ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE PERFORMANCE OF PRIVATIZED PUBLIC ENTERPRISES IN

ETHIOPIA: THE CASE OF HOTEL ENTERPRISES

BY

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Acronyms

AERC	African Economic Research Consortium
AFRODAD	African Forum and net Work on Debt and Development
CSA	Central Statistics Authority
DEA	Data Envelope Analysis
EPRDF	Ethiopian people's Revolutionary Democratic Front
GDP	Gross Domestic Product
IMF	International Monetary Fund
IUOTO	International Union of Official Travel Organizations
MEBO	Management Employee Buys Out
MOCT	Ministry of Culture and Tourism
WTO	World Tourism Organization
PPESA	Privatization and Public Enterprise Supervising Agency
PSBR	Public Sector Borrowing Requirement
SAP	Structural Adjustment Program
TBL	Tanzanian Brewery Ltd)
TCC	Tanzanian Cigarette Company
UBA	United Bank for Africa
WB	World Bank

Abstract

Ethiopia has been in the process of privatization since 1995.Since then, a total of 287 firms were transferred from the public to the private sector for which 34 are Hotel enterprises. The primary objective of privatization in Ethiopia is to generate revenue that enables to finance the development activities under gone by the government. The total revenue obtained from the

Privatization program has a share less than 6% of the government expenditure for the year 2009/10 and revenue from privatization of hotel enterprises is insignificant to finance the government budget. This proves that the privatization program of Ethiopia never achieves its objective of generating revenue.

The effect of privatization program of Ethiopia in the case of employment is consistent with the theory. Most hotel firms reduce the number of work employees during the contract time.

It is expected that privatization can bring better economic development by increasing investment, enhancing technological transformation and so on. But the capital expenditure on investment is so limited that it does not bring forth development.

Therefore privatization in Ethiopia does not meet its objectives due to poor implementation of the existing proclamations.

Chapter One

Introduction

1.1 BACKGROUND

Privatization which is one of the reform measures supported by the World Bank and International Monitory Fund (IMF), has involved the transfer of all or any of three kinds of property rights that are; ownership rights, operating rights and development rights from the state to the private sector. It is intended to cut waste of the parastatals, improve economic efficiency, stimulate the private sectors and mobilize more foreign and domestic investment. However, the process has been weighed down with problems and controversy. Some of the problems include; loss of jobs, donor pressure, lack of ownership and transparency, and the negative impact on social services.

Nevertheless, it is noted to have some positive impacts such as; enhancing economic efficiency, government revenue and increasing investment opportunities. Therefore, the advantage and disadvantage of privatization is depending on the capability of a country how it manages the privatization processes (AFRODAD, 2007).

The economic rationale for privatization is based on the view that private ownership of a public enterprise results in an increase in productive efficiency, and if properly combined with liberalization and deregulation, privatization can also bring about an increase in an allocative efficiency (Awadala, 2003). Recent research on public and private ownership of enterprises has focused on two fundamental questions;(1) which form of ownership promotes social welfare effectively and (2) why would politicians, who can maintain political support by subsidizing state owned enterprises, ever relinquish control? (George R.G Clarke and Robert cull, 1998).

This study tries to address which form of ownership promotes social welfare effectively in Ethiopia considering pre and post privatization of Hotel Enterprises and how the government handles the issue. It also attempts to examine whether privatized hotel enterprises are increasing their profitability and operating efficiency and its effect on employment as well. Hence to analyze the social welfare effects, performance indicators such as profitability, efficiency, investment, output and employment will be used.

Privatization of state owned enterprises has become an important phenomenon in both developed and developing countries. In recent years economic policies in several countries seem to reflect a wide spread and growing interest in shifting economic activity from the public sector to the private sector (Boularki and Cosset, 1998).

The failure of development planning , the problems of slow economic growth, budget deficits and inflation have forced many least developed countries to increase the scope of private ownership and of the private sectors (Awadala, 2003).

The privatization program under SAP coordinated by the World Bank and IMF with the Ethiopian People's Revolutionary Democratic Front (EPRDF) government consisted of denationalization (return of properties nationalized by the Derg regime to expropriated or their legal heirs) , institutional reform (in this case establishment of a privatization agency and passage of a bill), and the privatization of public assets or enterprises (transfer of public assets to private operators through sales, services contracts, partnerships, etc) (Mulat, 2009).

Ethiopia has been in the process of privatization since 1995. Hence over 287 enterprises had transferred from the public to the private sector through the privatization program. Of these privatized Hotel Enterprises are numbered 34, which account 11.8 percent of the total.

Although the policy of privatization has been implemented in the country since 1995 studies have not yet done on the matter in the country both pre and post Privatization Program implication. To my understanding, Fekadu has tried to investigate, privatized public enterprises performance in Ethiopia but he did not include the privatized Hotel enterprises in his study due to lack of information (Fekadu, 2005).

This interests me to study on the topic. The purpose of this paper is trying to probe the performance and status of privatized Hotels in Ethiopia. The study will also answer whether privatization program of hotels in Ethiopia achieves its objective or not.

The general objective of the study is to analyze the performance of privatized Hotel Enterprises in Ethiopia.

The specific objectives of the study are:-

- To review theoretical and empirical analysis of privatization.
- To evaluate the operational performance of privatized hotel enterprises.
- To analyze profitability and employment conditions of privatized hotel enterprises.
- To suggest recommendations which have policy implication for privatization process in Ethiopia

The paper has justifiable contribution to justify whether the private enterprises have better performance than public firms. Theoretically privatization program is expected to bring economic development by financing budget constraint. However, few studies are conducted in the privatization program of Ethiopia. Therefore, the findings of this study will have significant values for policy makers to enrich the problems of the existing privatization policy of the country.

The study further contributes to the limited literature on the subject with a view to add to the stock of information to motivate the policy deviate aimed at improving performance of the privatization process in Ethiopia.

The study paper has a number of limitations. The main limitation of the study is lack of adequate and accurate information for data were not collected and systematically kept for research purpose both in the public and private Hotels. Besides this, firms who collect data for different purpose both to the private and public sectors are not willing to give their data. Because of this limitation to get the required data both in public and private owned Hotel enterprises the paper is believed to be not as good as it could be. The scope of the study covers all privatized hotel enterprises throughout Ethiopia.

The paper is organized in to five chapters. The first chapter discusses about introduction, the second deals with an overview of Ethiopian economy, the third is literature review, the fourth consists of findings and discussion, and the last contains conclusions and recommendation.

Chapter Two

Literature Review

2.1 General overview of Property right and privatization

A property right is the exclusive authority to determine how a resource is used, whether that resource is owned by government or by individuals. Society approves the uses selected by the holder of the property right with governmental administered force and with social ostracism.

Private property rights have the exclusive right to the services of the resource. A private property right includes the right to delegate, rent or sell any portion of the rights by exchange or gift at whatever price the owner determines (provided someone is willing to pay that price).Thus, the three basic elements of property rights are (1) exclusivity of rights to choose the use of a resource, (2) exclusivity of rights to the services of a resource, and (3) rights to exchange the resource at mutually agreeable terms. The fundamental purpose of property rights, and their fundamental accomplishment, is that they eliminate destructive competition for control of economic resources well defined and well protected property rights replace competition by violence with competition by peaceful means.

Common ownership of resources gives no one strong incentives to preserve the resource. Private property rights do not conflict with human rights. Private property rights are the rights of humans to use specified goods and to exchange them. Any restraint on private property rights shifts the balance power from impersonal toward personal attributes and toward behavior that political authorities approve. That is a fundamental reason for preference of a system of strong private property rights: private property rights protect individual liberty (Alchian, 2008).

The bases of every market are the property rights of the individuals that participate in the market. Without property rights there would be no exchange and difficult to establish contract laws.

The Coase Theorem summarizes the concept of property rights as follows:

> *If property rights are clear and enforceable,*
> *all economic agents have full information regarding*
> *the situation at hand, and transaction costs are low,*
> *then there is no need for government intervention to*
> *correct externalities because economic agents*
> *themselves can bargain to achieve a pareto optimal*
> *allocation of resources.*

Similarly, The Entitlement Theory of Nozick strengthens the Coase Theorem. According to Nozic, the theory consists of three principles:

1. Transfer principle: Holdings (actually) freely acquired from others who acquired them in a just way are justly acquired.
2. Acquisition principle: Persons are entitled to holdings initially acquired in a just way(according to the Lockean proviso)
3. Rectification principle: Rectify violations of 1 and 2 by restoring holdings to their right full owners, or a "one time" redistribution principles.

If people's current holdings are justly acquired, then the transfer principle alone determines whether subsequent distributions are just. Consequently, any taxation over the amount required to preserving institution of just transfer, acquisition and rectification that is preserving entitlements-according to Nozick are unjust. Privatization program should go through the Entitlement Theory principles to enrich its objectives. The question is that does the Ethiopian privatization program satisfy the theory?

Privatization program can realize its objective if there is a mechanism to protect ownership rights. This implies that there should be legislation of property rights, law enforcement, institutions to protect private property and independent judiciary.

2.2 How firms become government owned.

The most common rationale provided for government intervention is that it is a response to market failure. If the market does not result in efficient economic out comes, the public sector assumes responsibility for providing certain goods and services.

According to R.Molz an understanding of how firms came to be state owned enterprise is useful as a backdrop to understanding privatization and the following are considered as reasons

First it is promoting economic development. This includes promoting development in depressed areas, or nations seeking to develop their economy. State owned enterprise is also useful when economies of scale favor development of large integrated projects rather than smaller dispersed projects. In many less developed countries state ownership is the only practical way to capitalize large enterprise. This is due to capital flight out of the country, a lack of indigenous capital, or lack of confidence in the future economic climate of the nation.

The second is to simply capture revenue, and earn positive returns for the general treasury, particularly when the enterprise is dealing with a national resource.

The third is to rescue failing enterprise. This justification indicates that state owned enterprise aimed on risk minimization when high risk discourages private investment.

The fourth is to specifically accomplish social goals, which include using state enterprise to enhance programs in the national interest. This includes programs such as state owned and operated health care systems, improving Urban/regional balance, maintaining and improving employment opportunities, ownership of military supply enterprises or to maintain a technological competency within the nation.

The fifth is to enhance political or economic control.

The sixth is a philosophical reason, based on Rawls' argument cited in R.Molz that all groups in society should benefit from economic growth, and that the least advantaged group should benefit at least as much as the most advantaged group. The objective of state owned enterprise is intended to improve social equity in terms of pricing of goods and income distribution, as well as promotion of social equality within the work place.

The last one is a subtle reason for the occurrence of state owned enterprise: the shaping of the political culture. Certain political pressure groups will lobby for state ownership of enterprise, perhaps to secure job retention, promotion of a new technology or to control resources.

2.3 Overview and Objectives of privatization

Privatization is the process of transferring productive operations and assets from the public sector to the private sector. Privatization is much more than selling an enterprise to the highest bidder, as it includes contracting out, leasing, private sector financing of infrastructure projects, liquidation, mass privatization, etc.

Objectives of privatization are likely to differ between government ministers and to change over time as opportunities, constraints, and perceptions developed.

However, the following lists summarize what appear to have been the principal objectives: improving efficiency, reducing the public sector borrowing requirement (PSBR), reducing government involvement in enterprise decision making, easing problems of public sector pay determination, widening share ownership, gaining political advantage.

In addition to the aforementioned lists privatization is considered as an instrument to enhance economic efficiency if it sharpens corporate incentives to cut costs and set prices in line with costs (Vickers and Yarrow, 1988).

Privatization is argued to enhance both productive and allocative efficiency. The main arguments are that under public ownership, enterprises are often used to pursue non-commercial objectives of government, including employment maximization and uneconomic investment choices.

The major macroeconomic consideration, which is important in the context of overall economic reform, is the direct effect of privatization on public finances. The immediate effect of an asset sale by the government is an increase in revenues or a reduction in budget deficit, with the impact being especially greater in cases where the major participants in the acquisition of the assets are foreign investors bringing in "new resources".

Another positive macroeconomic out come from privatization is the very act of removing business ventures from the day to day activities of the government ((Fundanga and Mwaba).

2.4 Ethiopian economy: an overview

Ethiopia has a population about 82,101,998 million which is estimated to grow at an average rate of 2.6 percent annually. Of those total populations of the country males constitute 41,431,989 and females 40,670,009 (CSA, 2011).

Although the country is highly endowed with huge man power, arable land and natural resources, much of its potential is not yet exploited.

The Ethiopian economy remains heavily dependent on agriculture, which accounts for about 50 percent of the GDP. An estimated 85% of the population gains its livelihood directly or indirectly from agricultural production. Coffee exports accounts for more than 65%of foreign exchange earnings, while processed and semi processed hides and skins are the second important foreign exchange earnings.

The level of development of the manufacturing sector in Ethiopia is at its infancy; and the country's industrial base is very low. The industrial sector is very dependent on imports of semi processed goods, raw materials, spare-parts and fuel.

The industries have a capacity to generate 1.7 billion Birr in profit annually. However, due to lack of raw materials, their capacity is limited to only 57%. 64% of the industries are located in and around Addis Ababa.

To alleviate those economic problems Ethiopia has been taking the process various reform measures. One of these reform measures is the privatization program which is supported by the World Bank and the International Monetary Fund (IMF).

The Ethiopian Privatization Supervising Agency had already overseen the privatization of 287 parastatals, including most state owned retail shops, hotels, and restaurants using different modalities.

Ethiopia is the seat of African Union and other International Organizations. In addition to this the country is one of the tourists' destinations in Africa. Due to the presence of these International Organizations in the capital, Addis Ababa, and the coming of many tourists, the country needs to have huge demand for accommodation of hotels and motels at an international standard. The supply of accommodation, however, is far below the level needed to meet the demand.

There are only 3 five star, 14 four star, 37 three star, 41 two star and 26 one star Hotels in the country and most of them are found in Addis Ababa. Hotels of an international standard can rarely found in the regions, even where there are international tourism attractions, such as Lalibela (MOCT, 2008).

To encourage investors, according to proclamation No.280/2002, any individual who can fulfill the conditions to invest in the Hotel market or other sectors can get investment permit from the Investment Agency. As a result many hotels are under construction simulated by the government and rise in demand. The presence of good accommodation of hotels is closely related to tourism industry. Tourism development is considered as an important driving force of Ethiopia's economy in the growth development plan. As a result the number of tourists and receipts expected to increases in the coming years. But the number of star hotels in Ethiopia is far below the demand.

For a number of years, continuous efforts have been made to achieve international standardization of hotel classification. Since 1969, the International Union of Official Travel Organizations (IUOTO) which preceded World Tourism Organization WTO, endeavored to adapt and put in to practice a standardized international system for hotel classification, which aimed not only to organize and systematize criteria so as to make conditions of international tourism supply homogeneous but, more particularly to provide accurate information for tour operators and the tourists themselves on the various characteristics and qualities of the services and products available in hotels. So as to designate and identify the different categories of hotels, the star symbol was adopted, with a maximum number of five.

Minimum classification conditions for each category expressed as specific standards relating to buildings, rooms, common areas, installations and types of service which the hotels in each category are likely to provide (Hotel Classification Standards for Africa).

Giving standard and regulating hotel services was a task left for long period of times in Ethiopia. This makes hotels in Ethiopia below the standard. By article 5(9) order number 36 of 1964, the Ethiopian Tourist Organization is empowered to establish a system of classification of hotels, inns and restaurants. The first notes on hotel registration and classification was prepared by Ethiopian Tourist Organization in March 1972 and the amended document in 1995. But both documents were not effectively implemented.

2.5 Historical review of public enterprises in Ethiopia

In Ethiopia after adopting the ideology of socialist command economy in 1974, the Dergue regime nationalized manufacturing factories, banking and insurance companies. In accordance with proclamation 20/1974, powers and duties were vested on the Ministry of National Resource Development concerning the affairs of the nationalized companies. In this regard the mandate of the ministry includes, among others, to establish, legalize, to limit their objective, to manage and supervise agricultural, industrial, transport, hotel and tourism services and mining companies.

The Ministry in return promulgated public enterprises act No.5/1974, which enabled it to legalize, to limit duties and responsibilities, to systematize the financial documentation system of the public enterprises.

In line with act No.5/1974, the following public enterprises were legally formed: National Textile, Ethiopian Printing, Ethiopian Food, National Metal, Ethiopian Liqueurs, Leather and Shoe, Fiber Works, Ethiopian Salts, National Soap, Ethiopian Building Materials, Rift Valley Agricultural Development, Harerge Agricultural Development, National Transport etc.

In the mean time when the ministries reformulated by a new proclamation, the Ministry of National Resources Development phased out and the public enterprises under it were transferred to the concerned ministries. According to the new proclamation, public enterprises were organized under Industry, Agriculture and Resettlement and Transport and Communication Ministries.

The second proclamation No.142/1978 established State Farms Development Authority under the Ministry of Agriculture and Resettlement. The authority was established with the intent of management the state farms in a centralized organization. As it is stated above, the structural set upon Public Enterprises was undergoing various changes and new companies were established in the process (PPESA NEWS, June, 2006).

2.6 Objective, Forms and modalities of privatization in Ethiopia

According to proclamation No.146/1998, Article3, in Ethiopia, the privatization program has targeted on the following objectives:

- to generate revenue required for financing development activities under taken by the government;
- to change the role and participation of the government in the economy to enable it exert more effort on activities requiring its attention;
- to promote the country’s economic development through encouraging the expansion of the private sector

The major types of privatization modalities used throughout the world are: Voucher/mass privatization-Non-sale distribution, Initial Public Offer/IPO, competitive tender for shares and Share auction, negotiated sale of shares/Assets, asset sale, joint venture, management/employee buy-out/MEBO, restitution, liquidation, concession/BOOT, lease and management contract.

The privatizations modalities of Ethiopia are not clearly described in the proclamation no.146/1998.The selection of modalities are given to the Agency to undertake studies to adopt detailed procedures enabling the use of various appropriate modalities of privatization. However

Ethiopia has, to date, used a few modalities namely: asset sale, employee and management buy-out/MEBO, lease/sale, joint venture with a strategic investor, management contract, and competitive sale of shares and restricted and negotiated sale (PPESA, 2001).

In addition to these modalities, based on proclamation no.110/95 Article no.4 and the amendment proclamation no.193/2000 the Ethiopian Privatization Supervising Agency has been empowered to investigate and decide on claims of ownership in relation to property taken in violation of appropriate proclamations. Property taken in violation of the relevant proclamation means established case of property taken under arbitrary rules or directives in writing or oral orders in violation of the relevant proclamations. From the many restitution claims to the Agency 3(three) Hotel Enterprises are restituted to their owners.

2.7 Number of privatization transaction of Hotels in Ethiopia

In February 1994, the Ethiopian Privatization Agency was established by proclamation No. 87/1994 and has started the privatization of public enterprises since 1995. In this respect, according PPESA NEWS in the ten years since privatization had started i.e., 1995-2005, 214 enterprises and their branches were transferred to the private sector. The total revenue from the sales of these enterprises amounts to 3.13 billion Birr. In the next five years, 2005-April 2010, 73 enterprises and their branches have been transferred to the private sector at a sales price of 1.5 billion Birr. And hence on aggregate 287 enterprises and their branches have been privatized in the last fifteen years and the total revenue from their sales is 4.7 billion birr. The number of hotel enterprises privatized since then is 34 and the total revenue gained is 247806689. The following table summarizes privatized Hotel Enterprises, buyers, contract price, contract date, capital expenditure number of employees before and at the contract date and modalities used. For detail see annex 1.

2.8 Theoretical review

As cited by Adeyemo, 2008, four distinctive schools of thought have tried to explain variations of policies applicable to privatization.

First, there is the free market ideology of the leissez-faire classical economic theory, which favors the unleashing of the competitive of profit motive by emancipating free market pricing from the interfering hands of state regulation (Samuelson, 1990).It argues that the character of the traders and that of the sovereign are inconsistent, that public administration was negligent and wasteful because public employees have no direct interest in the outcome of their actions. Privatization according to this theory would reap the advantages of the market system and competition, namely effectiveness, productivity, and efficient service. This trend will also strengthen market forces with some degree of deregulation, economic liberalization, relaxation of wage and price controls (Ugorji, 1995)

The second school of thought is the “public choice approach to policy and political analysis”. This approach tries to explain the behavior and provide sets of standards about what the government does. The theory assumes that people are rational, utility maximizing individual and that economic efficiency becomes the prime criterion for judging the political, social and economic system. Consequently, all the government does is judged in terms of the impact on individual choice and economic efficiency.

Public choice posits that the nature of goods and services determines whether they should be provided through the market system or through the public sector. The point is that private goods should be provided by the market whereas government should provide public goods. In sum the theory posited that where public goods provide separable private benefits (e.g. education) the recipients of the private benefit should be required to pay for net portion of the cost that presents the private benefit (Ostrum and Ostrum, 1991).

Thirdly, populist approach on the other hand argues for allowing citizens more choices of services they purchase. This position is geared towards community enterprises that could be more responsive to the needs of people they serve. As privatization compels government to embrace the community empowered is seen as the other half of the equation.

The fourth school of thought is the pragmatist, which advocates alternative approaches to enable the government to provide services with the highest possible efficiency. They believed that private sector may operate efficiently in resource allocation and service provision; they held that some functions are essential to the public purpose such functions like the provision of public transportation, education and health should be retained by the government and operated on the basis of the advantages that characterize the market operation. According to the objective stated in the proclamation the privatization program of Ethiopia seems in consonant with this school of thought.

2.9 Empirical evidence

Empirical evidences demonstrate that private owned firms out performed state owned enterprises. Boubakri and Cosset,1998 review before and after-performance of 79 privatized firms in 21 developing countries mostly middle income, including Bangladesh, Jamaica, Nigeria, Pakistan and Philippine. The objective of the study was to determine whether privatization truly desirable in developing countries and whether the performance of newly privatized firms lived up to the expectation of governments and development agencies. And they conclude that on average the firms in their sample indicated significant increases in profitability, operating efficiency, capital investment spending, output and employment, and a decline in leverage and an increase in dividends.

Hakro and Akram, 2009, conduct a study designed to compare the operating and financial performance of (before-after) privatization process in Pakistan. The study covers 72 percent of total transaction amount to examine the operating and pre-post privatization performance indicators. They employ a number of performance indicators to measure the profitability, efficiency, capital investment, employment and leverages. Wilcoxon Rank test with its Z-test is used to testify the performance indicators both in pre-post privatization scenarios. Insignificant results were documented for profitability, efficiency, output and dividend parameters. No significant or convincing evidence is found which suggest significant change in financial and accounting performance indicators of privatization process.

Grygorenko and Lutz, 2007, analyze a three year panel of 466 Ukrain joint-stoke companies and conclude that privatization may positively influence firms performance sales, labor productivity, and profitability of formerly state owned firms if resulting majority control is in private hands but the state retains some minority owner ship.

AFRODAD, 2007, has commissioned a study for analysis of the Tanzanian experience and assess on wrong policy advice which the country might have received in line with privatization. The result of the study shows that, privatization has produced good results in terms of improved performance, increased tax revenues, employment, efficiency and competition. This is particularly in reference to some few industries like TBL(Tanzanian Brewery Ltd) and TCC(Tanzanian Cigarette Company). However, in some other sectors particularly the infrastructural utilities privatization has produced poor results with little or no improvement in the quantity and quality of the services such as electrical and water supply.

In their study Birdsall and Nellis, 2003, set out a sample frame work for assessing the equity (or fairness)and efficiency gains from privatization, and for understanding any tradeoff between the two. They review the distributional effects of privatization, focusing on changes in asset ownership, employment and returns to labor, access to and prices of utility /infrastructure services, and the selling government‘s fiscal position. They conclude that many privatization programs have worsened the distribution of assets and income, at least in the short run.

AERC(African Economic Research Consortium, 2008) examine the post operating and financial privatization performance of three newly privatized enterprises in Nigeria. Indicators like profitability, productive efficiency, employment, capital investment, output, prices and taxes were used. The study measures the change in any given indicator of performance by comparing its average value five years before and after privatization. Data Envelopment Analysis (DEA) is deployed to assess changes in the level of technical efficiency in the selected enterprises. The result shows that, overall, employment losses have been modest in UBA and Unipetrol, while Ashaka in fact recorded large increases in employment after privatization. The DEA result also supports that privatization improved technical efficiency.

A.Awadala, 2003, carries out a study on the effect of privatization on the economic efficiency in developing countries as a case study Egypt. The objective of the study is to try to answer the question about whether a country will be better or worse off when a privatization policy is implemented and to analyze the effect of a privatization program on the economic efficiency of companies which have been privatized in Egypt as a case study. He concludes that the process of privatization can take different forms and the effect of privatization is likely to vary across countries depending on the mode of privatization adopted. Another result from this study is that, a larger relative share of a public sector in the economy tends to increase the rate of economic growth. And another interesting result from this study is that the process of privatization can be costly if the economy is not capable of handling a higher volume of market transactions as more transaction occurs in the economy.

Calabro, 2010, conduct a research paper on the privatization process and its effects on the Italian accountability system. The objective of the paper is to investigate corruption and unethical behaviors, to contribute to debate on the attributes and effects of privatization. The paper is built on descriptive case studies analysis and the finding shows that actions in favor of accountability and ethical issues have not been considered in detail during privatization.

Chapter Three

Descriptive analysis

The descriptive statistics summarized all the data that where collected from different sources. Under this topic, we can identify this Privatized public enterprises had a significant contribution on employment, capital expansion and revenue generation for development.

3.1 Effect on Employment

The paper looks all privatized public hotel enterprises in Ethiopia pre and post employment generation .Out of 34 enterprises only seven had both pre and post employment information. The paper summarized this data as follows.

Table 3.1 Employment pre and post privatization

Description	Buyer	Contract price (in birr)	Contract date	No. employee before the contract date(pre)	No. of employees at the contract date (post)
Axum Hotel	Ethiopian Express and Travel Agency	890167	7/1/1995	36	33
Blue Nile Ras Hotel	Betezata Health services PLC	6501100	7/5/2002	272	68
Woliso Ethiopia Hotel	W/o Zmtawork Negash	1600000	3/26/2003	29	24
Ambo Ethiopia Hotel	Ato Takele Taddese	2623200	4/8/2003	83	62
Gambella Ethiopia Hotel	South West plc	3750000	21/7/2005	25	24
Quara Ghion Hotel, Gondar	C.Gf Business Group	3322000	6/8/2005	10	6
Yeha Ghion Hotel	BT Advert plc	21000027	8/8/2009	31	23

Source: PPESA

As table 3.1 indicates, in all privatized public enterprises the number of employment is reduced due the privatization program. Around 146 employees are fired out from their jobs.

3.2 Capital expansion after privatization

Most of privatized public enterprises had not made any expansion on the hotel taken from government. Out of 34 only 4 of them made expansion on capital.

Table 3.2 Capital expanded enterprises

No	Description	Buyer	Contract price (in birr)	Capital expenditure after privatization in '000' Birr	Type of sale
1	Axum Hotel	Etiopian Express and Travel Agency	890167	884.27	Business sale
2	Blue Nile Ras Hotel	Betezata Health services PLC	6501100	5518	Business sale
3	Ambo Ethiopia Hotel	Ato Takele Taddese	2623200	2919.67	Business Sale
4	Gambella Ethiopia Hotel	South West plc	3750000	161.18	Business sale

Source: PPESA

As table 3.2 shown Ambo Ethiopian hotels had made large expansion relative to others. Mean while, there were very insignificant expansion in capital by most privatized public enterprises.

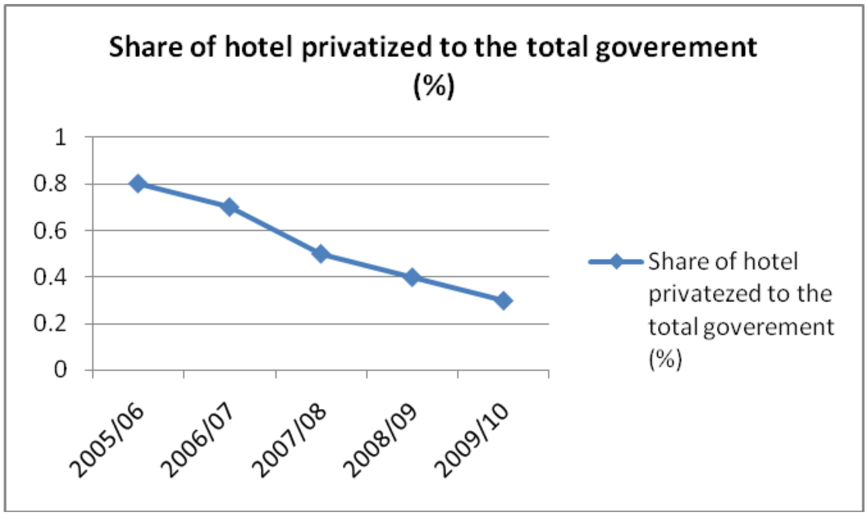
3.3 Revenue generation

The main objective of privatizing state owned enterprise was to generate revenue for finance government development projects. In the fifteen years of privatization the total collected money was only 4.7 billion birr.

No.	Fiscal year	Government expenditure in each year	Share of privatization to the total government budget (%)	Share of hotel privatized to the total government budget (%)
1	2005/06	30536000000	15	0.8
2	2006/07	36790000000	12	0.7
3	2007/08	47747800000	9	0.5
4	2008/09	58534400000	8	0.4
5	2009/10	72423500000	6	0.3

Source: CSA and PPESA.

Figure 3.1



Source: PPESA and CSA.

From the above table 3.3 and figure 3.1, the trend of privatized enterprises for revenue contribution to government budget was very small and decreases overtime. To be specific the privatized hotel were contribute very in significant amount to the total budget.

Chapter Four

Data results and discussion

This study is depended on primary and secondary data. The secondary data were collected mostly from two sources; from PPESA (Privatization and Public Enterprises Supervising Agency) and CSA (Central Statistic Agency)

These data consists information about the pre and post privatization status of privatized Hotel Enterprises.

Descriptive statistical analysis is done based on the data, collected from the aforementioned sources.

4.1 Trends of Hotel Privatization in Ethiopia

The trend of Privatization program in Ethiopia is characterized with an on and off process. It was highly functioning during the beginning of the program .For instance, in 1995 ten Hotel enterprises were transferred which amounts 29.4 percent of the total transfer. How ever, it was getting waned during the next years. After 15 years of privatization there are more than half public enterprises, held by the Government, which violates the objective set by the Privatization Agency

As a result many Hotel enterprise providers are still state owned, and the current market competition is not effective.

4.2 Privatization process and government finance in Ethiopia

The process of Hotel enterprises privatization in Ethiopia is characterized by a slow and declining manner. Between the years 1995 to 2009 privatized hotel enterprise generates 4.7 billion Birr, which accounts on average 6% of the government's expenditure for the year

2009/10. Total revenue from privatization of hotels is about 247806689, which is insignificant compared to government's expenditure.

For instance, in the fiscal year of 2009/10 revenue from hotels accounts only 0.34% of government expenditure. This suggests that privatization in Ethiopia has no significant impact on government finance. Hence one of the objectives of privatization, which is generating revenue required for financing development activities under taken by the government, is aborted.

According to Art 1143, p 189 of civil code of the Empire of Ethiopia proclamation No. 165/1960, any transfer of possession made by the virtue of a contract shall be effective at the time when the thing is delivered.

Privatization involves many cases of actual transfer of control, but in the case of Hotel enterprises, the government still holds many Hotel firms under its control. This violates not only the objective set by the government but also the law of the country itself.

The growth of private sector increases from time to time. Accordingly it is presumable that there is no need for the government to intervene in the economy. But after fifteen years of privatization more than half of public hotels are still held by the government.

According to PPESA, the object of privatization program objective would have been better to change the role and participation of the government in to the economy to enable it exerts more effort on activities requiring its attention.

4.3 The impact of privatization on employment

The effect of privatization on employment is ambiguous. The study of Boubakri and Cosset, reported an increase in employment after privatization (Boubakri and Cosset 19). While La Porta and Lo‘De-Silanes, found a significant decline in the number of employees after privatization (La Porta and Lo‘De-Silanes, 1999).

Privatization, directly or indirectly affects human resource development. In Ethiopia, when public enterprises were privatized the workers were offered with three alternatives;

1. to carry out their job within the newly privatized enterprise with the new owner granted, respecting their rights as stated in the labor law

2. to participate in a safety-net program prepared by representatives of the government and the workers

3. to take the required payments in accordance with the labor law and relinquished their job.

Those employees who chose the safety-net program were organized themselves, under a share company and allowed to purchase the companies they were working in. Accordingly four hotel enterprises were sold to them with the safety-net program.

With regard to employees who were transferred to the new owner, were applied the following provisions:

I. They were transferred to the new owner with their pension right protected.

II. The new owner took over the employees in accordance with proclamation 377/96.

III. The workers were allowed to participate in the privatization process and have their own representative in the Board of the Privatization Agency.

In this case about 863 workers were transferred to the new owners who were working in 20 privatized hotel enterprises.

Findings indicate that:

From privatized hotel enterprises only 7(seven) has pre privatization data.

According to this data, the numbers of employees which are not transferred to the new owners are about 146 and the remaining is on their jobs. This shows that there is loss of jobs during privatization of hotels.

4.4 Capital Investment and performance

Greater emphasis is anticipated to lead newly privatized firms to increase their capital investment spending. New investment enhances productivity and brought about improved ways of production. Moreover, it also brought about technology transfer and creates product diversification and there by facilitated market expansion. Once privatized, hotels should increase their capital expenditures since they have access to private debt and equity markets.

Privatization when correctly conceived should foster efficiency, stimulate investment and yield a corresponding increase in output. Investment expansions of the privatized Hotels were too small that only four enterprises with limited amount of capital participate in investment expanding.

4.5 Privatization Proclamations and laws

Privatization is perceived as the process by which the ownership of an enterprise is transferred from the public to the private sector. To make this transfer smooth and rightful, there should have been well established property right legislation. But the privatization program of Ethiopia works with the previous and unchanged property right legislation. Thus it created a fundamental problem to implement the policy.

Besides to this archaically law, the transfer of hotel enterprises to the private sector takes longer time. There were cases that took more than a year to transfer title. Such conditions discourage the participation of the private sector in the privatization program.

Another problem is failure to record accurate data about the privatized enterprise. Information on public and private enterprises in Ethiopia is still not publicly known. The follow up of PPESA on privatized hotel enterprise is so weak that it never addresses the problem. According to proclamation No. 146/1998 article 14 sub articles 2, the investor shall have the obligation to periodically submit to its report to the Agency that is necessary for monitoring the implementation of the investment plans and allowing the representatives of the Agency to enter and inspect the enterprise at any time so as to make assessments. The Agency therefore has limitation in applying the proclamation and this shows clearly the existence of gaps between the proclamation and the implementing.

4.6 Identification of appropriate Modalities

Determining and identification of privatization modalities and applying them to the various enterprises in Ethiopia is possible according to proclamation No.146/1998. This, however, means that the law relating to privatization should be implemented on circumstances that would allow alternatives rather than fixing (assigning) one modality to one enterprise and the others.

In other aspects, the types of modalities that are to be implemented are not stipulated in the law. Since the Privatization Agency is entitled by the law to conduct such a study and endorse it through the government, there seems to be a gap in the law to determine the kind of modalities. Moreover, the kinds of modalities that the law uses to determine the price are not clearly indicated (enumerated) and who would determine the modalities are not identified either.

This gap may arise from the fact that different modalities, as said above, could be applicable to the kinds of enterprises. In the case of Ethiopian, the Agency determines the modality and then the Board endorses it. However, the kind of enterprises to which a certain price is applicable is not mentioned in the law. It follows that, there is a gap in the law in that it should have to state that pricing should have been determined by market laws.

Chapter five

Conclusion and Recommendations

5.1 Conclusions

Ethiopia has started the implementation of privatization program since 1995. Under the program 287 firms were transferred from the public sector to the private sector. Hotels are amongst the enterprise held under the privatization program.

The purpose of this study is to identify the performance of privatized Hotel enterprises after privatization. To examine the performance of privatized Hotel enterprises it is necessary to look at the legal ground of property right since privatization is the transfer of ownership right. In this regard the PPESA works with the former outmoded property right law, which is not tantamount with the privatization program and because the law was promulgated during the time of socialist Derg, there was no private ownership right at all. Therefore, the PPESA uses the same law without any amendment.

The trend of privatization is another important condition of the privatization program of Ethiopia. It is clear that the objective of privatization is to change the role and participation of the government in the economy sector so as to enable it exerting more effort on activities requiring its attention as mentioned in the proclamation.

But things are going on the same trend and the government cannot make any difference .After fifteen years of privatization, the government still intervenes in the Hotel market, in which the private sectors deserved to take over it.

Another most important objective of the privatization program in Ethiopia is generating revenue required for financing development activities under taken by the government. Total percentage of the privatization proceeds to the government expenditure on average for the year 2009/10 is below 6%.

The revenue share of Hotel Enterprises is too low that it is in significant to finance the government's budget.

Privatization program in Ethiopia has failed overall to achieve its stated objectives like generating income and shifting of ownership from the public to the private sector.

As it is stated in the proclamation, the selection of appropriate modalities of privatization is a mission given for the Agency. This opens way for corruption in the name of privatization. Therefore the selection of modalities should be governed by the market rule.

During the period of socialist Ethiopia, private owned properties had become state owned through confiscation. Since privatization in Ethiopia, there was pressure from the original owners of the enterprises for the return of their properties and for the compensation that were damaged while the enterprise was under the control of the government.

The Agency receives many claims of restitution according to proclamation No.110/1995 but only three Hotels are restituted. This suggests that most restitution claims have never get their right answer.

Lack of information access both at the public and private sectors makes difficult to understand the performance of privatized enterprises. This makes hard for the researchers to conduct study on the area.

Another important fact about hotel enterprises is the concept of standardization and classification. The Federal Ministry of Culture and Tourism has a mandate to give standard and classification of Hotels according to the international measurements. But for the last eleven years this task was not given attention.

The effect of privatization of Hotel enterprises on the labor force is painful. According to proclamation 377/1996; the new owner should took over the employees. On the process about 146 workers from seven hotel enterprises, who were not transferred to the new owners become layoff. This is about 16% of the total work force transferred. This shows that the program makes citizens job that escalating poverty instead of bringing development.

It is expected that newly privatized firms increase their expenditure and brought about development. In the case of Hotel enterprises about 9483120 Birr is invested after privatization. This fact indicates that only four privatized Hotels which is 11.8 percent from the total privatized ones are increasing their investment and other owners are failing to do according to the business plan they submit during the beginning of the privatization program.

Hence one can conclude that over the fifteen years of privatization process no significant changes are shown in Ethiopia to achieve the very objective of privatization.

5.2 Recommendations

- It is important to create awareness on the part of the government bodies regarding the implementation of privatization program.
- It is important to promulgate clear property right legislation and every activity of privatization should be implemented according to the law.
- Further study must be done both on pre and post privatization process so as to see the socio-economic impact of privatization.

- It is important to provide the public with information regarding the impact of privatization and serious follow up of PPESA is needed.
- It is important to facilitate appropriate conditions for workers who are layoff because of privatization.
- The state involvement has to decrease according to the objective set in the proclamation in order to promote the full participation of investors in the sector.
- The selection of privatization modalities should be determined by the market.
- Standardization and classification of Hotels should be given serious attention in order to cope up with international tourism facilities.
- It is important to implement privatization in an open and transparent manner in order to minimize corruption.

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Appendices

TABLE 1

No	Description	Buyer	Contract price (in birr)	Contract date	No. employee before the contract date	No. of employees at the contract date	Capital expenditure after privatization in '000' Birr	Type of sale
1	Rendezvous Cafeteria	W/t Eneyesh Asress	2800000	06/25/97		23		***Sale of asset
2	Axum Hotel	Etiopian Express and Travel Agency	890167	07/01/95	36	33	884.27	Business sale
3	Fogera Hotel	Geaitco.	950105	07/03/00				Sale of asset
4	Wanzaye Hotel	Amara Development Association	500000	09/11/95		5		Business sale
5	Terara Hotel	Addis Fana	617480.92	12/02/95				Business /MEBO
6	Bahir Dar Gion Hotel	Ato Woldu W/Aregay	1100000	07/04/95		49		Business sale
7	Taitu Hotel	The Yellow Pages	5273000	05/19/99				Sale of asset
8	Gishen Hotel(Ghion)@	W/o Yihdega G/Selassie	12527.15	07/19/99				Sale of asset
9	Ras Hotel Debrezeit	Midroc Ethiopia	8700000	09/04/96		55		Business sale
10	Ras Grill	Addis Fana	229993.2	07/19/99		36		Business sale
11	Lalibela Restaurant	Ibex Hotel	905155.5	09/26/95				Business sale
12	Gidabo Hotel	Wondo Genet Plc	505000	10/18/95		15		Business sale
13	Gibe Ethiopia Hotel	Addis Fana	475999.55	12/01/95		44		Business sale
14	Walga Ethiopia Hotel@	W/o Belaynesh and others	426135.39	05/19/99				Sale of asset
15	Wollega Ethiopia Hotel	Addis Fana	517047.23	12/01/95				Business /MEBO
16	Dahilak Paradise	W/t Reta Tsehay	650000	07/06/95		9		Business sale
17	Tourist Hotel	W/t Alemtsehay Tegegnework	1100000	09/29/95		70		Business sale
18	Blue Nile Ras	Betezata Health	6501100	07/05/2002	272	68	5518.00	Business

	Hotel	services PLC						sale
19	Woliso Ethiopia Hotel	W/o Zmtawork Negash	1600000	03/26/2003	29	24		Business sale
20	Ambo Ethiopia Hotel	Ato Takele Taddese	2623200	4/8/2003	83	62	2919.67	Business Sale
21	Wabeshebelle Hotel Awassa No.1	United Africa Group	6950000	3/4/2005		73		Joint venture
22	Gambella Ethiopia Hotel	South West plc	3750000	21/7/2005	25	24	161.18	Business sale
23	Quara Ghion Hotel, Gondar	C.Gf Business Group	3322000	6/8/2005	10	6		Sale of asset
24	Hotel D' Afrique @	Ato Seyfu G/Yohannes	6500000					***Sale of asset
25	Dire Dawa Ras Hotel No.2	Ato Eyob Mehirete	5001919	24/6/2008				Sale of asset
26	Dire Dawa Ras Hotel No.1	Ato Belayneh Tesfaye	11041916.40	9/5/2008		107		Sale of asset
27	Harar Ras Hotel	W/o genet Abera	11245120.75	15/11/02				Sale of asset
28	Goha Hotel	Betas Industry PLC	20000116	25/6/2009		68		Sale of asset
29	Tana Ghion Hotel	Blue Nile Resort Hotel plc	42000000	3/5/2009		69		Sale of asset
30	Bale Goba Wabe Shebelle Hotel	Gudub Engineering plc	7500000	8/7/2009				Sale of asset
31	Lalibela Roha Ghion Hotel	Ajika Trading and travel plc	22,001,000	25/9/96				Sale of asset

32	Yeha Ghion Hotel	BT Advert plc	21000027	8/8/2009	31	23		Sale of asset
33	Roha Ghion Hotel	Ayat S.C	31640799	2/11/2010				Sale of asset
34	National Hotel	Athletics Federation	17406880.24	29/08/02				Sale of asset
	Sum		247806689.33					

***Full Sale of Business and Buildings

@These are properties returned to former owners in accordance with Proclamation No.110/1995.

Source: Privatization and Public Enterprises Supervising Agency and own competition.