

PRIVATE SECTOR DEVELOPMENT IN ETHIOPIAN PARTICULARLY SMALL BUSINESS DEVELOPMENT IN ETHIOPIA (AN ENTREPRENEURIAL APPROACH)

Werotaw Bezabih¹

I. INTRODUCTION

1.1 Ethiopia – Country Profile

- ◆ Landlocked country in Northeastern Africa, separated from the Red Sea by Eritrea and Djibouti and from the Gulf of Aden by Somalia.
- ◆ It is the oldest independent country in Africa.
- ◆ **Population:** 67.2 million (2001/2002)
 - ✓ Annual population growth rate 1.9%
 - ✓ Living in cities and towns 16.2%
 - ✓ Annual birth rate 40 births per 1,000 people
 - ✓ Annual death rate 22 per 1,000 people
 - ✓ Living below poverty line 44%
- ◆ **Communication and transportation**
 - ✓ Radio receivers 200 per 1,000 people
 - ✓ Telephone lines 4 per 1,000 people
 - ✓ Television receivers 14 per 1,000 people
 - ✓ Internet hosts 0.1 per 10,000 people
 - ✓ News paper circulation 0.4 per 1,000 people
 - ✓ Passenger vehicles 0.9 per 1,000 people
- ◆ **Economy**
 - ✓ Gross domestic product 6,300 million US Dollars

¹ Werotawb@Yahoo.com

| | | |
|---|------------------------------------|------|
| ✓ | Gross Domestic product growth rate | 4.8% |
| ✓ | Gross domestic product per capital | \$90 |
| ✓ | Labor force in agriculture | 90% |
| ✓ | Labor force in industry | 2% |
| ✓ | Labor force in services | 10% |
| ✓ | Labor force share female | 41% |
| ✓ | Labor force share male | 59% |
| ✓ | Exports per capital | \$8 |

◆ **Environment**

| | | |
|---|---------------------------------|--|
| ✓ | Deforestation rate | 0.85% |
| ✓ | Threatened species | 78 |
| ✓ | Agricultural population density | 6.0 persons per sq km of cultivated land |

◆ **Health and Education**

| | | |
|---|---------------------------------|---------------------------------|
| ✓ | Physicians | 35,000 persons per physician |
| ✓ | Hospital beds | 4100 persons per hospital bed |
| ✓ | Infant mortality rate | 104 deaths per 1000 live births |
| ✓ | Life expectancy at birth | 42 years |
| ✓ | Life expectancy at birth female | 43 years |
| ✓ | Life expectancy at birth male | 41 years |
| ✓ | Literacy rate, total | 43% |
| ✓ | Literacy rate, female | 35% |
| ✓ | Literacy rate, male | 50% |

◆ **Macroeconomic Indicators**

| | | |
|---|---|------|
| ✓ | Real GDP growth rate (in %) | 1.2 |
| ✓ | Agricultural and allied activities (in %) | 43.2 |
| ✓ | Industrial sector (% of GDP) | 10.9 |
| ✓ | Service sector (% of GDP) | 45.9 |

Major exports Coffee 67.6%, Oil Seeds 8.4%, Hides, Skins and Leather 7.7%

Main export destinations (2000) Europe 40.2%, Africa 16.9%, Japan 11.1%, West Asia 10.7% 10.7%

1.2 Features of the Ethiopian Economy: An Overview

Ethiopia has a total landmass of 1.1 million square kilometer and a population of 67.2 million (in 2001/02). A population density of 58.9 per sq. km. Stands as the third most populous country in Africa after Nigeria and Egypt. The total labor force of the country constitutes about 35 per cent of the population. In addition to abundant labor force, the country is endowed with huge arable land and natural resources. Out of the 45 per cent of its landmass, which is known to have potential for agricultural development, only 15 per cent is developed. Although its contribution to the national economy is very limited, the country's livestock is numerically the largest in Africa. The mineral resources potential is also rich, although much of it is yet to be exploited. A few of the mineral types are called, Platinum, Marble, Tantalite, Copper, Potash, Soda ash, Zinc, Nickel, Iron and Natural gas.

The Ethiopian economy remains heavily dependent on the earnings of fragmented smallholder agricultural activities. The sector contributes about 50% of the total Gross Domestic Product (GDP). It accounts for 90% of export and 85% of total employment. The country's export is highly dependent on a single crop, coffee, persistently generating nearly 60% of the total foreign exchange earnings. Participation by most of the people in the monetary economy is limited. The estimated annual budget for 1999 included \$1.17 billion in revenues and \$1.64 billion in expenditures.

The industrial sector contributes about 12% to GDP, 9.5% of employment opportunities and 22% of foreign currency earnings. It supplies consumer goods both to the domestic and foreign markets. Out of the 12% contribution of the industrial sector to the country's GDP, the share of manufacturing sub-sector is nearly 7%. The main manufacturing products are textile goods, leather and leather products, foodstuffs, tobacco, cement, beverage, metallic and non-metallic products. The manufacturing export products include leather and leather products, frozen meat, sugar and textiles. The sector is characterized by low level of development and is still dominated by light manufacturing and afro-industrial activities. The sector is primarily oriented toward the processing of agricultural commodities. Petroleum refining and the production of textiles are the second and third important industries., The principal manufacturing center is Addis Ababa.

The mining sector is almost negligible in the structure of the economy. It contributes less than 1% to GDP, although its prospects in terms of potential is good. It has considerable untapped deposit of high-quality Potash, outcroppings of Iron, Copper, Zinc and Lead. They have been mined since ancient times.

The country's energy potential for producing hydroelectricity is great. While in 2001 some 98% of the country's relatively small yearly electricity output was generated by hydroelectric facilities, the amount produced year-to-year depends heavily upon regular rainfall.

The service sector makes up over 35% of GDP and its relatively large share in the economy is attributed to large government expenditure and to the dominant role, which trade plays. A great part of the total export earning is accounted for by the agricultural sector in the form of raw and semi processed commodities.

In trade, Ethiopia is primarily an exporter of agricultural products and an importer of consumer and capital goods. In 2000, exports accounted to \$482 million and imports cost the country \$1.260 million. Coffee accounts for about two thirds of all exports and it is the most valuable foreign exchange earner. Other traditional exports are pulses, hides and skins, fruits and vegetables and oil seeds. Leading purchasers of exports are Germany, Japan, Saudi Arabia, France and Italy. Chief suppliers of imports are the United States, Germany and Italy.

Ethiopia is rich in human and natural resources. The country is also endowed with immense resources constituting large arable land, diverse climate and huge livestock population, variety of crop species and abundant water and wildlife. Despite such an enormous potential, the performance of the economy has been quite minimal as shown above. The country has been faced with immense problems of food security, unemployment, poverty and dependency on external economies.

It is however, very essential to note that the cause for dismal economic situation of the nation has been found to be the severe scarcity of entrepreneurial resources. One of the entrepreneurship is the most significant resource, which can be developed and used to organize other resources more rationally and effectively.

Germany, Japan, Saudi Arabia, France and Italy; chief suppliers of imports are the United States, Germany and Italy.

1.3 Objectives

This paper has three specific objectives:

- To show its readers the interrelationships small businesses and entrepreneurship.
- To identify major problems of private sector development in Ethiopia from the entrepreneurial qualities and activities point of view.

- To forward strategies and actions to be taken in the country to make the private sector more dynamic.

1.4 Methodology of the Study

The study has included the following methodologies:

Primary Data: * Some surveys on enterprises are made by the researcher groups.
* Focus discussions with prominent persons (A.A residents, local authorities, diplomats, and business community members using formal procedures. (The researcher used the opportunity presented in his study in public-private-partnerships in A.A.)

Secondary Data: * Review materials presented in EEA workshop, conferences and publications CSA findings on small business development problems.
* Review economic materials on private sector held in Ethiopia by local authorities and Ministries.
* A.A master plan revision and restructuring materials on the economic issues of the national capital.
* Outsourcing internet materials on international private sector initiatives and experiences made by United Nations, World Bank, Habitat and others.

1.5 Scope and Limitation

The paper focuses mainly on the recent private sector development trends of particularly small businesses of Ethiopia from entrepreneurial perspectives.

There are no study materials on Ethiopian entrepreneurs, their competencies in relation to the existing political and socio-economic environment. This has limited the depth of the analysis of the study.

1.6 Relevance of the Paper

The material will enable leaders, policy makers and researchers understand the real problems of private sector development mainly that of small businesses in Ethiopia to initiate better policies and further studies on the sector. It will also be a reference material to assist trainers and instructors in Ethiopia in the area of teaching and training On small businesses and entrepreneurship.

It will also create awareness on the business community to see private-sector development problems “inside-out” and to work together with policy makers and other economic agents to improve enterprising environment in the country in the process of the fight against poverty, unemployment, literacy and economic dependency .

2. CONCEPTUAL FRAMEWORK OF PRIVATE SECTOR AND ENTREPRENEURSHIP

2.1 Private Sector

The private sector of the economy has been the combination of elements in the economy, which have been not organs or agencies of central or local government and therefore includes the company sector and the personal sector. (ANMOL's dictionary of economics, CSNAGAL)

The private sector is a key player in transforming resources into valuable products and services. Its effort has changed the world remarkably. It is a real agent to fight against unemployment, poverty, underdevelopment and other socio-economic hazards.

Developing a strong and dynamic private sector is a vital part of many countries economic programmes to fight against poverty , unemployment and other problems. The private sector is a key player in any effort to bring economic development and growth.

The IMF is examining the importance and complex issues associated with involving the private sector in forestalling and resolving financial crisis.

Private sector becomes more involved in new business areas or in previously held by the public sector.

Habitat recognizes that the private sector accounts for the vast majority activities, projects and investments mostly in cities ,where the infrastructures are relatively developed. One of the goals of the “city summit” is therefore, to help build a social; political and economic environment, which is conducive to long-term investments at economic rates of return, targeted at improving the living environment of all people.

Role of private sector for sustained economic development is always at the forefront. The present global experiences reaffirmed the notion that invisible hand of the market would always contribute to accelerate growth process in a sustained manner. Market-

oriented development strategies encourage increasing private sector involvements in the development process, limiting the governments role as a facilitator and developer of the private sector through the investments of building physical infrastructure and human resources as to create environment conducive for private sector development.

The private sector must become the primary vehicle/driving force for better achievement in the countries' socio economic advancement.

Adam Smith - in his book , The Wealth of Nations argued that government must

- Provide an exact administration of justice in order to resolve the clashes of interest, which will inevitably arise between individuals, while in addition it must protect their property, the fruits of gain without whose enjoyment there could be no stimulus to better our condition.
- Provide for defense, partly as a result of growing technicality and expense, and partly because a modern economy, characterized by the division of labor would tend to reduce the number of those fitted and available for war.
- Provide such public works as may be necessary to facilitate economic activity, where these are:

(1) Of such nature that the profit could never repay the expense of any individual or small number of individuals and which it therefore cannot be expected that any individual or small number of individuals should erect or maintain.

(2) "Public goods" which Smith provided included such items as roads, bridges, canals and harbors. (It is short by modern standards)

His discussion of the principles of provision is particularly noteworthy for the emphasis given to efficiency. For example, Smith argued that services should be paid for by those who benefit from them partly on the grounds of equity, but partly to because this means of payment would help to ensure that services were provided only where there was a recognized need for them. In the same vein, he insisted that in providing services the state should take care to stimulate market conditions where possible, believing that he did that public service are never better performed than where their reward comes only in consequence of their being performed, and is proportioned to the diligence employed in performing them. (Adam Smith, 1776)

In the private sector, the nature of agriculture does not admit so many subdivisions of labor, nor of so complete a separation of one business from another, as manufactures. It is impossible to separate so entirely the business of the grazier from

that of the grain-farmer as the trade of the carpenter is commonly separated from that of the smith.

The most opulent nations generally excel all their neighbors in agriculture as well as in manufactures: but they are commonly more distinguished by their superiority in the latter than in the former. Their lands are in general better cultivated in proportion to the extent and natural fertilizer of the ground.

The difference of natural talents in different men and women is in realities much less than we are aware of: and the very different genius which appears to distinguish men of different professions, when grown up to maturity is not upon many occasions so much the cause as the effect of the division of labor. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example seems to arise not so much from nature as from habit, custom and education. (Adam Smith,1776)

Power of exchanging gives occasion to the division of labor, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labor, which is over and above his own consumption, for such parts of the produce of other men's labor as he has occasion for.

There are some sorts of industry even of the lowest kind, which can be carried on nowhere but in a grant town. A porter, for example, can find employment and subsistence in no other place. A village is much too narrow a sphere for him, even an ordinary market town is scarce large enough to afford him constant occupation. In the lone houses and very small villages, which are scattered about in so desert a country as the Highlands of Scotland, every farmer must be butcher, baker and brewer for his own family. (P.122)

Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences and amusements of human life. (P.133)

The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.

Economic wealth is power which enables people to create new style of life that encourages others as model. This fortune affords the means of acquiring wealth, the power of purchasing a certain command over all the labor, or over all the produce of labor, which then in the market. The exchangeable value of everything must always be precisely equal to the extent of this power, which it conveys to its owner.

2.2 Private Sector Development and Entrepreneurship

I. Concept of entrepreneurship

Small businesses are the seedbeds of entrepreneurship development in the world. And the dynamic process and growth of entrepreneurship in any country is a pre-requisite for rapid development of small businesses. This section will highlight the concept of entrepreneurship to see how the impact of real growth of each one is the sustainable advancement factor of the other and to see how much entrepreneurial are Ethiopian business owner-managers.

Entrepreneurship has no universal definition. It is perceived and understood in various ways due to environment and socioeconomic and political bases differences.

Among various Conceptual explanations of entrepreneurship development, the following are presented:

- 1) Dr. C.B Gupta defines entrepreneurship as the process of identifying opportunities in the market place, marshalling the resources required to peruse these opportunities and investing the resources to exploit the opportunities for long term lap gains. It involves creating wealth by bringing together resources in new ways to start and operate an enterprise”.
- 2) According to Cole, “Entrepreneurship is the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain and aggrandize profit by production or distribution of economic goods and services. For him, Entrepreneurship is a goal- oriented process involving production or distribution of products and services. It may be undertaken by one person or by a group of persons.
- 3) Higgins writes that ”Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, rising capital, hiring labor, arranging the supply of raw materials, finding site, introducing a new technique, discovering of new sources of materials and selecting top manages for day to day operations of the enterprise. (This definition highlights risk- taking, innovating and resource organizing aspects).

- 4) According to Kao, "Entrepreneurship is the attempt to create value recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the commercial and management skills to mobilize human, financial and material resources necessary to bring a project to function (this definition emphasizes the importance of capital technology and human talent to complete a project successfully and with a lesser able degree of risk).
- 5) According to Vasant: entrepreneurship is a process undertaken by an entrepreneur to augment his business interests. It is an exercise involving innovation and creativity that will go towards establishing his/her enterprise. It is the ability to discover investment opportunities and to organize an enterprise, there by contributing to economic growth. It involves taking risks and making necessary investment under conditions of uncertainty and innovating, planning and taking decisions so as to increase production in agriculture, business and industry, etc.
- 6) Some argue that entrepreneurship is a composite skill, the resultant of a mix of many qualities and traits. These include intangible factors as imagination, readiness to take risks, ability to bring together and put other factors of production and the ability to mobilize scientific and technological advances).as well as the tangible factors like Capital and labor.
- 7) Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a pre -determined goal. It recognizes that entrepreneurship involves the determined business or industrial objective. In substance, it is the risk taking ability of individual broadly coupled with correct decision making.
- 8) Entrepreneurship is the capacity to take risk independently and individually with a view to making profits and seizing and opportunity to make more earnings in the market- oriented economy is the dominant characteristics of modern entrepreneurship.

John kao, and Harard Stevenson (eds), Entrepreneurship, what it is and how to teach it. Harvard prevision school, 19984 p.7

Arthur H. Cole Business Enterprise in its social selling, Harvard University 195g P.44
B. Higgins, the Economic development, P 219

Vasant Desai- (Dynamics of Entrepreneurship Development and Management (5th ed)

Theories of entrepreneurship development show that:

1. Early 14th century references to the entrepreneur stages spoke about tax contractors, individuals who paid a fixed sum of money to a government for the

license to collect taxes in their regions. Tax entrepreneurs bore the risk of collecting individual taxes.

In the early 15th& 16th century entrepreneur was applied to persons engaged in a military expeditions. In the 17th century it was extended to cover construction and other civil engineering activities to supply business.

It was only in the 18th century that the word entrepreneur was used to refer economic activities in the industrial sector.

Richard Cantillon, a French economist (banker) applied entrepreneur to mean a person who bears uncertainty and risk. He gave the concept of entrepreneurship a central role in economies. In his essay “sur la nature du commerce en general” published in 1755, Cantillon described an entrepreneur as a person who pays a certain price for a product to resell at uncertain price, thereby making decisions about obtaining and using resources while consequently assuming the risk of enterprise.

Cantillon played out his theory in real life, becoming a wealthy arbitrageur investing in European ventures dealing in monetary and controlling commodities such as farm produce, to auction in high demand markets.

Adam Smith spoke of the “enterpriser” in his 1776 Wealth of Nations as an individual who undertook the formation of an organization for commercial purposes. He there by described to the entrepreneur the role of industrialist but he also viewed the entrepreneur as a person with unusual foresight who could recognize potential demand for goods and services.

Jean Baptiste say (French economist) in his 1803 trait de economies politique (translated into English in 1845 as a treatise on political economy), described an entrepreneur as one who possessed certain arts and skills of creating new economic enterprises, yet a person who had exceptional insight into society’s needs and was able to fulfill them.

Jean Baptiste say’s entrepreneur influenced society by creating new enterprises and at the same time was influenced by society to recognize needs and fulfill them through astute management of resources.

In 1848, British economist John Stuart Mill elaborated on the necessity of entrepreneurship in private enterprise. The term entrepreneur subsequently became common as a description of business founders, and the “forth factor” of economic

endeavor was entrenched in economic studies in Britain or France that recognized entrepreneurship as control to economic theory.

For the greater part of the 19th century, British and French economists were more concerned with models of macroeconomics, and most of these were reduced to precise mathematical formulae. The human side of enterprise—the role of the adventure or risk-taking entrepreneur—was left to history.

During that time, however, there was an important movement in Austria that subsequently influenced our 20th century concept of entrepreneurship. Carl Menger, Austrian-American (1840-1921) established the “subjectivist perspective of economics” in his 1871 principle of economics. In his view, economic change does not arise from circumstances but from an individual’s awareness and understanding of those circumstances. The entrepreneur becomes, therefore, the change agent who transforms resources into useful goods and services, often creating the circumstances that lead to industrial growth. ... Menger. Saw the entrepreneur as an astute individual who could envision this transformation and create the means to implement it.

In the 19th century, thus, entrepreneurs were the “captains of industry”, the risk takers, the decision makers, the individuals who aspired to.

From (1883-1950) another Austrian economist Joseph Schumpeter reviewed the concept of entrepreneurship when he joined Harvard University and his work was published in the United States in 1934. He wrote a series of economic articles and treatises between 1911 and 1950. He described entrepreneurship as a force of “creative destruction” whereby established ways of doing things are destroyed by the creation of new and better way to get things done. Schumpeter described entrepreneurship as a process and entrepreneurs as innovators who use process to shelter the status quo through new combinations of resources and new methods of commerce. He argues that a country with more entrepreneurs is wealthy while others with few or no entrepreneurs are poor.

In the 1990s many of the most nations most prestigious business schools are taking a lead to encourage serious entrepreneurship education. For example in USA, Harvard business school, MIT, Stanford, the Wharton School, and UC Berkley are among the more than 3000 Colleges and Universities with studies in entrepreneurship. The awareness and recognitions of entrepreneurship is going more quickly and exuberantly than before. The 20th century is hence, understood as an era of entrepreneurs for their contribution of the world advancement and change

It seems wise to look which definitions can explain the Ethiopian small business entrepreneurs, whether their role in the economy of Ethiopia is increasing from year to year. This will be more elaborated in section four. Now let's try to see policy reforms undertaken in Ethiopia and their dynamism and impacts on the development of the private sector.

3. Recent Policies and Economic Reform Measures Undertaken

The guiding economic system in Ethiopia is Free Market Economy, which allows the invisible hands to play the determinant role in the main business sectors of the nation. The general direction of the economic programme is that market forces shall lead the economy and the private sector shall be the prime engine of growth and development. Accordingly, a series of baseline measures were taken: a new investment policy, a new labor law, revised taxation rates, adjustment of the true value of national currency vis-à-vis the US dollars, dissolution of the highly centralized bureaucratic corporations through restructuring public enterprises with wide marginal autonomy and many others have been put. These undertakings were placed in as part of the concerted effort to liberalize the Ethiopian economy and pave the way to a successful privatization programme.

The reform programme took place in two overlapping phases:

1. The stabilization phase is designed to restore Macro-economic balance to the economy. It has been characterized by persistent budget and balance of payment deficit as well as inflation.
2. The structural phase focuses on longer term structural problems that inhibit growth. It includes measures taken to promote the mobilization of domestic resources (including privatization, reform of civil service and public enterprise encouragement of private investment), trade liberalization measures such as the removal of import quotas, tariff reduction and export promotion, strengthen the public section through improvement in management and institutional reform, including the rationalization of services and the introduction of user's charges.

Major macroeconomic reforms and policy measures taken are as follows:

3.1 Dynamics and Impacts Removal of Price Distribution

The Derg regime had given ways to severe price distortions, in the face of external imbalances as well as inflation. Macro prices of the foreign exchange rate and interest rates were argued to bear no relation with the market prices of the local currency (Birr). It was assumed that the Birr grossly overvalued, while the interest rate was negative in real terms. Overvaluation of the Birr led to a large parallel market of foreign exchange, illegal exports, and a shift towards domestic market due to the loss of competitiveness of exports. To remove the said distributions of macro prices and prices of various goods and services, policy measures were undertaken in the last seven years. First, the exchange rate has been devalued and it allowed further adjusting on a market-determined basis. Second, financial repression ended by raising the rates of interest on deposit to 10 percent, which has remained above the inflation rate throughout the program period. Lending rates differentiation between sectors stopped, and banks allowed varying their rates within administratively set minima and maxima.

Together with price, decontrol of the role of marketing parasitically and drastically was cut to enable deregulation and encourage the development of competitive markets.

3.2 Trade Policy Reforms

The tariff regime overhauled with massive cuts of tariff rates, streamlining and reduction of the number of tariff brackets and tightening the scope of tax exemptions.

Prior to 1991, the export sector was subject to a number of restrictive and disincentive policies. In the eight years of the reform period, government policies geared towards export promotion and diversification. To this effect, measures have been taken including exchange rate adjustment, elimination of export tax (except on coffee) and subsidies, introduction of duty drawback system, removing constraints on marketing and customs clearance.

3.3 Private Sector Development

Private sector has been freed from the shackles placed upon it earlier. There is now no ceiling on the size of domestic private capital to be used. There is also no limitation on the number of business activities that individuals may undertake. Nearly all business activities are open to domestic private enterprises either on their own or in partnership with government, except for a few areas, which are still kept as government monopoly. Procedures for registration and licensing are greatly improved, including the establishment of a one-stop investment office for both domestic and foreign investors.

3.4 Investment Promotion

The government has recognized the key role Ethiopia's emerging private sector in investment, exports and redistribution. The government also recognizes that the foreign investment regulations introduced since then can be improved to eliminate remaining restrictions and make them more attractive to potential investors.

Foreign investors are allowed to invest in all economic sectors except in those currently reserved for the state and domestic private sectors. Sectors reserved for government at the end of 1999 included the defense industries, generation and distribution of electricity (where installed capacity exceeds 25 MGW), air transport (where passengers sitting exceed 20 or cargo exceeds 2.7 tones), rail transport services, portal services and telecom (excluding courier services).. Some of the major sectors reserved for domestic investors include banking and insurance, generation and distribution of small-scale electrical energy, small-scale air transportation services, retail and wholesale trades and distribution (excluding fuel and the domestic sale of locally produced goods from FDI plants), exporting and importing activities.

3.5. The Privatization Process

Privatization programme in Ethiopia is part of the implementation of the new economic policy declared in Nov. 1991.

To direct and execute the privatization programme and to carry out the process of privatizing the public enterprises in an orderly and efficient manner, the government established an autonomous public organ known as the Ethiopian Privatization Agency in Feb.1994 by proclamation No. 87/1994. So far, 200 enterprises were transferred to private ownership. Over the coming three years, it is planned to privatize 120 public enterprises and the necessary preparation towards this end has already been commenced.

3.6 Industrial Development Policy and Strategy

The manufacturing industry in Ethiopia has been characterized by a low-level development. Manufacturing includes small-scale industries and handicrafts, which accounts for about 14% of the total GDP. With respect to employment, both contribute about 3% of the country's total employment in 1996. The sector is characterized by the production of consumption goods such as food, textile and beverages. This sector account for more than 50% of gross value productions an

value added. On the other hand, the basic metal and engineering industries, which are commonly called industrializing industries are characterized by a low level of development.

To enhance development, the government of Ethiopia issued a new economic policy in November 1991, which is aimed at reorienting the economy along the path of the free market.

Ethiopia's industrial development is based on overall development strategy of the country that is Agricultural Led Industrialization (ADLI), which aims at achieving an optimum utilization of the country's resource endowment such as human and material resources. The strategy is argued to harmonize two industrial variants, i.e. import substitution industrialization (I.S.I) and export oriented industrialization (E.O.I). In other words ADLI emphasizes on a gradual shift from I.S.I to E.O.I based on the promotion of agro-processing industries.

3.6.1 Industrial Development Policy

Some of the major objectives of ADLI listed in its documents are to:

- a. Bring about a structural shift in the economy in favor of industry
- b. Promote inter-and intra-sectional linkages
- c. Develop domestic technology capability for the production,
- d. Create a sound base for the transfer, adaptation and development of technology ,
- e. Develop and achieve international competitiveness in the areas of clear comparative advantages in industrial exports ,
- f. Promote the use of labor-intensive technology and of local resources ,
- g. Promote a balanced regional development,

3.6.2 Industrial Development Strategy

To achieve the above objectives, an industrial strategy has been formulated. Its major elements are as follows:

1. Create and develop appropriate institutions to promote industrialization.
 - a) Promote an efficient utilization of existing support institutions and encourage their expansion and development in both public and private sectors.
 - b) Establish extension services to promote Small and Medium Industries (SMIS) and rural industries as well as informal and micro-enterprises in the various regions of the country expand and upgrade them a basis continues.

- c) Encourage private investors; promote cooperation between private and public activities and the mobilization of resources for industrial development.
2. Create a favorable environment for industrial development.
 - a) Support the development of Small and medium industries and local private capital
 - b) Promote a diversified industrial structure
3. Promote inter-and intra-sectional linkages
 - a) Utilize various policy instruments and incentive systems to promote inter and sectoral linkages, utilize labor-intensive technologies and local sources.
 - b) Promote development of basic industries with multiplier effects,
 - Establishing an appropriate institutional framework;
 - Encouraging private investment, both domestic and foreign and
 - Encouraging public investment where private-sector investments prove inadequate to overcome bottlenecks.
 - c) Encourage the development of agro-industries through the utilization of various policy instruments and incentive system.
 - d) Promote the exploration and exploitation of industrial resources.
4. Create an appropriate financial environment
 - a) Encourage the establishment of financial institutions that can address the needs of rural cottage industries, informal and micro-enterprises in different regions.
 - b) Encourage the development of informal financial institutions for participation in investment activities.
5. Promote a balanced regional industrial development
 - a) Expand infrastructure services for the development of industry
 - b) Create public awareness in the various regions regarding the need for industrial development
 - c) Utilize various policy measures and incentive systems to promote resource-based SMI in all regions.
6. Establish a close coordination between industry and other sectors of the economy, especially agriculture and mining:
 - a) Introduce various incentive mechanisms for the production of industrial raw materials

- b) Promote private-sector investment in agriculture and mining to be complemented by public sector investment where the private sector is in adequate
Assist and enhance the development of all forms of infrastructure.
- 7. Develop infrastructure
 - a) Improve the efficiency of existing infrastructure facilities
 - b) Undertake extensive public investment for the development of roads, energy, communications and water supply
 - c) Promote the development of basic rural infrastructure through community participation in all regions to complement public investment
 - d) Encourage the production of materials necessary for the development of the infrastructure
- 8. Promote industrial exports.
 - a) Effectively utilize existing industrial export potentials and diversify industrial exports
 - b) Introduce various policy instruments and incentive systems to maximize foreign exchange earnings
 - c) Ensure an internationally competitive industrial sector, especially in areas of comparative advantage in the long run.
 - d) Create a favorable environment for the development of industrial export
- 9. Develop a national technological capability by enhancing the development of transfer of technology and appropriate information in research and development system.
 - a) Strengthen national capability for the transfer and adaptation of technology and promote the diffusion and development of technology.
 - b) Promote and coordinate research and development (R&D) activities between vocational and high-level technical training institutions
 - c) Promote technological adaptation and innovation by introducing appropriate legal and incentive mechanisms.

3.7 Export Development Strategy

The long-term development strategy of Ethiopia, which is based on ADLI, implies the pace of economic growth will be set by agriculture directly through its contribution to growth of GDP and indirectly as a market for the rest of the economy. Unless huge minerals and fuel deposits are discovered, export is unlikely to become the leading sector of the economy.

Objectives: The objectives of the export development strategies are classified into three broad categories:

1. To ensure sustainability in the growth of agriculture production through creating adequate markets.
2. To generate foreign exchange through export promotion
3. To promote internationally competitive industry through successive improvement of labor productivity as well as the use of appropriate technology.

Commodity Export Performance: Ethiopia's foreign trade largely depends on agricultural products and is characterized by specific products and market concentrations. Coffee is the major foreign exchange earner and accounts for an average of 64 per cent during the last five years. Semi-processed hides and skins and leather products; oilseeds and pulses; gold are other major export commodities.

3.8 Micro and Small Enterprises Development Strategy

Recognizing that micro and small enterprises (MSEs) have great economic and social significance in contributing to the country's economic development, a strategy has been designed in 1997 to further facilitate the growth of the sub sector based in the overall economic development of the country.

Objectives:

The objectives of the MSE strategy are the following:

- To facilitate economic growth and bring about equitable development
- Create long-term jobs
- Strengthen cooperation among MSEs
- Encourage MSEs to ultimately grow into medium and large enterprises and
- Promote the export of products processed by MSEs

Setting Priorities: the following factors are considered in identifying and selecting priority target beneficiary MSEs: these are enterprises that use local raw materials and/or labor-intensive technology; those, which have greater inter and intra-sectoral linkages; have potential for competition, are export oriented; and are engaged in activities, and promote tourism.

Active assistance by the Government is being provided to help small businesses to overcome the various constraints to their developments. Major areas of support include the following access to finance; incentive schemes; encouraging partnerships; training in entrepreneurship, skill and management; access to appropriate technology; access to market; and access to information and advice.

Institutional Arrangements: An agency, which is responsible, among others, to coordinate and implement the strategy at the Federal level has been set up. The Federal Agency also has as its major task providing training of trainers and serve, as information center for similar agencies to be established at regional levels. The Regional agencies will, in cooperation with other institutions, concentrate on providing training and other coordinate support services directly to the micro and small enterprises in their respective domains.

4. CONCLUSION

The task of bringing back the Ethiopian economy from the past command economy has been well begun. Large steps have been taken in building the policy and institutional framework that will achieve the optimal division of the roles between the market and the state.

The subsequent focus of the government through its policy and programs aim at sustaining the economic stability achieved and reducing poverty through bringing a broad based economic growth. This has been made clear by the Five year Development program which aims at, among others, promoting rural and agricultural development, enhancing private sector participation in the economy, expansion of infrastructure and intensifying human resource development.

Consistent with the Five Year Development Program and building on the outcome of reform measures already taken, the Government is implementing a third three years reform program (covering 1998-2000/1). To this effect policy measures are being geared towards maintaining financial stability, further deregulating the economy and tottering economic growth through increased domestic resource mobilization and utilization. Further depending of the reform process in needed in terms of improving

the level playing field for private sector development, growth of financial inter mediation of market for financial asset, accelerating the pace of privatization and enhancing economic management capacity.

Moreover, public investment program focuses on creating a conducive environment for private sector development and sustainable growth. The lion's share of total public expenditures goes for infrastructure and human resource development, natural resource conservation and enhancing the productive capacity of agriculture. Effective implementation of development programs in turn requires concerted effort of both the Federal and Regional Governments. In this regard, due attention has been given to strengthening the development of program management.

5. PROBLEMS AND PROSPECTS

There are various problems, which may negatively affect the growth and development of businesses, particularly small businesses in Ethiopia. Using entrepreneurial approach, we can put these problems into 3 groups, mainly:

Personal attitudes or the businessperson's personalities

Immediate influences

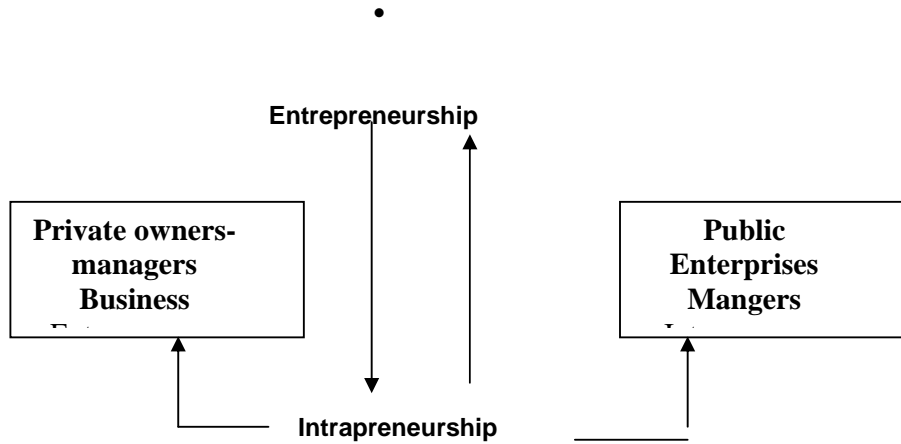
Environment

5.1. Personal Attitude or the Business Person's Personalities and the inside enterprise working atmosphere:

Business success depends primarily on personal attitudes of the business owner-founder and the workers working culture of the employees. (MIS 1985). Most businesspersons in Ethiopia lack the basic innate entrepreneurial qualities, which are determinant for success. These include the following:

- Vision
- Educational background
- Technology literacy/awareness
- Managerial ability
- Net working
- Working culture/ethics
- Culture of teamwork
- Employees' attitude and belongingness
- Working discipline
- Autonomous decision making ability
- Life expectancy

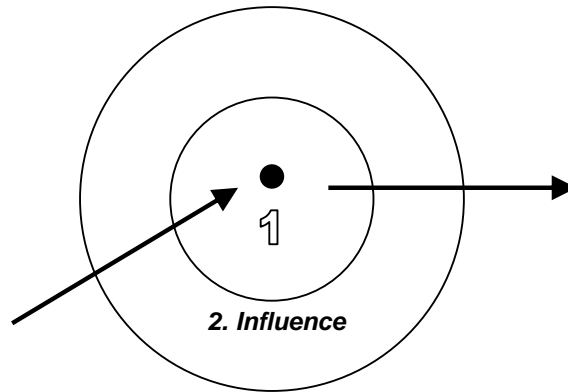
Fig: Dynamism of Entrepreneurship



5.2. Immediate influence

The immediate influence has serious impacts in both encouraging and discouraging business people in any country. In Ethiopia, because people think that business makers are those who couldn't find jobs in the public sector on one hand, or as those who make money just from the sky and whose wealth is endless.

Figure: Impacts of Immediate influences on business

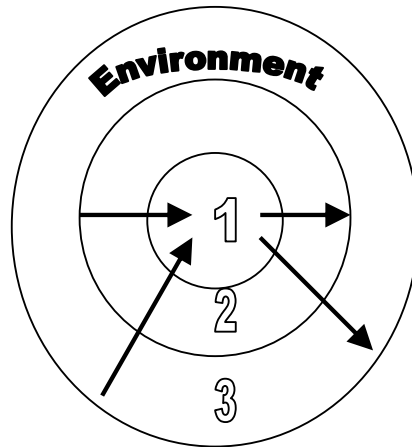


| <u>Who?</u> | <u>What Influence?</u> | <u>How much Influence?</u> |
|---|---|----------------------------|
| Family members (Parent, wife – husband, children, | Dependency interference discouragement and others), friends | |
| Workers, | Working & living culture | |
| Neighbors | Social life | |
| Target customers (potential customers) | Social contribution | |
| Competitors (potential) Competitors | Competition thinking culture | |
| Local administrators | Narrow outlook | |
| | Negative attitude towards Business making Technical | |

5.3 Environment

Environment is the second most significant factor of business success in any country. It may encourage or discourage entrepreneurship development. The more positive is the environment, the more encouraged are the business founders. And when the environment is negative entrepreneurs are discouraged.

Figure: Impacts of environment on businesses



| <u>Which?</u> | <u>What Influences</u> | <u>How much?</u> |
|-----------------------------|--------------------------|-----------------------------|
| Potential environment | Leadership, freedom | Predetermined |
| <i>Economic environment</i> | <i>Economic basis</i> | <i>Main influence</i> |
| <i>Social environment</i> | <i>Education, health</i> | <i>Society's motivation</i> |
| <i>Cultural environment</i> | <i>Attitude,</i> | <i>Working environment</i> |
| <i>Legal environment</i> | <i>Fair justice</i> | |
| Technological environment | Advancement | Traditional |
| (Religious institutions) | beliefs | |

The impacts of environment are such serious that they may force or attract many businesses to quit or to join the existing markets. When new businesses enter the market looking the sustainability of the already existing businesses new job opportunities and more wealth will be created while from their quit. the country loses many economic advantages.

The international environment. Or globalization has also an impact on the development of small businesses in Ethiopia. Some will make them remain small. Imitation will dominate the thinking power of business owners.

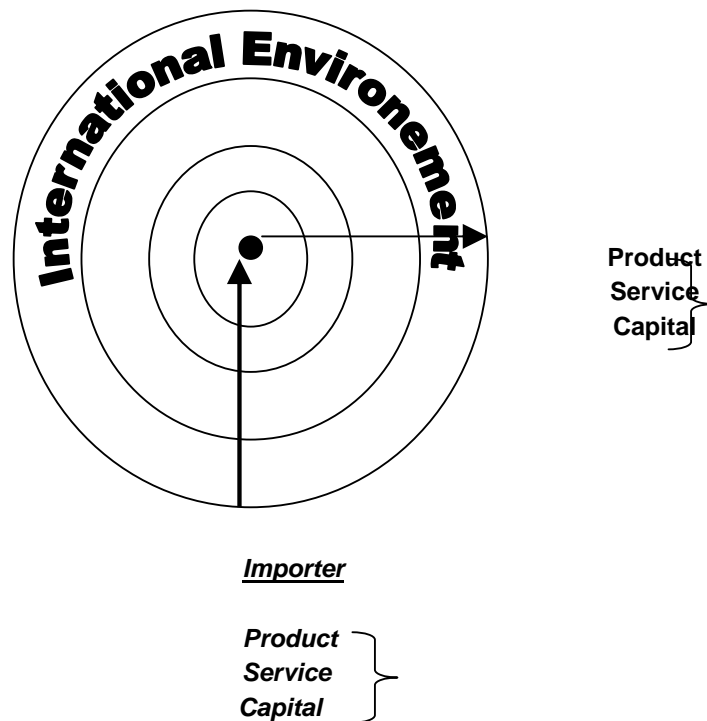


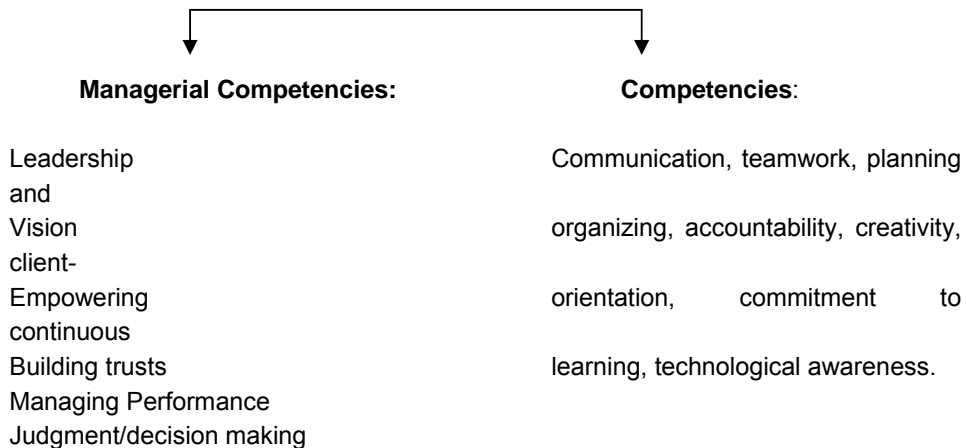
Figure: International environment
World
Political environment
Economic environment
Legal environment
Cultural environment
Technological environment
(E.g. Coffee and other industrial goods)

6. STRATEGIES FOR FURTHER REFORMS (INFRASTRUCTURE, PPP, PSD)

The strategies to be designed to enhance the development of businesses in Ethiopia need to address the three main areas :personalities of business people, their immediate influence and the overall socio-economic and political environment in country.

- I. Personalities strengthening themselves through their associations. (Immediate effect)
To make business people more competitive and visionary, there is a need to capitalize on the success behaviors of successful entrepreneurs. To create an environment where hard working model business people are taking the lead.
- II. Influence – Short, medium and long term strategies
Serious attention needs to be given to create awareness on the importance of wealth and capital of the business people. To protect productive working culture of the entrepreneurs.
- III. Environment – Short, medium and long term strategies
“If there is a will, there is a way” is a key indicator that shows the importance of positive thinking. Negadras Gebre Hiwot Baikedagn argues that a country with poor people will have poor government. And a country with rich thinking will have a strong government. To make a country prosperous, it is important to make the people wealthy. The policies adopted by the government seen in this paper are not dynamic to bring a working atmosphere in the country. Policies need to create impacts on the other five entrepreneurial environments.

Core values in the public sector should respect integrity, professionalism and respect for diversity.



Source: UN Core Staff Values, Competencies and Managerial Competencies.

7. CONCLUSIONS AND RECOMMENDATIONS

Business development in Ethiopia is still in its infant stage in capital and owning big visions. Small businesses are sources of creativity, jobs, tax payment breed of entrepreneurs and fill a lot of gaps in the economy. Without them, the life of the people in all countries is difficult if not impossible.

The Ethiopian government is trying to encourage small businesses. Its consistency and quality of measures being taken compared to the dynamism of the required speed and scope and the balance of attention given to all sectors needs to be considered to see the prosperous Ethiopia.

There is a need to declare an attitudinal change in Ethiopia to bring an all rounded working environment in Ethiopia. This new environment should enable all Ethiopians to benefit from.

It is recommended to apply Public private partnership in the economy of Ethiopia to encourage entrepreneurs in the small businesses.

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