficient public enterprises and replacing them with comparatively efficient private enterprises (Ethiopian Privatization Agency, 2002e).

The sponsorship and active involvement of the World Bank, the IMF, and donor countries in the privatization program was motivated primarily by the desire to reduce the abject level of poverty. Ethiopia, with a population approaching 80 million people, remains one of the poorest and least developed

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countries in the world (Andrews et al., 2005). The granting of debt relief and the generous level of assistance that is pouring into the country is designed to help the country to accelerate its development and to improve the quality of life of its people.

Independent researchers and observers saw the sale of the SOEs and the overall privatization program from different angles but made similar assessments. Despite the many challenges the privatization process was facing, the various researchers saw a commitment from the government and a growing support from the donor community for the program. Rodrick's statement that the government of Ethiopia, despite external pressure, has charted a privatization program that shows its own priorities and visions is particularly noteworthy ("In an Economy Like Ethiopia's," n.d.). The following chapter will make a general conclusion and recommendation on the privatization program of Ethiopia.

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CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

The research focused on the challenges of privatizing SOEs in a transitioning economy and examined the theoretical and conceptual foundations of privatization. The subject of the study was Ethiopia, and the focal point of the study was the difficulties the country experienced in transforming from a command economy to a market economy and in selling its SOEs. The leaders needed an effective privatization program to carry out this objective. The methodology for this study was described in chapter 3, and the findings, analyses and results were reported in chapter 4. Chapter 5 is devoted to the conclusions, interpretations and implications drawn from the analyses of the findings and results. Relevant recommendation for future research has been made, appropriate recommendation to leadership has been offered and a hypothesis for future research has been suggested.

Conclusions

The reviewed sample literature collected from the publications of the Ethiopian government, the World Bank, the IMF, and donor organizations and independent researchers showed the significant challenges Ethiopia faced in the process of transitioning to a market economy. The necessary preconditions for a smooth transition to a market economy did not exist in Ethiopia when the privatization begun. Consequently, the transition was hard and difficult. The findings showed the need for basic state institutions to transition to a market economy and that the absence of legal and economic institutions and infrastructures were the core challenges that faced Ethiopia and other transitioning economies (Antanassov, 2004).

The findings further demonstrated the difficulty of converting SOEs into private organizations in countries that practiced planned economies. Ethiopia had implemented a planned economy under the socialist regime that preceded the current government (Abraham, 2001). It was, therefore, not easy for the

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current government to plan and converting about 200 SOEs, 20% of the GDP. The sample literature indicated the realization of the leadership, at the outset, that the privatization program needed a comprehensive approach. The economy had to be prepared for a gradual privatization program that would positively affect GDP, FDI and employment, the dependent variables of the study.

The outcome confirmed the positive impact of the privatization program on the dependent variables. The economy continued to perform well and the GDP grew significantly (World Bank, 2006). FDI has also shown a consistent growth representing 20% of total investment from 1992 to 2002 (United Nations, 2004). The employment situation, although negatively affected at the beginning of the privatization program has shown improvement, as confirmed by the survey taken in 2005 (Central Statistical Agency, 2005).

The analysis of the published documents showed that the policy makers followed a sound strategy in the conception and application of the privatization program. The five Ps of a sound strategy program, as illustrated by Mintzberg (2003) were present. The program had a plan, an intended course of action, a ploy to outsmart or overcome challenges, a pattern showing a consistent stream of action, a position in the environment where resources will be located, and a perspective to view the world in a systematic way. The strategy focused on privatization while deflecting contingencies, challenges, and difficulties in pursuit of the goal. The strategy was based on context to address internal and external environments and accordingly, the leaders developed a program that best fit the environment, as pointed out by Rodrick (“In an Economy Like Ethiopia’s,” n.d.). Rodrick observed that the leadership constructed a privatization program with its own vision and agenda without being unduly influenced by the demands of donors and multilateral institutions.

The program followed a consistent plan of action. The SOEs were sold after the necessary groundwork for the privatization process was laid down. The

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privatization process involved the enterprises that would be privatized and required a transparent system of bidding, and a postprivatization monitoring program (Ethiopian Privatization Agency, 2002d). The privatization program of Ethiopia is still ongoing, and the support of the donor countries is continuing.

The commitment of the leadership to follow through the privatization program consistently helped to deflect the various challenges. State institutions to manage the privatization process were created swiftly and market friendly laws were enacted. EPA was charged with the responsibility of managing the privatization effort and securing financial resources. A safety net program was instituted to minimize the hardship of possible lay offs to workers during the implementation of the program. Workers were allowed to transfer with the new owners of the enterprise, to buy shares in the enterprise or to take payment depending on their length of service (Ethiopian Privatization Agency, 2002a).

The United nations set eight MDGS to serve as a framework to measure the progress of developing countries in combating hunger, disease, illiteracy, environmental degradation, gender inequality and in developing a global partnership for development by 2015 (United Nations, n.d.). Ethiopia is presently working hard and making good progress to meet the targeted goals of the MDGS and is one of the few countries in the region that may attain at least some of the goals (Eitb24, 2006). Ironically, Ethiopia is preparing to celebrate a millennium of its own beginning on September 12, 2007. Its unique calendar, based on the Julian calendar system, will make the country the only one in the world to celebrate a second millennium eight years after the rest of the world celebrated the millennium based on the Gregorian calendar (Ethiopian Millennium, n.d.). The preparation for the celebration that is underway and the worldwide publicity it has been given is expected to generate additional economic activities that may help the privatization process.

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Interpretations and Implications

Privatization is promoted worldwide as a viable alternative for faster economic growth and development. Developing countries are being encouraged by international lending institutions and donor countries to adopt privatization policies to promote investment and economic growth. Yet many controversial areas, most notably the degree of structural reform that may be required and the type of ownership that would be conducive to growth and development remain unresolved (Parker & Kirpatrick, 2005).

The available evidence suggests that privatized economies are more efficient and hence are more likely to progress and develop at a faster pace (Al-Obaiden, 2002). The World Bank, the IMF and donor organization are committed to foster economic development in developing countries by encouraging competition and promoting structural reforms. Ethiopia adopted a privatization program to advance its economic development and to raise the standard of living of its people. The government remains ready and willing to remove any hindrances that may impede progress to privatization. .

The outcome of the study indicated a clear alignment of vision of the Ethiopian government, the World Bank, the IMF, donor countries and independent researchers on the challenges of privatizing the Ethiopian economy. The challenges were evident from the beginning. It did not take long before the government, the lenders and donors developed a common understanding and vision on how best to tackle the relevant issues of the privatization program. The government developed the program, the lenders and donors financed it and independent researchers provided studies that supported the effort.

The lenders provided the general guidelines of the privatization program and set conditions for financing it. The government developed the privatization strategy that conformed to the basic requirements of the lenders and donors. As

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the financing came in, the SOEs were gradually sold. In the process, other sectors of the economy were positively affected and transformed. Although the government attempted to maintain a degree of independence, it did not stray too far from the requirements of the international financial institutions and donor countries. The government relied heavily on aid and was convinced that the challenges of privatization could not be overcome without the active support of the donor community and private investors.

The Ethiopian government invited both domestic and foreign investors to buy the larger enterprises to raise the needed revenue to pursue the privatization program. By attracting investors, the government was taking steps to reduce its operating deficit, raise needed revenue, broaden and deepen its domestic capital markets. Its primary objectives were to raise the level of efficiency and competitiveness in the private sector that will eventually generate more employment opportunities. The government did not hesitate to comply with the basic requirements set by lenders for debt relief. The lending institutions were indeed satisfied with the steps taken and subsequently granted the needed relief (IMF 2005a). The lending institutions were also satisfied with the progress the country made to meet the objectives of the MDGs set by the United Nations. .

By privatizing the SOEs, the government was strategizing to create efficiency and expedite economic development (Ethiopian Privatization Agency, 2002e). The country needed efficient administration to accelerate its economic development program. Ethiopia ranks very low in the United Nations Human Development Index and presents the international community with a great development challenge. A landlocked country with one of the lowest per capita incomes in the world needs help to expedite its growth and development (Andrews et al., 2005). The engagements of the World Bank, the IMF and donor organizations in the economic development of Ethiopia appears to have been driven by the realization of the urgent need of a nation to unlock its growth potential. That is why DAG did not disengage and withdraw

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from its commitment, although it expressed its concerns, when election irregularities were reported and the government was accused of using excessive force to quell an uprising and put the opposition on trial for treason (U.S. Embassy, 2005).

The economic development program is outward looking to the rural areas and targets agriculture as an important area for growth. The government made a special note of this in its Letter of Intent to the World Bank and cited the sharp recovery in agriculture that has contributed to its GDP (World Bank, 2004). The government opposes land privatization while remaining open to designing land lease to promote planned development. It is the position of the government that land belonged to the people and would be administered by the government and targeted to fuel growth in its agriculture-led economic development and industrialization effort (United World, 2002).

The government's adherence to international agreements is a good indication of its commitments to respect the rule of law. In line with this desire to bolster confidence, the government has taken steps to return properties taken in violation of existing laws, and EPA has been given a mandate to process such claims (Ethiopian Privatization Agency, 2002c). Investor confidence is improving as seen in the increased inflow of FDI.

The government is determined to root out graft that impedes privatization efforts. The establishment of the Ethics and Anti-Corruption Commission at a federal level is a good indication of its commitment in this area. The donor community is supportive of the government's effort in this regard. Promoting good governance is one of the two major objectives of the World Bank, as was made clear by the country director in an interview he gave to the media (Walta Information Center, 2006). Ethiopia has made noticeable progress and received positive feedback on its efforts to curtail corruption and promote good governance despite the many obstacles and shortcomings that remain ("Ethiopian dignities jailed", 2001).

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Privatization is intense and engaging and requires a significant amount of commitment from the government if it is to succeed. Introducing economic reform alone is not enough. It is also vital to create a stable macroeconomic environment, liberalize trade and price, reform the financial sector, eliminate subsidies, introduce competition at every level and reform the regulatory process (Lieberman, 1993). Privatization will be more fruitful and bear better results in developing countries if such reforms were introduced gradually. A focused and balanced approach with a degree of diversity and flexibility will stimulate a privatization program. Ethiopia has demonstrated a clear commitment in the execution of its privatization program. The government has progressively taken required institutional reforms for a market economy and the results so far, as indicated in the findings, are positive and encouraging.

Recommendations for Future Research

The exploratory research examined the strategy developed by the policy makers of the Ethiopian government in collaboration with the World Bank, the IMF, and the donor community to privatize SOEs. The findings showed the various challenges that emerge when privatizing SOEs in an economy that is transitioning from a command economy into a market economy. The study highlighted these and other difficulties that emerge when implementing a privatization program.

Although the idea of privatization has existed for several decades, it is relatively new in the developing world. Research in Russia and Eastern Europe where privatization took place beginning in the late 1980s has indicated that there is no sound theory on privatization yet. Ethiopia’s privatized program has a shorter life span than that of Russia and Eastern Europe. Developing a holistic theory on privatization takes a longer period than just two decades, which is the time frame for the wave of privatization that started in Eastern Europe and the former Soviet Union after the collapse of communism (Havrylyshyn &

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McGrettigan, 1999). Researchers should continue pursuing the subject matter of privatization and attempt to develop a sound theory to guide future privatization programs.

Recommendation for Leadership

While no theory has emerged yet to show a clear path for the privatization of SOEs, the available literature provides abundant information on the privatization programs and experiences of SOEs in many countries. Leaders can learn and benefit from the experiences of Eastern Europe, the former Soviet Union, China, and other developing countries. The privatization experiences of these countries have left many helpful lessons and guidelines that may be studied to provide a basis for developing sound privatization programs. Ethiopia’s privatization experience, although distinctive in many ways due to unique historical, political, and cultural setting of the country may also provide a framework to analyze countries with comparable internal environments.

Privatization is likely to continue in many developing countries, particularly in Africa where the need for accelerated economic development is the greatest. Research has shown that market economies have a higher rate of productivity and efficiency than command economies (Al-Obaiden, 2002). Developing countries that privatize their economies can expect to see improved economic performance. The privatization of SOEs will increase efficiency, reduce cost and expedite economic development. Understanding the implications of privatization is, therefore, important.

Leaders of SOEs have a tendency to resist change and stick with the existing organization culture (Nguyen, 2005). Nguyen in his study of the organizational culture of SOEs in Vietnam found that leaders of SOEs displayed resistance to change due to their loyalty to the traditional pre-Doi Moi socialist values. SOE leaders may outwardly appear to go along with the privatization program, but inwardly they may be unwilling to make the required changes to

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support the privatization process. Political leaders need to understand such challenges to the privatization process and make necessary adjustments and facilitations. Developing a privatization program within the context of the historical, cultural and traditional experience of the country would help to overcome this resistance. This awareness may have been the reason for the determination of Ethiopia’s leaders to stick to their visions and agendas, to the extent possible, rather than simply succumbing to the wishes of the donor community.

Developing countries need to implement a sustainable economic development program and Ethiopia needs such a development program urgently. The country ranks very low in the United Nations Human Development Index. Ethiopia is exposed to frequent drought and food shortages, requiring continuous aid from the international community (Andrews et al, 2005). Policy makers can use the current popularity of privatization as an important policy making instrument in their drive to implement economic development programs (Parker & Kirpatrick, 2005).

The privatization program must be clear and transparent and should allow a degree of predictability. Managers charged with the responsibility of implementing the program need autonomy and independence of action within the general guidelines of the program. Government institutions should be supportive, cooperate at all levels, and contribute to the effective management of stakeholders expectations. Difficult issues and obstacles that may affect the effective implementation of the program must be resolved promptly and solutions identified as soon as possible (Opagi, 2004).

Economic transformation at a national, regional or local level is overwhelming. Changes in the economic structure create new opportunities while reducing existing ones. The new set of challenges that emerge would affect the people directly. The Ethiopian privatization program has affected the

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livelihood of the population at a national level. Both urban and rural dwellers have been affected directly or indirectly. Proactive political and economic leaders can minimize the shock and negative effects that accompany such a transformation through a concerted and organized planning and implementation program.

The experiences of privatized economies have shown that privatization is a long and difficult process requiring a long time. Creating state institutions to guide the privatization process and establishing and implementing market-friendly laws require time. Providing safety net for workers who will be displaced during the implementation of the program requires state resources. The Ethiopian leaders have largely benefited from the active involvement and support of international donor organizations in preparing the country for privatization and implementing the program. Leaders who anticipate and make proper planning for such changes would minimize the difficulties and the hardship of privatization for their people. This study, by identifying the main challenges that emerge in a transitioning economy, would contribute to the knowledge base of privatization.

A sound privatization program is multifaceted and must be planned and developed carefully. The available human and material resources should be used prudently to achieve the best results. The low level of economic development in transitioning economies does not allow the allocation of adequate resources for privatization efforts. The challenges are many and difficult to handle. Leaders should realize the scarcity of resources and use them wisely. Upgrading training and technical expertise, monitoring economic activities regularly to identify impediments, planning for a smooth transition of the workforce, and attracting FDI are some of the areas where there is a great and continuing need. Success of privatization in transition economies will largely depend on the effective utilization of available resources in planning and implementing a privatization program

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Interesting Hypotheses for Future Research

Privatization has spread into many parts of the world in the last 20 years. It is likely that it will continue to spread widely while remaining a popular model of development. The reason behind the apparent success of privatization over collective ownership is not clear. Some suggest that privatization is more successful than collective ownership because of the inherent greed of human beings. It is suggested when humanity develops culturally, socially, and spiritually in future years, private ownership of properties may give way to collective ownership and a socialist way of life. This subject matter needs to be pursued by researchers in the future.

Summary

Chapter 5 provided an evaluation of the research findings and recommendations were made for future research, providing new perspectives and visions relative to the privatization of SOEs. The focus of the evaluation was the central issue related to the challenges of privatizing SOEs in the transitioning economy of Ethiopia. The findings of the study showed the vision of the leadership of the Ethiopian government when developing the privatization program, the motivations behind the sponsorship and support of the World Bank, the IMF, and donor countries, and the views of independent researchers. The findings indicate that the strategy of the leaders of the Ethiopian government was to gain the support of the donor community while preserving a degree of autonomy in implementing the privatization program.

The study concluded with a recommendation and a hypothesis for future research. The recommendation is directed at the leadership of governments or organizations to use the current available information on privatization as a guideline for privatizing SOEs, in the absence of a clear privatization theory. The hypothesis is that with continued social development, people someday may

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prefer collective ownership instead of private ownership, thereby negating the need for privatization. Would progress in social, economic and political development persuade employees to increase their production and efficiency for the common good of a public enterprise owned by the state? Would such employees work to the best of their abilities, irrespective of the contributions of other fellow employees? The thought may provoke the interest of future researchers.

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