

PROFILE OF THE PRIVATE SECTOR IN ETHIOPIA

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1. INTRODUCTION

Investment plays a crucial role in the process of economic development. The magnitude of investment determines the rate of economic development. In relative terms, it is a mechanism by which sectoral priorities are set up either through direct participation or through the application of varieties of incentive systems.

Generally there are two agents of investment: the state and the private sector. In Ethiopia, particularly in the past two decades, state investment in all sectors of the economy dominated and the private sector was deliberately marginalized.

Presently, however, the need for increased participation of the private sector has been recognized by the government. The economic policy of the Government indicates that investment by the state will be restricted to activities that have strategic roles in economic development or in areas where the private sector could not adequately cover investment needs. It also stipulates that it will privatize non-strategic public enterprises.

The question would then be to what extent the private sector of Ethiopia is capable to absorb some or most of the public enterprises and to make new investment? This question can be addressed by assessing and analyzing the characteristics of the sector. Information scarcity and unreliability remain major problems in such an exercise, because the private sector in Ethiopia is generally secretive due to a number of reasons such as competition, taxes, etc. In addition to these, due to the past economic policy, the sector has gone underground from which it has not fully emerged.

It is against this background that this paper tries to analyse the private sector in Ethiopia. The next part of the paper is concerned with defining the private sector and discussing the role of entrepreneurship. The third part attempts to indicate the profile of the private sector in Ethiopia using available data on the sector in Addis Ababa. Following this part some policy issues have been raised to conclude the paper.

2. ENTREPRENEURSHIP AND THE PRIVATE SECTOR

While investment plays a crucial role in economic development, it involves risks and prospects. The prospect is expending existing resources in anticipation of more return in the future. The risk involves the difficulty of accurately predicting future events which may adversely affect the

In the case of Ethiopia, the private sector is by and large the existing entrepreneurial class. The assessment of the sector should thus encompass the current area of activity, size of resource, education, age, gender, management style, etc., of the existing entrepreneurs and the future plans to create business venture be it in new or existing enterprises.

Due to lack of information such comprehensive and detailed research is outside the scope of this paper. As a result an attempt have been made to indicate the profile of the private sector using available information. Even then the information is scanty as there are no detailed information on the private sector in Ethiopia.

3. A PROFILE OF THE PRIVATE SECTOR IN ETHIOPIA

This section is divided into three parts to depict the profile of the private sector more clearly. The first part tries to examine the present activities while the second and the third parts indicate the potential of the sector using planned investment and private savings respectively.

3.1 Current Activities

There is no comprehensive information compiled at the national level on the private sector of the country. Whatever information available is the private sector in Addis Ababa. Data on the private sector that is being finalized by the Addis Ababa Chamber of Commerce is more or less detailed. Nevertheless as the data is not yet complete, consequently, this section assesses the private sector in Addis Ababa using the information available at the Chamber of Commerce on 419 of its members. To supplement the data base, the information obtained from the Ministry of Trade is also used.

According to the information available on 419 member private enterprises, it appears that about 53.5% of the total are engaged in more than one area of activities (see Table 1).

Table 1
Areas of Activities of Some of the Private Enterprises that are Members of the Addis Ababa Chamber of Commerce

Number and percentages	Number of activities					
	1	2	3	4	5	6
Number	195	123	79	16	6	419
percentages	(46.5%)	(29.4%)	(18.9%)	(3.8%)	(1.4%)	(100%)

Source: Addis Ababa Chamber of Commerce, Unpublished Data, 1993

Table 3
Capital Structure

(000 Birr)

Enterprises	Capital range										
	0	less than 10	10 to 50	51 to 100	101 to 300	301 to 500	501 to 1000	1001 to 5000	5001 to 10000	11000 to 20000	over 20000
Number	26	42	178	47	61	22	15	21	4	3	1
Percentage	62%	10%	42%	11%	15%	5%	4%	5%	1%	1%	-

Source: IBID

From the above table it could be observed that 42% of the enterprises have a registered capital of 10,000 to 50,000 birr. If one leaves out those members with no registered capital, those with a capital of 10,000 to 50,000 comprise 45% of the total. Furthermore, 93% of the enterprises covered in the data have capital of less than 1 million birr. In spite of the smallness of the coverage of the data, the capital invested by the private sector seems to be small.

From the above discussion one can have some observations on the profile of the private sector:

- the private sector appears to be concentrated in the trade sector more than in any other single activity. Such concentration may be the result of the policy of the last two decades which resulted in unproportionately higher return in trade than in other activities. The high membership of import and export trade seems to be the result of the licensing policy that requires prior registration at the Chambers of Commerce before applications are accepted;
- while it requires an indepth study to come up with adequate explanation, the high proportion of agents becomes either exporters and importers or importers only can be explained by the fact that agency business is highly associated with foreign business transaction; and
- In terms of capital structure, though the data does not enable a definite conclusion, it indicates that the size of private capital does not seem to be as robust as it is generally believed.

According to the IOE performance report for the Ethiopian fiscal year 1985 (1992/93), a total of 502 projects had been issued with investment certificates out of the 503 projects that were reported. The one left is the national gas project, which is being promoted by the government. Of the total 46% were in industry, 16% in real estate, 11% in hotels and tourism and 9% in agriculture, followed by social services, trade, transport, construction and mining in that order (see Table 4).

From the above table the areas of planned investment and the resources at the disposal of the would be investors can be observed. First the area of future activity concentration appears to be manufacturing, real estate, hotel and tourism, and agriculture distantly followed by social services and trade. If translated into reality the direction of the private sector seems to be changing from the traditional activities, because, the areas of concentration seems to be moving towards the productive sector rather than trade and services. Even then, according to the report of IOE of the 10 investment certificates issued to the trade sector 8 were for fuel stations and 2 for construction of shopping centres.

In terms of financing, the information indicates that 56.3% of the total investment is to be generated from local bank loans. Industrial investment would require 65% of loan finance while agriculture and real estate require 63.8% and 52% loan capital respectively.

There is a major problem with the annual report of the IOE. It does not indicate separately what number of certificates have been issued for new and for expansion projects. It only gives breakdown for projects that are said to be under implementation. In this regard a total of 43 projects are under various stages of implementation. Of which 35 projects are new and 8 are expansion projects. Also of 43 projects that are under implementation four projects got licences prior to investment code No. 15/1992. Consequently it appears that out of the 502 investment certificates issued only 39 projects or about 8% of the total were under implementation during the reporting period.

In terms of regional distribution 85.5% of the total investment is located in Region 14 distantly followed by Regions four and three in that order. Sectorally, Addis Ababa claims 89% of industrial investment, 80% of investment in hotel and tourism, 30% of agricultural investment and 100% of the investment in the rest of the sectors indicated in the annual report of the office.

From the above brief discussion, some observations can be made about the private sector in Ethiopia.

The fact that most of the projects are in the productive sector indicates that private sector is shifting from the trade sector. Nevertheless, as far as the pattern of future private investment is concerned, it appears that 25% of the projects could be in the food and beverage sector, 13% in leather and the chemical sub-sectors and 11% in the textiles sub-sector. Taken together the processing industries such as food and beverage, leather, printing and textiles are the dominant

of the total projects. The length of business start up time would thus be one of the bottlenecks private investment faces in the country.

3.3 Private Saving

The third and last part of this section deals with private saving., which can take a number of forms. Since detailed and reliable information on the forms and magnitude of private saving is difficult to get at a national level; (because saving could be made in the form of assets or informal saving like Ikub, etc.), deposits in the Commercial Bank of Ethiopia have been utilized. According to available information at the National bank of Ethiopia private saving in Ethiopia constitute about 20% - 25% of demand deposit and almost the total of saving deposits and time deposits between June 1989 to June 1993 (see table 5).

Table 5
Commercial Bank Deposits by Holder
June 1989 - June 1993

(Million Birr)

	1989	1990	1991	1992	1993
Demand Deposits	2153.0	2424.5	2484.5	2791.5	2460.7
Private Sector	448.9	478.3	530.2	704.0	799.4
Cooperatives	282.1	301.6	275.3	230.2	235.0
Public enterprise					
Central Government	988.3	140.4	1084.6	1278.4	1391.4
Others	144.6	167.4	164.6	243.3	342.2
	289.1	336.8	429.9	335.9	692.7
Saving Deposits					
Private Sector	1367.1	1574.5	1676.7	1999.1	2456.5
Cooperatives	1352.1	1558.6	1661.9	1983.8	2432.0
Others	15.0	15.9	14.8	15.3	18.5
	-	-	-	-	6
Time Deposits					
Private sector	155.4	130.8	134.8	152.9	315.6
Cooperatives	110.1	122.4	129.9	148.1	310.6
Others	8.9	7.7	4.2	4.2	4.2
	36.4	0.7	0.7	0.6	0.6
TOTAL DEPOSITS	3675.5	4129.8	4296.0	4943.8	6232.8

Source: National Bank of Ethiopia: Research Department)

In general terms, total deposits (i.e., deposits by all sectors) between 1989-1993 have grown by about 70% on the average. Nevertheless, on annual basis, the growth rate has fluctuated between a minimum of 4% between 1990 to 1991 to a maximum of 26% between 1992 to 1993.

Ethiopia, given its past economic policy, may even be required to do more to stimulate its economic growth. In this regard, while the private sector is at its infancy, it has the potential to develop at a much faster rate, if the necessary conditions are created.

The policy of the past decade has, negatively affected the dynamism of the private sector. This has created a good public attitude towards business ventures. The performance of the few businessmen, who exploited the situation, has convinced most people, even the intellegentia that normally prefer to work in the civil service and other institutions. If properly exploited and the necessary infrastructure is developed, such positive attitude is a good potential in the future.

Even among the private sector that benefited by exploiting rent from the shortage of commodities, an enterprising class has emerged albeit mostly engaged in minor businesses. The fact that some started manufacturing business even within the past restrictive policy environment demonstrates the potential of the private sector if properly and efficiently promoted.

To realize the full potential of the private sector, however, it is necessary to utilise a number of positive policy instruments and incentive systems. The most important policy measures would be the following.

First, lack of a policy that enables easier credit access is the major bottleneck that has to be overcome. As already indicated the projects that obtained investment certificates from IOE are planned to raise 56.3% of the capital requirement from loan finance. On the other hand, loan finance in Ethiopia is time consuming and is inaccessible due to the requirement of large collateral which comes to about 125% of the loan amount. If the private sector is to develop, easier access to loan finance would be a necessary condition.

Second, the new incentive system provided to private investors in the proclamation No. 15/92 is discriminatory towards those with a relatively higher capital. According to the data utilized in this paper, if the 419 members of the Addis Ababa Chamber of Commerce. (over 63% of the total would not get incentive if they invest their capital presently. Also the 355 permanent licenses issued in 1992/93 by the Ministry of Industry had an average capital of birr 130,000. Thus, the minimum level of capital requirement of birr 250,000 appears not only to be high but also does not encourage small entrepreneurs that can encompass the broader segment of the private sector.

Third, the time it takes to get a license need to be shortened substantially. According to some estimates more than 40 steps have to be completed on the average before the issuance of licences to private investors.

Fourth is lack of promotional activities. There is no well organized effort to develop the private sector. To date, there is no national mechanism that clearly demarcate between small, medium and large scale enterprises, which has in turn inhibited the formulation of adequate strategy for