ETHIOPIAN JOURNAL OF ECONOMICS, Volume IV, Number 1, April 1995, pp. 1-38

THE STATE AND PERFORMANCE OF PUBLIC ENTERPRISES IN ETHIOPIA

Eshete Taddesse

Abstract: *This paper analyzes and reviews the major problems of Public Enterprises (PEs) in Ethiopia with particular focus during the 1974 - 1991 period. Their objectives, role, significance and management structures, have been surveyed. At the same time, their financial performance and financial positions have been analyzed and reviewed in view of identifying their internal and external constraints. In view of improving the PEs' financial performance and efficiency, in resource allocation and utilization, the paper concludes that the PEs in Ethiopia have to be restructured in such a way that the root causes of their poor performance or inadequate performance are properly addressed.*

I. INTRODUCTION

The aim and scope of this paper are to diagnose the problems of Public Enterprises (PEs) in Ethiopia, which could be categorized under the following three periods : before the 1974 revolution,during the 1974-1991, and from 1991 to date. It attempts to focus mainly on the financial performance and problems of PEs during 1974-1991 period in Ethiopia. To this effect, the major problems of PEs with particular reference to Ethiopia are made. In the process, the rationale and objectives for which PEs were established, their organizational structures as well as their revenue contributions to GDP, employment and the generation of surplus to the central treasury have been highlighted. Second, the policy environment of PEs, particularly regarding financial, employment and wage policies and the privileged, access PEs had to factor inputs and foreign exchange has been reviewed. Third, based on a ten year sectoral trend analysis of PEs showing losses and profits have been analyzed. This analysis is based on provisional actual financial plan and on audited account figures. Fourth, based on a ten year trend analysis of PEs' contributions to public sector deficits are shown by investigating the PEs capital investment, net savings and financing conditions.Fifth, an attempt has been made to highlight the general weakness of PEs' financial position, using debt/equity ratios and net income/total assets ratios. Finally, a modest attempt has been made to identify and categorize the basic causes of the poor performance of PEs, under internal and external factors.

II. THE STATE AND PERFORMANCE OF PUBLIC ENTERPRISES IN ETHIOPIA

2.1 Background

2.1.1 The Nature of PEs

The term Public Enterprise (PE) is used here broadly to mean all industrial, commercial, agricultural or service rendering undertaking and financial intermediaries controlled to some extent by the government. PEs are expected to "earn their revenue from the sale of goods and services, as self accounting, and have a separate legal identity" [13, p.2].

The circumstances and characteristics under which PEs operate appear varied. They exist both in a market economy and a centrally planned economy with various degrees of monopoly power or competitiveness. In whatever type of economy or mixtures of markets and central controls PEs operate, their problems in trying to assure efficiency are similar. Conflicting objectives, insufficient PE autonomy, inadequate measures for judging performance, lack of incentives linked to performance, and bureaucratic rather than commercial management styles - these problems arise in all sectors and have prompted attempts at reform in socialist and market economies alike [12].

Increased PE efficiency requires not only internal improvement but also solving the wider problems of PE - government relations. The reasons for creation of PEs particularly in Africa,are associated with historical, economic, social and political considerations. Some PEs were inherited from the colonial era. Others were based on political ideologies. In others the apparent absence of the indigenous private sector has led governments to create PEs to bridge the "entrepreneurial gap". In addition, politicians were attracted to the creation of PEs to use them as patronage mechanism to distribute jobs to their loyal supporters [13]. Review of PEs' performance in Sub-Saharan Africa leads to the conclusion that PEs' performance has been poor. Their earnings or rate of returns were generally low with losses "Far from contributing to government revenues, African PEs have more regularly become a burden on already strained budgets. Few PEs generate revenue sufficient to cover operating costs, depreciation and financial charges, a good percentage do not cover operating costs alone" [12, p.ix].

Often, closer and careful investigation of profitable enterprises, reveal that distorted prices, direct subsidies, hidden transfers, preferential interest rates and a host of other factors have had an adverse impact on resource allocation and utilization.

The major determinants of PEs' poor performance in general, can be accounted for by the unclear and contradictory objectives the excessive political interference in issues and decisions that should be taken by enterprise managers or Boards of Directors. Second,the excessive rotation of management due to the shortage of competent managers or the lack of incentives to retain them negatively affects PEs' performance. Third, the incompatibility of civil service procedures with commercial operations ultimately results in inefficiencies and heavy losses. Fourth, inappropriate investment decisions, that emanate from lack and non-existence of economic and feasibility studies are another major contributor to PEs' poor performance [12, p.22]. Fifth, the inadequate nature of PEs' capital structure and the inappropriate price policies, have resulted in under capitalization, with high debt/equity ratios. This shortage of funds is aggravated further when large amounts of working capital are tied up in inventories and especially receivables. Finally, the common existence of poor reporting systems, weak accounting methods and weak or non-professional Boards of Directors have adverse impact on PEs' performance.

2.1.2 The Rationale and Objectives of Establishing PEs

Ethiopian PEs exhibit all the problems noted above. Before the 1974 revolution, PEs had existed in the Ethiopian economy for many years. The rationale and the objective of creating PEs, were to stimulate and strengthen the weak national private sector of the economy and serve as a solution to the "entrepreneurial gap". During the 1974-1991 period, scientific socialism became the official approach to economic development of Ethiopia. The rationale and the objectives of the PEs were based on the nationalization and control of the major means of production,exchange and distribution in the economy. Consequently, more than 150 selected manufacturing and financial establishments and private business concerns were nationalized. In addition, land and extra houses were nationalized.

In view of regulating and coordinating the activities and financial operations of PEs, Proclamation No. 163/1979 came into effect on June 30/1978. PEs were expected to operate on a self-sufficiency basis and at the same time serve as an important source of resource mobilization. Each PE was expected to pay 5% of its capital and reserve as "Capital Charge"[1]. In addition it has to surrender the "residual surplus"[2] to the treasury.

2.1.3 Organizational Structure

In spite of the fact that the designation of PEs had not been finalized the total number of state-owned PEs had reached 235 at the end of the EFY 1981. The number of Public Corporations could be estimated to be 41, while that of Public Enterprises and financial agencies were expected to be 190 and 4 respectively. Variations in the number of PEs' were caused by the mergers of PEs and the differences in the numbers of the accounting units[3] that existed in certain PEs at the time.

All PEs and public agencies were under the direct or indirect jurisdiction of the relevant ministries while financial agencies are under the direct supervision of the National Bank of Ethiopia. Their organizational structure generally consisted of supervising ministries, authorities or executive boards of management.

Under each ministry, a number of corporations and enterprises, with legal personality, had been established. The duties and responsibilities of corporations were generally to coordinate and control the operations of public enterprises. Public corporations were established, in the major economic sectors, i.e, industry, agriculture, trade etc., to organize direct and supervise the operations and activities of public enterprises. The functions of a corporation manager were distinct from that of an enterprise manager. The general manager of a corporation was appointed by the government upon the recommendation of the minister concerned. The Manager was responsible for the administration and operation of the general manager of an enterprise subject to the general directives of the minister. The general manager of the enterprise, on the other hand, was appointed by the minster upon the recommendation of the corporation manager. Thus, the enterprise Manager was responsible for the proper execution of the day to day activities and administrative matters of the enterprise subject to the general directives of the corporation manager. The general manager of a PE is supposedly responsible for the proper operation and administration of the enterprise. However, Labor Proclamation No. 64/1975 established that the workers had the right to participate in management. This implied that the power and autonomy of a general manager of a corporation or an enterprise to employ, administer, promote, transfer, and dismiss personnel and fix their salaries and allowances were limited. Moreover, the existence of the several layers of authorities in the organizational structures of PEs' i.e Workers' Control Committees, plants, enterprises, corporations, and supervising authorities (ministries), reduced the autonomy of management as regards decisions on production, prices and investments.

According to the new economic policy of the Transitional Government of Ethiopia, however, the organizational and management structure of a public enterprise consist of a general manager, a management board and a supervising authority. Proclamation No 25/1992 attempts to clarify the financial responsibility and accountability of each PE management structure. Corporations have been abolished. The supervising authority, based on the proposals of the board, shall determine the amount of state dividend to be paid to the government from the net profits of PEs in each financial year. In addition, it approves the investment plan of the enterprise submitted to it by the board. At the same time, an enterprise shall establish and maintain annually a legal reserve fund of 5 percent of its net profit, until such reserve fund equals 20 percent of the capital of the enterprise[4].

2.1.4 PEs' Contribution to GDP and Employment

PEs contributed about 20-25 percent of GDP in 1982/83 [14, p.6]. In the manufacturing sector, PEs accounted for almost 98 percent of the total manufacturing industries' output and employed 94 percent of the total employment in the manufacturing industries in the EFY 1982. In trade, 80 percent of imports and 70 percent of exports were handled by PEs. As far as domestic trade is concerned, 30 percent of the agricultural products and 60 percent of the manufactured goods in whole sale trade, were accounted for by PEs [17], such as The Agricultural Marketing Corporation (AMC) and the Ethiopian Domestic Distribution Corporation (EDDC). In the Construction sector, PEs accounted for well over 71 percent of the total services provided in the construction industry. In the transport industry, PEs contributed for some 16 percent of GDP [18]. In terms of investment, it has been estimated that the share of PEs rose to 9.9% of GDP in the EFY 1981 from its previous level of 5.0 percent in the EFY 1973. Thus, from 1972 to 1981, PEs' capital expenditure averaged 37.5 percent of the total government investment or represented an average of 6.9 percent of GDP. (See Table 1). As regards employment, PEs engaged over 218,785 employees at the end of the EFY 1982 (see Annex 5).

During the 1970-1981 period, the capital charge and residual surplus collected by the Ministry of Finance amounted to Birr 4,428.9 million as compared with the planned figure of Birr 5,317.2 million of the plan figures.[14, p.5]. This implies that only 83.3 percent of the financial obligations of PEs which was supposed to have been collected was actually collected. The uncollected portion of 16.7 percent (Birr 888.3 million) could partially reveal the effects of the financial constraints encountered by PEs in the last two decades.

The total revenue (profit tax, sales and transaction taxes, capital charge and residual (surplus) generated by PEs, during the period 1972-1981 averaged 56.3 percent of the total average domestic revenue or 13.4 percent of GDP (see Table 1). In the same period, the total amount of capital charge and residual surplus estimated to be collected averaged 20.8% of the total domestic revenue or 4.8 percent of GDP. During the period 1970-1981, however, the actual amount of collection averaged 15.0 percent of the total domestic revenue or 4.4 percent of GDP. The total profit tax of PEs increased from Birr 205.3 million in 1972 to Birr 375.2 million in 1981, indicating an average growth rate of 6.2% per annum. The average profit tax generated during 1972-1981 amounted to Birr 319.8 Million, which accounted for 13.1 percent of the total domestic revenue.

In conclusion, the role and significance of PEs in resource mobilization clearly reveal that during the period 1972-1981 capital charge and residual surplus generated by PEs averaged about 20.8 percent of the total domestic revenue. Furthermore, the contribution of PEs to GDP in terms of output, investment and employment clearly reflected the significant role of PEs in the economic development of Ethiopia.

2.3 Policy Environment

2.3.1 PEs Access to Resources

During the 1972 - 1983 period , the PEs had a specially privileged position in obtaining factor inputs such as raw materials, credit and a relatively easy access to foreign exchange. State farms in particular, had a relatively favorable access to foreign exchange for the purchase of fertilizer and machinery to ensure a constant supply of raw materials such as cotton, wheat, oil seeds, hides & skins etc. Similarly, the PEs in other sectors of the economy had a favorable access to foreign exchange to purchase, raw materials, spare parts and machinery.

Table 1
PEs' Capital Charge, Residual Surplus, Tax Revenue and Capital Investment (in Birr millions)

	EFY 1972	EFY 1981	Average 1972-1982	Growth Rate %
CAPITAL CHARGE & RES. SUR.				
PEs' Capital Charge	61.9	104.8	80.3	5.4
PEs' Residual Surplus	258.2	498.9	414.0	6.8
TOTAL	319.1	603.7	494.2	6.6
PEs' Tax Revenue				
Income Tax	205.3	375.2	319.9	6.2
Turnover & Tran. Tax	387.4	172.0	313.4	(8.0)
EXCISE TAX	121.9	457.1	245.9	14.1
TOTAL	714.6	1,004.3	879.2	3.4
CAPITAL INVESTMENT				
Central Government	443.3	1,743.8	1,179.8	14.7
Public Enterprise	427.0	1,237.9	706.1	11.2
TOTAL	890.3	2,981.7	1,937.5	13.1
MEMORANDUM ITEMS				
TOTAL PE REVENUE	1,033.7	1,608.0	1,373.3	4.5
-As a % of Tot. Dom. Rev.	65.9%	42.0%	56.3%	
-As a % GDP	12.2%	12.9%	13.4%	
CAPITAL CHARGE & RES. SUR	319.1	603.7	494.2	6.6
-As a % of Tot. Dom. Rev.	20.4%	15.8%	20.8%	
-As a % of GDP	3.8%	4.8%	4.8%	
PEs' CAPITAL EXPENDITURE	427.0	1,237.9%	706.1	11.2
-As a % of Total Govt. Inv.	49.1%	41.5%	37.5%	
-As a % of GDP	5.0	9.9%	6.9%	

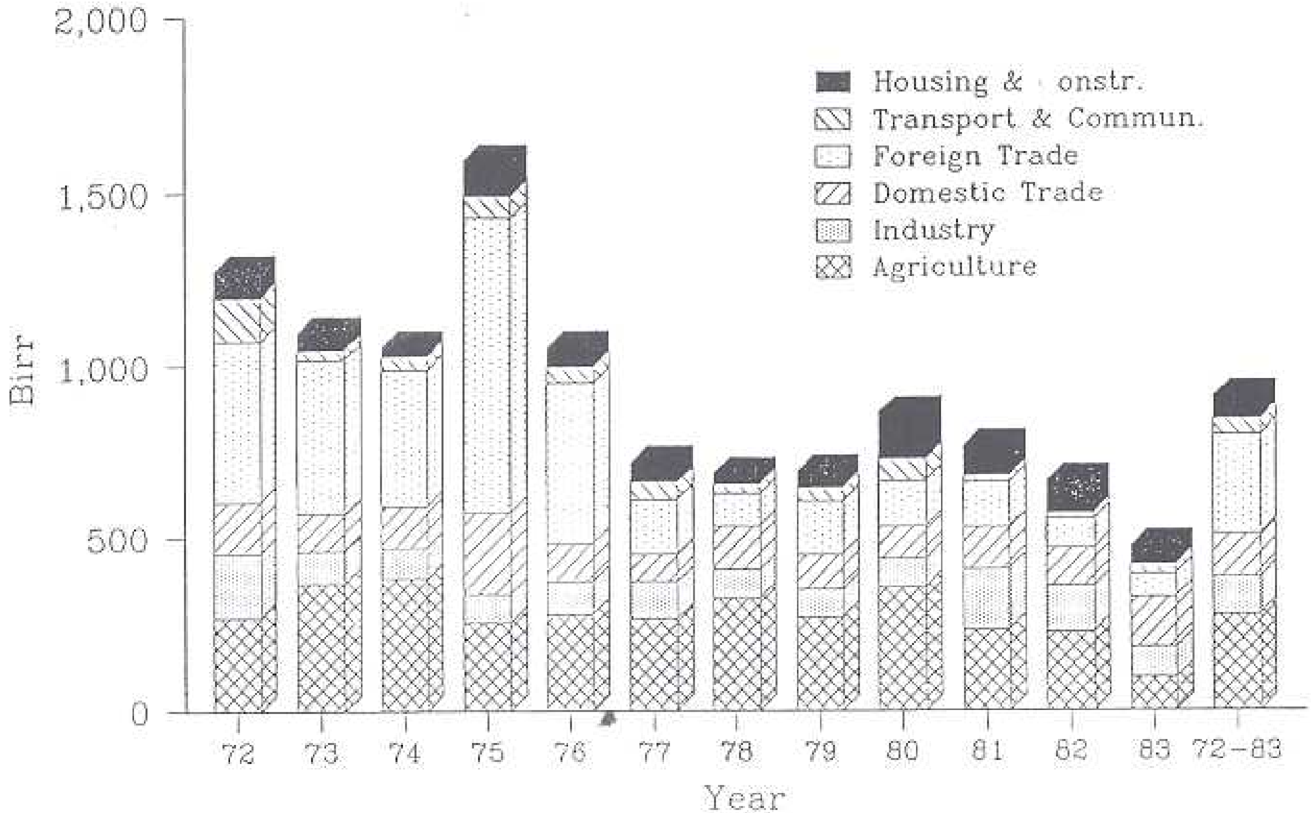
Source: MOPED and MOF

As regards access to bank credits, the PEs particularly in state farms, had a very favourable position, with relatively lower rates of interest. Credit policy was used as an active tool in the utilization of resources. Consequently, as shown in Figure 1 and Annex 6, the average proportionate share of loans granted and disbursed to the PEs was more than 60% of the total loans granted and disbursed during the 1972-1983 period. In addition, the total outstanding loans as of the end of June 30, 1983 stood at Birr 3,876.7 million out of which

FIGURE 1

HISTORICAL TREND OF LOANS GRANTED & DISBURSED BY SECTORS

(in Birr millions)



SOURCES: VARIOUS FINANCIAL PLAN DOCUMENTS, MOPED FILES

Birr 3,046.7 million or 78.6 percent were those of PEs [8]. The shares of cooperatives, and private enterprises and individuals were 7.7 percent and 13.3 percent respectively. Out of the total outstanding loans of Birr 3,046.7 million, the shares of PEs in agriculture, industry, foreign trade and housing and construction sectors of the economy were 56.5 percent, 16.8 percent, 11.2 percent and 9.6 percent respectively.

2.3.2 Financial Policy

After paying 50 percent of profit tax, the PEs are required, by proclamation No.163/1979, to transfer 90 percent of the retained earnings in the form of capital charge and residual surplus to the treasury. The remaining 10 percent is retained by the enterprise into the general reserve until such reserve fund equals 30 percent of the state capital of the PE and 60% for Financial Agencies (FAs). The ultimate result of this financial policy is that while the profit making enterprises retain a very small proportion of their profit; the losing ones would simply face the chronic problem of the shortage of working capital and decline in their equity. In addition, since the proclamation does not specify clearly from what source the PEs ought to service the principal amount of their long term debt; proper servicing of PEs bank loans and their financial performance were adversely affected. The proclamation provided that in any PE that had incurred losses for three consecutive years, the financial affairs and the viability of the PEs concerned will be investigated and prompt remedial measures including dissolution would be taken. However,this was not implemented.

2.3.3 Price Policy

The issuance of Public Notice No. 18 of 1975, had resulted in a general price freeze of all locally manufactured goods. Since then, the government had started to control the prices of a wide range of products, especially of basic consumer goods that were in short supply. The rationale for this policy was the governments' desire to keep price within the reach of the population.

Since 1980, the task of fixing prices had been transferred to the ONCCP, and the PEs were not permitted to make automatic price adjustments even if costs escalate. Upward price adjustments were permitted when unavoidable increases in costs were believed to lead to losses. Thus, ex-factory prices were fixed on the basis of cost plus a "reasonable margin" of profit. There were often lengthy delays between the enterprises' request for a price increase and the government's ruling on the request.

In marketing PEs' output, eg. agricultural products, state farms sold their products to government institutions or other PEs by government directives. The PEs' credit sales to government agencies, ministries or other PEs have often resulted in the interlocking of debts and shortage of working capital, which ultimately increased the interest cost. As of the end of

Sene 30, 1973 a total debt of Birr 689.6 million existed among PEs and between PEs and other agencies of the government [8]. For instance, the Ministry of Defence owed a total of Birr 150 million out of which Birr 34.5 million, Birr 87.2 million, and Birr 16.2 million, were the sales of PEs in industry, transport and communication and construction, respectively.It is important to note that the price of the major exportable commodities such as coffee, hides and skins and oil seeds were determined in the world market.

2.3.4 Employment and Wage Policy

Wages and salaries had in principle been frozen since the labor proclamation order of 1975 except for the lower income groups. In the civil service, only those employees who earned between Birr 50 and Birr 636 a month, were eligible for salary increases. In the PEs, on the other hand, only those employees earning between Birr 65 and Birr 650 a month are eligible for salary increases. The salary of the workers earning more than Birr 650 a month had also been frozen since 1975. Undoubtedly this had a negative impact on the technical efficiency of PEs.

In view of enhancing the effective utilization of factor inputs to produce the maximum output, the government introduced a wage policy reform program in 1979/80, with the ultimate objective of linking incentives to the PEs' performance. Wage rates were revised annually according to the following formula: If production, productivity per worker and profits of a PE exceed that of the previous year workers were entitled to a salary increase of 5,[illegible] and 1 percent respectively, on additive basis.

This incentive system has its own limitation since increase in output did not pay attention to quality and improvement in technical efficiency. Consequently, misutilization of resources could not be ruled out in the process.

III. THE FINANCIAL PERFORMANCE OF THE PEs

The performance of PEs is usually measured by reviewing their profitability or efficiency. It must be noted, however, that the measurement and evaluation of PEs' performance indicators require careful construction and interpretation due to the following inherent practical limitations. First any indicator of enterprise performance should be consistent with the objectives of the enterprise. Second all the achievements of PEs goals and objectives cannot be quantified and expressed in terms of financial profits alone. Third, the use of perfect competition model as a basis for deriving performance indicators may not reflect reality, due to the fact that pricing and investment criteria are often influenced by income distribution, and the structural and behavioral characteristics of markets. This section attempts to review the profitability or efficiency of PEs in Ethiopia.

3.1 The Relation of Efficiency to Profits

The performance measurement criteria of Public Enterprises (PEs) are generally efficiency or book profits. The concept of efficiency refers to the amount that is derived from a given input. Efficiency is therefore increased if output rises without an increase in inputs or when output outstrips the increase in inputs.It refers to the output performance of all the productive factors employed in the enterprise. Profit on the other hand, represents the reward to those that provide the enterprise with capital. The enterprises' efficiency can be measured by its book profit in addition interest paid, plus taxes paid fewer subsidies received. This implies that the measures of efficiency and the measures of book profit, although closely related, are not identical.

In the case of a losing enterprise, the measurement of efficiency, shows that the enterprises' output has less value than the inputs required to produce the output. Thus, in spite of the fact that efficiency and book profit could deviate considerably from each another; book profit or loss analysis could throw sufficient light on the financial performance of PEs in Ethiopia.

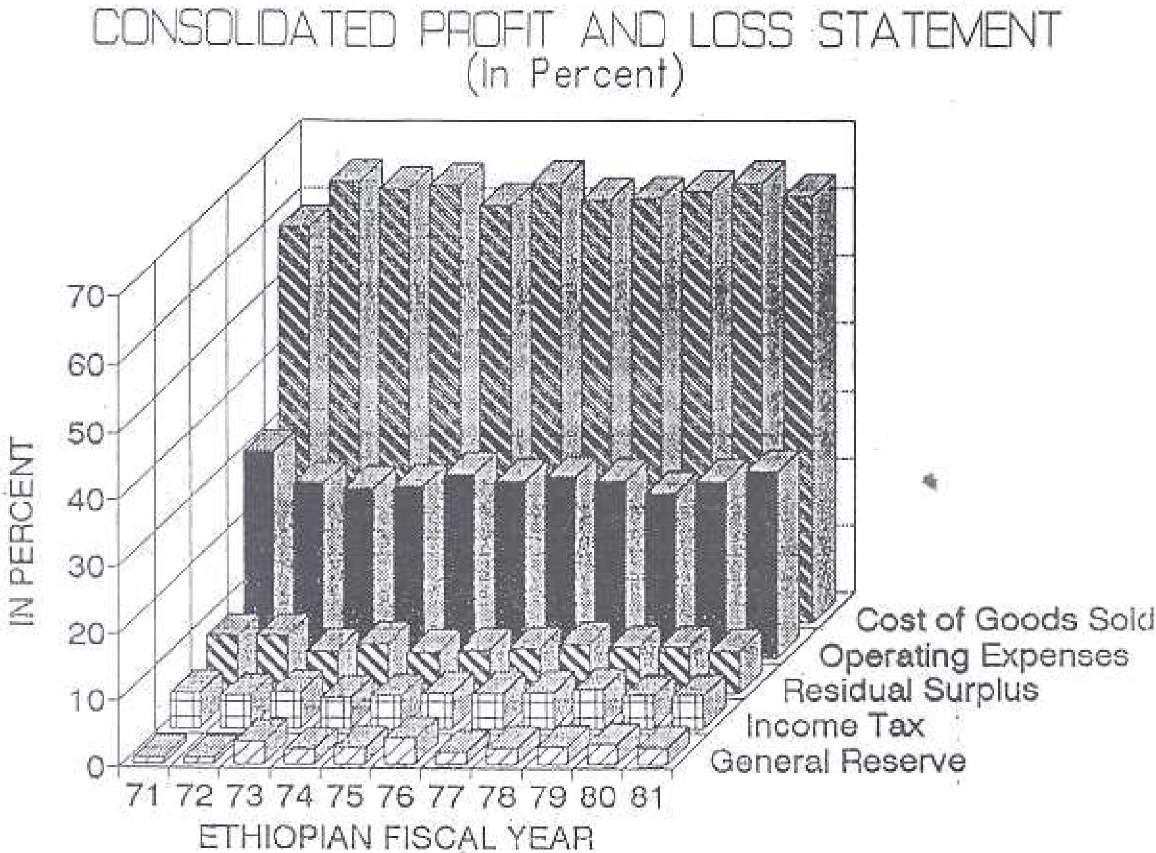
3.2 Profitability

The total consolidated profit and loss statements of PEs during the 1972-1981 period, reveal that the average yearly total net sales amounted to Birr 6,156.4 million (see Table 2). Net sales increased from its level of Birr 4, 152.2 million in 1972 to Birr 7,732.3 million in 1981, indicating an annual growth rate of 6.4 percent. In the same period, the cost of goods sold showed a yearly growth rate of 6.1 Percent. It represented, on average 64.8 percent of the total net sales (see Figure 2 and Annex).

As a result, the average gross margin of profit, the average net income before income tax, and income tax represented only 36.6 percent and 14.2 percent and 5.2 percent of the total net sales respectively. This could be mainly attributed to the increased cost of production and the unfavorable private business environment which resulted in a greater growth rate in the cost of goods sold than net sales especially in the productive sectors (i.e. agriculture and industry).

As regards stock position, the highest average stock inventory as a percentage of cost goods sold recorded 48.6 percent in hotels and tourism and 31.4 percent in the health sector. In the same period, domestic trade and foreign trade registered 25.6 percent and 23.7 percent average stock inventory as a percentage of cost goods sold respectively. Thus, PEs engaged in the operation of duty free shops, the supply of medicine and the import and export of goods required a minimum of stock holding for at least six months. This would ultimately result in financial squeeze and higher interest cost and possible inefficiency in the allocation and utilization of capital.

Figure 2


CONSOLIDATED PROFIT AND LOSS STATEMENT
(In Percent)
70
60
50
40
30
20
10
0
IN PERCENT
71 72 73 74 75 76 77 78 79 80 81
ETHIOPIAN FISCAL YEAR
Cost of Goods Sold
Operating Expenses
Residual Surplus
Income Tax
General Reserve

3.2.1 Sectoral Distribution of losses

According to the provisional actual plan figures, during the 1971-1981 period, the aggregated total loss of the PEs amounted to Birr 1,625.3 million [14, p.9]. Out of this, Birr 949.3 million was the loss in the agricultural sector, representing 58.4 percent of the total loss. In the same period, the total loss in state farms was Birr 840.7 million, in manufacturing industry Birr 321.9 million, and in mining Birr 219.9 million, which was 51.7,19.8 and 13.5 percent of the total loss respectively.

During the period 1971-1981, on average 31 percent of PEs incurred a yearly loss of Birr 147.6 million. PEs in the agricultural sector averaged a yearly loss of Birr 86.3 million. At the end of 1981, however, 87 PEs that represented 37 percent of the total number of PEs registered Birr 236.5 million loss.

As regards the sectoral distribution, the PEs in the agricultural sector registered Birr 147.3 million loss out of which Birr 126.8 million and Birr 20.5 million was that of 18 PEs in state farms and 5 PEs in coffee and tea respectively. on the basis of audited account figures, as shown in Annex 2, the numbers of audited PEs making losses increased from 44 in 1975 to 65 in 1980, indicating an annual growth rate of 6.7 percent. This represented that on average 28.1 percent of the total audited numbers of PEs were annually registering an average of a total loss amount of Birr 100.6 million. The average annual loss of the PEs in the agricultural, industrial and mining and energy sectors were Birr 41.6 million, Birr 26.9 million and Birr 15.6 million respectively. Thus, PEs in the above mentioned sectors alone accounted for 83.4 percent of the total yearly average loss. State farms alone, on the average represented 34.6 percent of the total annual loss amount while that of manufacturing industry accounted for 26.6 percent. The average annual share of the PEs both in the mining and energy sectors represented for 15.5 percent of the total loss amount. The comparative study of the audited and accounts before auditing reveals that based on the provisional actual plan figures, 31 percent of the total PEs incurred a yearly loss amount of Birr 147.6 million while the audited accounts showed that only 28.1 percent of the total PEs registered an average total loss amount of Birr 100.6 million. This difference is caused by the minimum time lag of 3-5 years required to complete the closing and auditing of the books of accounts of the PEs particularly in the agricultural sector. For instance, as of February 1985, in the agricultural sector alone, a total of 29 PEs[5] have not completed and finalized the audited accounts for the period ending Sene 30, 1980.

Table 2
Sectoral Distribution of PEs' Profitability During the EFY (1972-1981) (in Birr millions)

Sectors	Av. Stock Inventory as A% of Cost of Goods Sold %	Av. Cost of Goods Sold	Growth Rate %	Av. Net Sales	Growth Rate %	Net Profit Before Tax	Average Profit/Net Sales %
1. Agriculture		371.1	12.5	43.8	11.4	25.1	5.7
- State Farms	12.8	306.8	9.0	358.8	8.2	15.6	4.3
- Coffee & Tea	12.1	11.1	16.6	13.6	15.7	6.5	47.8
- Agriculture	20.5	53.2	42.0	65.4	33.0	3.0	4.6
2. INDUSTRY	13.0	1,462.4	6.2	1,814.1	4.8	192.8	10.6
3. DOMESTIC TRADE	25.6	1,082.6	5.5	1,205.6	5.6	53.9	4.5
4. FOREIGN TRADE	23.7	382.8	-2.3	457.9	-3.1	21.4	4.7
5. HOTELS & TOURISM	48.6	25.5	10.6	60.8	9.3	6.0	9.9
6. TRANSPORT & COMMU	27.6	57.7	18.3	846.6	9.8	91.7	10.8
7. HOUSING & CONST.	1.7	047.4	20.0	56.1	22.0	1.5	2.7
8. MINES & ENERGY	6.0	465.3	2.6	629.2	10.3	112.8	17.9
9. URBAN DEVELOPMENT	13.1	3.0	40.0	110.5	3.9	47.5	43.0
10. BANKING		212.0	-11.0	501.2	3.7	310.1	61.9
11. HEALTH	31.4	72.0	10.4	89.8	10.7	N.A	8.0
12. OTHERS		13.1	11.2	26.7	9.4	13.3	N.A
TOTAL		3,984.2	6.1%	6,156.4	6.4	876.1	14.2

Source: Annual Financial Plan Report of SOEs (1972-1982)

3.2.2 Sectoral Distribution of Profits

The numbers of PEs showing net profits before income tax, in numbers and amounts and in their sectoral distribution is given in Annex 3. During the 1975 - 1980 period, the numbers of audited PEs making net profits, before income tax, increased from 122 in 1975 to 156 in 1980, indicating on average an annual growth rate of 4.2 percent. In the same period, the amount of net profit increased from Birr 599.5 million in 1975 to Birr 1129.8 million in 1980, showing a yearly growth rate of 11.1 percent. Thus, on average, 71.9 percent of PEs were registering about Birr 876.1 million profit per annum.

The profit making PEs were largely in the service sectors. Financial institutions generated a yearly average net profit of Birr 272 million, while transport and communications registered Birr 120.9 million. The average yearly share of PEs in domestic trade was Birr 69.9 million while that of mines and energy was Birr 142.9 million respectively. In short, PEs in the above mentioned service sectors accounted for 70.2 percent of the profit. The total share of PEs net profit in industry and agriculture accounted for Birr 182.6 million and Birr 31.5 million respectively. Thus PEs in the productive sectors of the economy, i.e in agriculture and industry, registered only 24.8 percent of the yearly average profit, due to the constantly increasing level of the cost of production and overhead cost and the low level of productivity, particularly in agriculture as will be shown later.

3.2.3 The Ratio of Net Profits Before Tax to Total Income

The consolidated profit and loss statements for the operations of public enterprises together with financial agencies is shown in Figure 2, Table 3 and Annex 1.

As shown in Table 3, the total net sales together with other non-operating income increased from Birr 4,188.4 million in 1972 to 7,851.4 in 1981, indicating an average annual growth rate of 6.5 percent. In the same period, the total amount of cost of goods sold increased from its level of Birr 2,709.8 million in 1972 to Birr 4,876.1 million in 1981, showing an average annual growth rate of 6 percent. However, for the same period, the selling and distribution expenses and the administrative and general expenses grew at an average annual growth rate of 6.9 percent and average annual growth rate of 6.2 percent, in current prices. The ratio of net profits before tax to net sales (profit margin) for these years declined from 13.9% in 1972 to 13.6% in 1981 indicating an average annual growth rate of -0.3 percent. The sectoral distribution is shown in Annex 7.

The profit margins have been consistently higher in the service rendering enterprises than the ones in the industrial and agricultural sectors. During the 1972-1981 period, the average ratio of net profits before tax to total net sales averaged 61.9 percent in the financial institutions, 43.2 percent in National Lottery Administration, 43.0 percent in urban development, 24.5 percent in the audit service corporation and 17.9 percent in mines and energy. The average shares in the other service rendering enterprises were 10.8 percent in transport and communications, 9.9% in Hotels and tourism, 8.0 percent in health 4.7 percent in foreign trade, and 4.5 percent in domestic trade.

The average share of PEs[+] in industry was 10.6 percent while those in Agriculture were only 5.7 percent. Furthermore during the 1972 - 1981 period, the historical trend of the ratio of profits to sales of PEs registered an average annual decline of 7 percent in industry and 14 percent in agriculture indicating the increasing cost of production and well as the rising trend of administrative and operating expenses, especially in the industrial and agricultural sectors of the economy.

The major factors contributing to the increased cost of production and the rise in the total operating expenses are the PEs' inadequate level of capital structures, the unclear and dual objectives[6] of creating the PEs the existence of basic technological problems and the unnecessary delays in implementing the remedial measures stipulated in the proclamation No 163/1979.

In many instances, PEs were allowed to be established and operated, without finalizing the proper feasibility studies and providing them with the appropriate level of capital required. For instance, the origin and growth of the presently existing state farms, goes back to the nationalization of rural lands. Few commercial farms[7] established as share companies and several privately owned small farms[8] were nationalized and organized to operate as state farms with borrowed funds. In many instances, their accounting systems were diverse and their assets and liabilities were not adequately specified. Furthermore, the locations of the farms were scattered, escalating the farm management overhead cost and increasing the cost of production. In addition, the delay in implementing the remedial measures for the constantly loss making PEs, has aggravated weakness in their financial positions. In the "Regulation and Coordination of Public Financial Operations Proclamation No 163/1979" Article 9, provides that the PEs or financial Agencies' that have incurred loss for three consecutive years or used up more than 50 percent of their state capital must be liquidated. However, most PEs particularly in Agriculture, have registered total liabilities that exceeded their total net assets and still continued operations.

3.2.4 Financial Rate of Return (FRR)

Another measure of financial profitability is the financial rate of return (FRR). The FRR can be defined as the ratio of operating surplus to book value of fixed assets, where operating surplus is defined as value added at factor cost less wages and salaries, employees' benefit and depreciation.

As Table 4 indicates, the average FRR for the public manufacturing industries was 28.4% during 1976-1980 period and then declined to 22 percent and 10 percent in 1981 and 1982 respectively. This increasing trend in the decline of the financial rate of return of the manufacturing enterprises has created the shortage of financial resources in most PEs that made them increasingly dependent on short-term and long-term loans from the banking system. Their financial structures grew weaker over time. The debt-equity ratio has been steadily increasing for the sector. This is partly due to the government's financial policy that leaves enterprises with a generally small amount of money at their disposal.

Table 3
PEs' Ratio of Net Profit/Total Income During 1972-1981 (In Birr Millions)

EFY	Total Sales & Other Incomes	Cost of Goods Sold	Selling & Distrib. Exp.	Adm. & General Exp.	Net Profit Before Tax	Profit/Total Income %
1972	4,188.4	2,709.8	475.0	600.8	584.1	13.9
1973	5,296.6	3,312.5	602.7	700.0	788.9	14.9
1974	5,591.5	3,594.0	607.1	807.2	713.4	12.8
1975	5.451.5	3,314.4	663.6	793.5	752.7	13.9
1976	6,070.8	3,897.7	738.6	834.2	790.7	13.0
1977	5,103.3	3,645.7	609.2	951.6	819.6	16.1
1978	6,937.4	4,294.0	698.1	1,092.9	977.6	16.1
1979	7,830.5	4,907.9	775.5	1,106.4	1,183.6	15.1
1980	8,276.2	5,290.1	948.1	1,185.0	1,080.0	13.0
1981	7,851.5	4,876.1	923.4	1,218.1	1,070.3	13.6
AVERAGE	6,156.4	3,984.2	611.8	929.0	876.1	14.0
GROWTH RATE	6.5%	6.0%	6.9%	7.3%	6.2%	-0.3

Sources: Various Financial Plan Documents: MOPED Files

3.3 Efficiency in Resource Allocation and Utilization

To measure and evaluate enterprise performance the most widely used efficiency concepts include: technical efficiency, allocative efficiency (price efficiency), economic efficiency (productive efficiency), and " x-efficiency ". Technical efficiency is defined as the maximum attainable level of output for a given level of production inputs and alternative levels of technologies [3, p.66]. The concept of allocative efficiency (price efficiency),on the other hand, refers only to the adjustment of inputs and outputs to reflect relative prices and the technological levels of production. It relates to the welfare gains obtainable by removing monopoly power and the restriction of output . Thus, it measures the skill in achieving the best combination of the different inputs and their relative prices [11, p.321]. The term economic efficiency (productive efficiency) refers both to technical and allocative efficiency. Therefore, "the simultaneous achievement of both efficiencies provides the sufficient condition to ensure economic efficiency" [3, p.66].

Productive efficiency and x- efficiency are also distinct from each other. As already indicated productive efficiency can be defined in terms of its two main components: technical efficiency and factor price efficiency. The term "x-efficiency " was developed initially by Leibenstein. The determinants of "x-efficiency" level include the role of competitive market pressures and the interpersonal relations within firms which promote work motivation.

3.3.1 A Measure of Economic Efficiency

Inter-industry and inter enterprise comparisons of PE's can not be complete unless some measure of efficiency in resource allocation is applied to standardize the comparison. This measure is referred to as the Domestic Resource Cost (DRC) coefficient, which is the ratio of domestic factor cost in social prices to domestic value added (revenue minus tradeable inputs) in social prices [16, p.127]. It assesses the domestic resource cost of saving foreign exchange by the production of import-competing goods or earning foreign exchange by the production of export. As shown in table 5, the enterprises which appear to be efficient include Babile Mineral Water ,Ethiopian Foot Wear, Awash Tannery, Ethio-plastic. The inefficient enterprises include those with high positive DRC coefficients (eg Addis Garment and Ethiopian Rubber and Canvas shoe with actual long-run DRC of 14.73 and 14.03, respectively.) and some others with negative domestic value added, eg., Combolcha Textiles - 4.24 DRC. The negative value indicates that the value of the commodity produced is even less than the value of the tradeable inputs utilized.

Table 4
Financial Rate of Return (FRR) of Public Manufacturing Enterprises[18] by Corporations

CORPORATION	Average	1988/89	1989/90
		1981	1982
Ethiopian Food	34.2	21	14
Ethiopian Sugar	21.8	49	49
Ethiopian Beverages	28.4	24	12
National Tobacco & Matches	149.6	172	210
National Textiles	11.2	(5)	(2)
National Leather & Shoes	68	103	54
Ethiopian Printing	198.0	154	90
National Chemical	129.6	70	67
Ethiopian Cement	(8.6)	3	1
National metal works	50.2	11	(10)
Share Companies	102.2	3	12
Average	28.4	22	10

Source: MOI, 1992. Statistical Bulleting, Volume VIII.

A comparison of financial and economic profitability shows some conflicting different combinations results such as government firms that are financially profitable but allocatively inefficient and vice-versa. The reason for the divergence is the difference between market prices and economic prices of inputs and outputs [16, p.128]. The governments' pricing and trade policies are therefore, the main factors causing the difference. These DRC measures become more useful and meaningful when considered against the background and reality of policy environment in which the PEs operated. As already indicated, price controls in Ethiopia have been used to control the production and distribution costs of the PEs. In general, prices were determined on the basis of cost plus some margins of profit that were based on actual costs that may involve inefficiency. The effect of the governments' trade policy on the PEs is seen from its impact on input and output prices through taxes and subsidies. For instance; from coffee surcharge imposed on coffee during the period 1974-1983 Birr 118.6 million was collected by the treasury, resulting in a cumulative loss of Birr 184.3 million [2].

In the agricultural sector, an attempt has also been made to calculate the DRC ratio of producing coffee, wheat, maize,sorghum and cotton in the state farms and the peasant sector. In this case, DRC is defined as the economic value of domestic resources used to generate or save a unit of net foreign exchange. The study indicated that in state farms the DRC ratio [18, p.110] for cotton was 0.78, for wheat - 6.93 and for maize 1.78. The DRC for cotton was less than one that means that it was socially profitable for maize and wheat. In the peasant sector, however, the DRC ratios for coffee was 0.31, for wheat 0.60, and maize 0.41 indicating their social profitability.

3.3.2 Technical Efficiency

Efficiency in the allocation of primary inputs like labor, capital and other tangible materials is referred to as technical efficiency [4, p.392]. As shown in Table 7, the average yield per hectare for such crops as corn, wheat and barley were technically greater in state farms than in private peasant farms due to the increased use of labor, capital and improved agricultural inputs. However, unless the increase in yield is related to cost, this may not indicate the effective utilization of factor inputs to produce the maximum output with minimum cost. The motivational pressure or incentives of labor and management and the competitive environment in which PEs operate play a crucial role in minimizing cost and maximizing output. In addition, the organizational structure of PEs, particularly in state farms had been highly centralized. Consequently, decisions on new investments, expansions and improvements were made at the top, leaving little or no room for managements' autonomy and discretion. Furthermore, the existence of idle labor, and the labor law that adversely influenced managements' decisions on wages, placement, promotion, and transfer of workers ultimately resulted in increased cost and low productivity of labor. The capital structure of the PEs, were generally inadequate. Thus, the PEs often resorted to heavy bank borrowing to meet their investment and working capital requirements thereby increasing interest expenses. As a result, state farms had over 60 percent of their expenses represented by overhead and administrative costs that made them unprofitable.

Furthermore, as indicated in Table 6, the differentiated cost of capital had led to increased inefficiency because, the cost of capital did not reflect the economic cost or economic benefits of capital.

There were different bank rates for different sectors and borrowers (as shown in Table 6) Cooperatives and public enterprises enjoyed lower rates of interest than private enterprises or individuals.

In the coffee sector, as shown in Table 8, the ten year average yield in state farms was 3.8 qtls per hectare while that of private coffee farms covered by the coffee improvement project (CIP) registered 6.5 qtls per hectare during the 1978-1983 period [5, p.6]. Assuming that all the other factors remain the same, the difference in yield may be accounted for by the incentives of labor and management and the coffee management activities such as "weed control, application of fertilizer, irrigation, application of insecticide, spacing, pruning, stumping, spraying, hoeing, mulching, slashing etc. [5, p.29].

As shown in Table 8, the average break - even yield of Sate-Owned coffee farms was 6.5 qtls per hectare, indicating economic inefficiency that resulted in a total loss amount of Birr 183.9 million during 1974-1983 period. This was the result of the actual yield of lower than the required break - even yield, on the farms,in the new Teppi and Arbagugu coffee farms.

Among the major factors explaining the losses in State Farms including the coffee farms, were the increasing overhead and administrative costs, the lack of appropriate technical and economic feasibility studies; the inability to use machinery at full capacity; idle labor and the bureaucracy that caused delays in decision making.Among the external factors affecting the profitability and efficiency of government controlled cereals and coffee farms include: the policy environment, such as that of price, wages, trade and tax; and the increasing cost of imported raw materials such as chemicals, fertilizers; and the unpredictable weather.

Table 5
Efficiency Measurement for Selected Industrial PEs'

Enterprises	1983		1988(1981)		1989(1982)	
	DRC	Financial Profitability in Birr '000	DRC Long-Run	Financial Profitability in birr '000	DRC	Financial Profitability in Birr '000
1. Babile Mineral Water	.89	-337	NA	-58	0.78	-104
2. Awash Winery	1.20	2458	0.42	3,371	0.72	385
3. Addis Ababa Glass works	4.37	748	NA	-997	1.54	-997
4. Combolcha Textiles	NA	NA	NA	-2189	-4.24	NA
5. Dire Dawa Textiles	1.37	5494	0.63	-2522	0.59	-2552
6. Ethiopian Fibre Factory	-2.94	1743	1.16	-1202	0.78	-2589
7. Ethiopian Foot Wear	.84	219	1.03	-297	0.63	-297
8. Awash Tannery	.36	1904	0.33	7086	0.47	3402
9. Addis Garment	NA	NA	14.73	-135	1.70	-135
10. Ethiopian Rubber & Canvas	NA	NA	14.03	2063	2.22	866
11. Ethio plastic	.83	5245	0.23	1107	0.32	2322
12. Ethiopian Iron & Steel	2.87	584	0.75	-2064	0.55	198
13. Kalitie Steel	2.68	5063	0.17	237	0.36	237
14. Ethiopian Pulp & paper	-4.34	2441	NA	-1994	NA	-858
No. of Sample Surveys	19 Industrial PEs		35 Industrial PE's		41 Industrial PE's	

Source: - World Bank 1989 Ethiopia Industrial Sector Review Report No. 7831-ET
- World Bank 1990 Revision of Production Incentives for exports & the domestic market by Road Falvey and Chris Jones.
- Audited Relevant Reports

Table 6
Lending Interest Rates (In Percent Per Annum) July 1, 1986-October 1,1992

	Cooperatives	Public Enterprises	Private Enterprises & Individuals
- Agriculture	5	6	7
- Industry	6	8	9
- Domestic Trade	6	8	9-5
- Import Trade	5-6	6-8	7-9.5
- Hotels & Tourism	6	8	9
- Construction	6	8	9
- Housing			
(1) purchase	6	6	8
(2) Construction	4.5	4.5	7
- Personal Loans	-	-	10

Source: National Bank of Ethiopia

Table 7
Average Yield Per Hectare in Qtls. 1979/80-1985/1986

	State Farms	Private Farms
Corn	24.7	15.6
Wheat	14.2	10.7
Barely	16.5	11.7
Cotton	15-24	N.A

Source: Ministry of State Farms. Towards a Strategy for the Development of State farms in Ethiopia. Vol. 1. 1986

Table 8
Actual and Breakeven Yield of State-Owned Coffee Farms

	1974-1983 Av. Productivity Actual Yield Qtls./ Hectare	1974-1983 Break Even Yield Qtls./Hectare	Total Profit (Loss) (in millions)
Limmu Coffee	4.9	6.8	(32.9)
Bebeka Coffee	3.9	12.8	(138.2)
Old Teppi	2.6	7.1	(12.8)
New Teppi	4.5	3.3	0.1
Arbagugu	2.9	2.7	0.3
Average	3.8	6.5	183.5

Source: Ministry of State Farms: Coffee Development Corporation; Financial Review 1974-1983. Vol.5,1984

3.3.3 The PEs' Contribution to Public Sector Deficits

Total public sector deficit increased from Birr 439.2 million in 1972 to Birr 2,045 million in 1981. As a percentage of GDP, this represented an increase from 5.2 percent in 1972 to 16.4 percent in 1981. The average share of the central government deficit was Birr 915.4 million while that of PEs' was Birr 706.1 million. In the same period, total PEs' deficit as a percentage of GDP increased from 0.6 percent in 1972 to 4.3 percent in 1981.

During the 1972-1981 period, the total Capital Expenditure required by PEs for new investments, replacements or expansions increased from Birr 427.0 million in 1972 to Birr 1,237.9 million in 1981 indicating an 11.2 percent annual growth rate. At the same time, the total net savings of PEs rose from Birr 120.7 million in 1972 to Birr 196.2 million in 1981, indicating an annual growth rate of only 5.0 percent.

In addition, analysis of the financing of the PEs reveal that net savings of the PEs' as a percentage of GDP rose from its level of 1.4 percent in 1972 to 1.6 percent in 1981. In the same period,the PEs' capital expenditure as a percentage of GDP increased from 5 percent in 1972 to 9.9 percent in 1981. This indicates that the PEs contributed a much smaller share to national savings,(a fifth of their investments).

These large proportions of PEs' deficits, have their root causes from the inadequate PEs' savings performance which was mainly due to the operating inefficiency or inadequate cost recovery. Thus, the PEs' deficits had been financed by substantial net outflows from government borrowing, from the domestic banking system and foreign borrowing. As a result, at the end of 1980, the percentage share of the total outstanding loans of PEs was 37 percent while that of the central government represented 53 percent.

The foregoing analysis of PEs' financial performance and efficiency in resource allocation and utilization, reveal that the PEs have failed to generate internally a sufficient amount of working capital or adequate amounts of savings for investment [12, p.23]. Particularly, in the productive sectors of the economy, such as agriculture and industry the PEs have demonstrated a limited capacity to finance new, expansion or replacement investments. Most of them have moved from being a burden on the budget to a state of being a burden on the domestic banking systems.

IV. THE FINANCIAL POSITION OF PEs

In addition to the investigation of the financial profitability of PEs, the analysis of Debt/Equity ratios as well as the Net Income /Total Assets ratios, could reveal the financial strength of PEs in the different sectors of the economy.

4.1 Debt/Equity Ratios[10]

The debt/equity ratio, which is the ratio between total liabilities and the net worth of enterprises varied significantly among the PEs in different sectors of the economy (see Annex 4). In general, 53 percent of the total number of PEs, have registered debt/equity ratio levels in excess of 80 percent. Twenty two percent of the total number of PEs have shown debt/equity ratios over and above 100 percent, indicating a weakening of the financial position of the PEs. The PEs, particularly in agriculture and industry had accumulated large debts. State farms, and the manufacturing sub - sectors (food, textiles and beverage) have faced serious working capital shortages and problems to service their accumulated debt.

4.2 Net Income/Total Asset

The ratio of net income/total assets shows that about fifty percent of the total number of PEs, had negative returns or returns less than one percent (see Annex 4). In general, about 30 percent of the PEs had returns over six percent, pointing out the general weaknesses of their financial positions. In the manufacturing sector, most of the PEs in food, textiles, beverage and metal work sub-sectors, were loss makers . In state farms, during the 1972-1981 period , the total net sales and the other non-operating incomes, increased at an annual growth rate of 8.4 percent while the cost of goods and services sold and the total operating expenses increased at an annual growth rate of 9.1 percent and 10.4 percent respectively. Consequently, the financial position of state farms became so weak that at the end of June 30,1983, state farms that had accumulated a deficit of Birr 1,112.5 million and registered a negative net equity position of Birr 695.5 million (see Annex 5). Similarly the PEs in the coffee and tea sectors had used up up their capital of Birr 68.6 million and accumulated Birr 150.5 million deficit and registered a negative net equity position of Birr 82.0 million at the end of EFY 1983. As a result, the total liabilities of state farms, at the end of EFY 1983, stood at Birr 2,190.7 million while their total assets were only Birr 1,495.2 million, indicating a debt/equity ratio of 1.46 percent. At the same time, the PEs in the coffee and tea sector had a total liability of Birr 69.9 million with a corresponding level of total assets value of Birr 61.7 million showing a debt/equity ratio of 1.13 percent.

In the manufacturing industry, the total net sales together with the other non-operating income, increased from Birr 1,402.4 million in 1972 to Birr 2,226.2 million in 1981, giving an annual growth rate of 4.7 percent. At the same time, the cost of goods sold and the total operating expenses increased at annual growth rate of 6.2 percent and 5.3 percent respectively. Consequently, the profitability ratio of profits before tax/total sales declined from 14.7 percent in 1972, to 7.4% in 1981. This annual decline of 7 percent in the profitability ratio can be mainly accounted for by the increasing cost of raw materials and the continuously rising trend of the total operating expenses. In addition, as a result of old age and frequent breakdown of machinery and the search for spare parts, that were scarce, often resulted in a waste of production time, increasing the cost of goods sold and the total operating expenses.

As a result, the financial position of the PEs in industry revealed that the percentage of net equity to capital was on the average 87.1 percent at the end of EFY 1982 (see Annex 5). However, in the cement, food, leather and shoe sub-sectors, the amounts of negative capital and reserve substantially increased, resulting in the percentage of net equity to capital of 8.3 percent, 68.4 percent and 69.9 percent respectively. In the same period, the debt/equity ratio in industry was 85:15 indicating a heavy debt burden. In the cement sub-sector, the debt/equity ratio registered 175 - 75, indicating that the total asset of the PEs was not in a position to cover their total liabilities. In food and the textile sub-sectors, the debt equity/ratios showed 91:9 and 88:12 implying that out of the total equities 91 and 88 percent respectively, were covered by debt. In the construction and foreign trade sectors, the debt/equity ratios indicated 127: -27 and 97:3 indicating an accumulated deficit of Birr 57.1 million and Birr 3.9 million in the respective sectors.

V. THE BASIC CAUSES OF THE POOR PERFORMANCE

The major causes of the poor financial performance and inefficient use of resources of the PEs during the last two decades, may be categorized under internal and external factors.

5.1 Internal Factors

i. As mentioned earlier, the existence of the several layers of authorities in the organizational structure of the PEs i.e, workers' control committee, plants, enterprises, corporations, and supervising authorities (ministries) etc, seriously curtailed the autonomy of management particularly as regards decisions on employment, production, prices and investments. The organizational structure of state farms involved the corporations, enterprises, state farms/plants. Fourteen enterprises managed and controlled farm operations. The enterprises in turn were managed and controlled by seven corporations that were horizontally differentiated on the basis of specialization[11] and location. The multiplication of the number of the management levels caused delays in communication and decision making of the operational units required that managers given more authority to make decisions on the spot.

ii. Poor initial investment decisions, particularly in agriculture made many PEs loss makers. New investments and expansions in agriculture were in most cases made arbitrarily, without proper technical and economic feasibility studies eg. in Bebeka, Sheneka, Wajiffo and Wama state farms.

iii. Lack of clearly specified objectives in some of the PEs had resulted in creating unnecessary conflicts and confusions in their performance evaluation. For instance, PEs such as the Agricultural Marketing Corporation (AMC), the Ethiopian Domestic Distribution Corporation (EDDC), Office of the Rented Houses Administration etc. had combined administrative and regulatory functions with that of the maximization of profit. Therefore, the absence of a systematic assessment of the social costs and benefits of non commercial operations had an adverse impact on scarce resource utilization.

iv. As a result of old age and frequent break-down of machinery in industry and other sectors, considerable production time was wasted in the search for spare parts and the repair of old machines. In addition, the inability to use machinery at their full capacity, particularly in agriculture and industry had adversely affected production and encouraged the inefficient utilization of machinery.For instance,it had been reported that the capacity utilization of machinery in Bebeka farm was 60% while that of Limmu was 50%, due to the shortage of spare parts and other maintenance problems.

v. The problem of scarcity of capital for most of the PEs was very common. There were instances, where some of the PEs started operation with only bank loans[12].

vi. Most the PEs, especially in state farms were faced with the chronic financial constraint in servicing their heavy debt burden. For instance, at the end of the EFY 1983 state farms registered an outstanding loan totaling of Birr 1,711.4 million out of which 90.4% (Birr 1,546.3 million) was loan in arrears.

vii. The increasing cost of special services, such as the maintenance and construction of clinics,health centers, transportation, in - farm and off - farm roads, community centers, schools etc. for farm labourers had increased the financial burdens of state farms and negatively affected their profitability. Thus, it had been reported that the social costs (excluding salaries and wages) in Bebeka represented Birr 20 million and in Limmu 7 million.

viii. The inappropriate management of human resources in PEs, particularly in the state farms and industry were quite common. Some state farms had experienced, not only the presence of unutilized and idle labor force, but also shortage of skilled and qualified personnel, at the level of the operating units. In most cases, very young and inexperienced managers managed the state farms. For instance,it has been reported that in the North-West and Southern Agricultural Development corporations, over 80% of the managers at the farm level were below 31 years of age [6].

ix. Since the PEs do not close their books of accounts on time, the timely evaluation of the PEs' financial performance will not be possible. For instance, in state farms most of the audited accounts for preceding years had not been finalized to date. Furthermore, even if the audited reports were available, the weaknesses or shortcomings indicated in the audit findings were not properly dealt with. In several instances,management did not make any effort in correcting the weakness indicated in the audit findings.

x. The absence of a standard and uniform system in the use and handling of assets of the PEs and the lack of uniform administrative and control procedures in the treatment of depreciation, sales etc. of the PEs had undoubtedly encouraged wastage of scarce resources, particularly in agriculture and trade.

5.2. External Factors

i. The capital structure of the PEs in general tends to be under capitalized. High debt/equity ratios were very common. In many instances the absence of clearly defined objectives and performance criterion of the PEs was not uncommon. Moreover,the amount of capital given to the PEs was not commensurate with the duties and responsibilities assigned to them.

ii. The increasing cost of raw materials and machinery together with the absence of appropriate price and investment policies had affected the profitability and financial position of the PEs. A rise in the cost of production and its poor relation with the selling price had increased the number of loss making PEs and the amount of loss. In addition, the insufficient amount of the general reserve fund provided to the PEs, and the delay in investment decisions of the PEs, had become bottlenecks in the production and distribution of goods and services.

iii. The lack of foreign currency to the import materials, spare parts and machinery had resulted in the under-utilization of the existing capacities of the PEs.

iv. The delays in the timely correction of some apparent weakness in the "Regulation and Coordination of Public Financial Operations Proclamation No. 163/1979" and the lack of its proper implementation had adversely affected the PEs financial performance. The proclamation failed to specify clearly from what source the PEs could adequately service the principal amount of their long-term debt. More-over, the remedial measures stipulated in the proclamation such as the dissolution of chronically loss making PEs were not properly implemented.

v. The institutional and legal environment in which the general managers of the PEs operated was such that excessive political interference frequently occurred in issues and decisions that should from an efficiency standpoint be taken by an enterprise manager or board of directors. Since the Workers' Control Committees, Ministries or Corporations frequently interfered in the day to day management decisions, such as who should be hired or fired, to whom contracts should be awarded, who should receive credit etc. management autonomy was seriously curtailed [12, p.35]. Moreover, the accountability and responsibility of the PE managers were not specified. Furthermore, the scarcity of experienced managers was an acute problem. This problem was even aggravated when the appointment policies in the PEs often followed political loyalty rather than competence and operational skills. This definitely resulted in over-staffing which had a negative impact on the PEs' performance.

vi. Failures of the PEs to settle their sales or purchases transactions in time amongst themselves had often resulted in the interlocking of debt and negatively affected their operations. Furthermore, contrary to the existing financial rules and regulations a good number of the PEs had been allowed to operate without having a legal personality[13]. This implied that a considerable amount of public resources had been exposed to illegal handling and mismanagement.

VI. CONCLUSION

The analysis and review of the PEs' financial performance, allocative, technical and economic efficiency, show that an increase in financial profit does not necessarily mean that a PE is more efficient. On the other hand, a PE that incurs losses may not necessarily be inefficient in the utilization of resources. This leads us to the conclusion that in a policy environment where inter-sectoral and inter-enterprise competition does not exist and input and output prices of the PEs are largely determined by monopoly or monopsony powers, inefficiency in resource allocation and the misutilization of resources can not be ruled out. In fact, the productive sectors of the economy i.e. agriculture and industry together generate only 24.8% of the total yearly average PEs net profit, while the share of the service sectors accounted for 70.2%. As far as losses are concerned, the share of the agricultural sector represented 58.4 percent while that of manufacturing industry was 26.6 percent of the total PEs' loss amount. Thus, the service sectors became relatively profitable at the expense of the productive sectors. For instance, financial institutions alone represented 31.5 percent of the yearly average net profit. Furthermore, analysis of the PEs' capital investments, savings and financing, during the last two decades, reveals that PEs' contribution to national savings is only a fifth of their investments.

As regards the PEs' financial position, 22 percent of the total numbers of the PEs have shown debt/equity ratios over and above 100 percent indicating a weakening of their financial strength. In addition, the review and analysis of the ratio of net income to total assets reveal that about 50 percent of the total number of the PEs had registered negative returns or returns less than one percent. This weakening of the PEs' financial position is particularly conspicuous in the agricultural and industrial sectors. The causes of this inadequate financial performance and inefficient use of resources have been already identified and categorized under internal and external factors.

In view of improving the PEs' performance and efficiency, in resource allocation and utilization, the PEs in Ethiopia have to be restructured in such a way that the root causes of poor or inadequate performance are properly addressed.

In this regard, the restructuring program of the PEs has started. In accordance to the New Economic Policy, "Proclamation No. 25/1992" has been issued to ensure management autonomy and accountability. Corporations, in the industrial sector, are in the process of being phased out. "Labor Proclamation No. 42/1993", came into effect last January, in view of defining the rights and obligations of both workers and employers. In short, the privatization process appears to be underway. However, it remains to be seen, whether these measures alone, important as they are, will provide all the solutions to the above mentioned problems of the PEs' and guarantee the successful implementation of the privatization program of PEs in Ethiopia.

Notes

1. Capital Charge: The money annually payable to the government by State Owned Enterprises (SOEs) which is 5% of the state capital plus the general reserve fund. (Proclamation No. 163/1979).

2. Residual Surplus: The remainder after allowing 50% taxes of gross profit less 10%/30% of the balance for the general reserve fund until such funds reach a level of 30% of the state capital for Public Enterprise's and 60% for the Financial Agencies. (Proclamation No. 163.1979).

3. The Ethiopian Import and Export Corporation, The Ethiopian Retail Trade Corporation and the Public Transport Corporation, individually had 5,6 and 4 accounting units respectively, MOPED Files.

4. Negarit Gazeta. "Public Enterprises proclamation No. 25/1992"

5. 17 in State Farms; 7 in Coffee and Tea and 5 in agriculture

6. The creation of Agricultural Marketing Corporation (AMC) and the Ethiopian Domestic Distribution Corporation (EDDC) was meant to stabilize prices and promote an equitable distribution of income.

7. The commercial farms established as share companies included: Seblele; Ambash; Kessem Kebena; Algeta; Upper Awash; Arba Minch Farm; Awassa Agro-Industry; Abaya, Yalge and Bilate

8. Apart from the commercial farms privately owned 438 farms in The Middle Awash and The Sidamo Agricultural Development alone were nationalized and converted into state farms.

9. Only those enterprises administered by MOI are included. These enterprises counted for about 89% of employment, 77% of the total number of establishments in the public manufacturing sector in 1986/1987

10. The Debt/Equity ratio as well as the Net Income/Total assets ratio of 125 PEs were calculated on the basis of 1982 audited figures. However, for the remaining PES, the audited figures available for the latest years, were considered in the calculation (MOPED Files)

11. The North Western Agricultral Development Corporation specializes in growing corn, sorghum, niger seed, paper, soya beans. The Southern Agricultral Development Corporation specializes in growing wheat, barley, corn, cotton. The Awash Agricultral Development Corporation specializes in cotton production. *Horticulture Corporation produces citrus fruits oranges, grape fruits, vegetables etc

12. PEs that have operated by bank loans for a long tine without having capital include the following, Gondar Meat Processing Factory, Ada Macaroni Factory,. Tea Development Corporations of Wollega, Arsi, Bale, Birr, Agricultral Equipment and Technical services, Seed Corporation.

13. PEs that stated operation without having a legal personality include the following:- Fish Production and Marketing Corporation.

- Natural Gum Processing and Marketing Corporation.
- Wood, Charcoal Products Processing and Marketing Enterprise.
- Saw Mills and Joiners Production and Marketing Enterprise.
- Agricultral Mechanization Service Enterprise.
- National Engineers and Contractors.

References

[1] Arturo Israel, "The Changing Role of the State-Institutional Dimensions," ***The World Bank***, August 1990.

[2] Coffee Plantation Development Corporation, ***Financial Review 1974-1983***, 5, 1984.

[3] Frank Ellis, ***Peasant Economics, Farm Households and Agrarian Development***, 1988.

[4] Leibenstein, H., "Allocative Efficiency Vs. X-Efficiency," ***American Economic Review***, 56, pp. 392-415, 1966.

[5] Ministry of Coffee and Tea Development, ***Report on Yield Assessment Survey 1991 (1983/84 E.C)*** November 1992, p.6.

[6] Ministry of State Farms Development, "Towards a Strategy for the Development of State Farms in Ethiopia", ***Main Report***, 1, September 1986, Addis Ababa.

[7] MOI (Ministry of Industry), ***Statistical Bulletin***, VIII, 1992.

[8] MOPED, "Annual Financial Plan Reports of State-Owned Enterprises: 1972- 1982", Finance and Budget Department, Addis Ababa.

[9] Negarit Gazeta, "Regulation and Coordination of Public Financial Operations Proclamation No. 163 of 1979" 30th June, Addis Ababa.

[10] -------------, "Public Enterprises Proclamation No. 25/1992.

[11] P.J.Devine, N.Lee, R.M.Jones, and W.J.Tyson, ***An Introduction to Industrial Economics***, Fourth Edition.

[12] R.J.Nellis, "Public Enterprises in Sub-Saharan Africa", ***World Bank Discussion Papers***, 1988.

[13] Shirley, M.M., "Managing State-Owned Enterprises", ***World Bank Staff Working Papers*** No. 577, 1983.

[14] Taddesse, E., ***The Future of State-Owned Enterprises in Ethiopia***, Jan. 1992.

[15] The World Bank, ***World Development Report***, 1988.

[16] --------------, ***Ethiopia: An Export Action Progra14.m14***, Report No. 6432-ET, 1987.

[17] --------------, ***Ethiopia: Industrial Sector Review***, Report No. 5301-ET, 1985.

[18] --------------, ***Ethiopia's Economy in the 1980 and Framework for Accelerated Growth 1990***, Report No. 8062 - ET.

[19] --------------, ***Ethiopia: Agriculture - A strategy for growth a sector review***, Report No. 6512 - ET, 1987.

Annex 1
Public Enterprises, Public Agencies & Financial Institutions
Consolidated Profit & Loss Statement (in Birr million)

ETHIOPIAN FISCAL YEAR	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	AVERAGE 1971-81	1982 ESTIMATE	1983 PLAN
1 Gross Sales (REVENUE)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 LESS: Indirect Taxes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 LESS: Commissions & Dues	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 NET SALES (REVENUE)	2,432.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Cost of Goods Sold	[illegible]	[illegible]	[illegible]	[illegible]	2,314.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Gross Margin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Salaries (Wages and Benef.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	377.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Other Selling & Dist. Exp.	230.1	[illegible]	[illegible]	[illegible]	[illegible]	340.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Other Adm. and General Exp.	636.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 TOTAL OPERATING EXPENSES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11 Total Income Before Tax	376.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
12 INCOME TAX	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
13 NET INCOME AFTER TAX	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
14 General Reserve	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15 RESIDUAL SURPLUS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
16 CAPITAL CHARGE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
17 DEPRECIATION	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
18 TOTAL NUMBERS OF SOEs	182	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

continuation Annex I

Percentage Distribution

ETHIOPIAN FISCAL YEARS	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	AVERAGE 1972-81	1982 ESTIMATE	1983 PLAN
1.Gross Sales (Revenue)	107.1%	109.9%	106.1%	106.2%	106.8%	106.4%	105.6%	106.2%	104.4%	109.3%	102.5%	106.2%	103.1%	103.0%
2.LESS: Indirect Taxes	6.1%	8.1%	5.7%	5.8%	6.3%	6.0%	5.0%	5.8%	4.0%	5.9%	2.2%	5.1%	2.6%	2.5%
3.LESS: Commissions and Disc	1.9%	1.8%	0.4%	0.4%	0.5%	0.5%	0.6%	0.4%	0.4%	0.2%	0.3%	0.4%	0.6%	0.3%
4.NET SALES (REVENUE)*	100.1%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
5.Cost of Goods Sold	56.7%	65.3%	66.2%	64.9%	62.0%	63.1%	62.6%	62.8%	63.9%	65.2%	63.1%	63.9%	64.8%	66.4%
6.Gross Margin	43.9%	34.7%	33.6%	35.1%	38.0%	36.9%	37.4%	37.2%	36.1%	34.8%	36.9%	36.1%	35.2%	33.6%
7.Salaries, wages and Benef		7.0%	7.9%	5.9%	5.6%	6.3%	6.1%	6.2%	5.9%	5.5%	6.6%	6.1%	6.3%	6.0%
8.Other Selling & Distr. Exp	4.1%	4.6%	3.8%	5.0%	6.8%	6.0%	4.2%	4.2%	4.1%	3.8%	3.5%	3.2%	3.3%	3.4%
9.Other Admin. & Other. Exp.	22.5%	14.5%	13.8%	14.6%	14.8%	13.9%	16.7%	16.0%	14.4%	14.8%	15.6%	14.9%	15.8%	15.3%
10.TOTAL OPERATING EXPENSES	30.6%	25.9%	25.2%	25.6%	27.2%	26.7%	26.8%	26.2%	24.5%	26.3%	27.7%	26.2%	27.8%	26.6%
11.Total Income Before Tax**	17.3%	14.1%	15.3%	12.9%	14.1%	11.2%	16.1%	14.3%	17.6%	13.3%	13.8%	14.0%	12.8%	10.7%
12.Income Tax	5.1%	4.9%	5.3%	4.6%	4.9%	5.2%	5.1%	5.4%	3.9%	4.9%	4.8%	5.1%	4.1%	3.7%
13.Net Income After Tax	9.2%	9.1%	10.0%	8.3%	9.2%	6.2%	9.6%	8.0%	9.6%	8.5%	8.0%	8.0%	8.7%	7.0%
14.General Reserve	3.8%	3.2%	2.1%	2.3%	3.8%	1.7%	2.3%	2.4%	1.8%	2.3%	2.3%	2.1%	4.7%	2.2%
15.RESIDUAL SURPLUS	5.4%	6.2%	7.6%	4.1%	6.5%	4.7%	7.3%	6.6%	6.0%	6.2%	6.5%	6.6%	4.0%	4.6%

Sources: Various Financial Plan Documents, MOPED

** = Items 12 plus 13 do not add up to item 11 due to the fact that total income before tax does not include extraordinary loss or gains and prior year adjustments.

* = Items 6 plus items 5 do not add up to item 4 due to the excess of cost of goods sold in relation to net sales in the industrial sector.

Annex 2

Sectoral Distribution of the Loss Making (PEs) in Numbers and Accounts
(in millions of birr) audited figures

EFY	1975		1976		1977		1978		1979		1980		1981		1982		1983	
	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMT
1 AGRICULTURE	14	45.6	18	40.5	19	51.2	20	40.3	19	30.3	12	41.8	5	26.0	4	38.8		0.0
STATE FARMS	11	41.4	12	34.9	15	37.9	15	24.4	13	28.6	11	41.4	5	26.0	4	38.8		
MINISTRY OF AGRICULTURE			1	2.7	1	11.2	1	0.4										
MINISTRY OF COFFEE & TEA	3	4.2	3	4.9	3	13.8	4	15.7	2	1.5	1	0.2						
2 INDUSTRY	26	33.5	27	15.8	28	36.2	28	56.2	30	27.5	35	34.3	47	31.4	31	49.8	22	23.8
3 FOREIGN TRADE	1	0.4	1	5.6	1	7.6	1	1.2	1	0.0								
4 DOMESTIC TRADE									1	7.6								
5 TOURISM & HOTELS	2	0.4	4	1.5	2	0.8	2	0.7	5	5.1	3	5.6	2	1.1				
6 TRANSPORT & COMMUNICATION	1	4.8	1	3.1			1	7.8	2	0.8	1	0.6	2	3.3	2	7.4		
7 MINING	3	19.4	3	21.0	2	18.7	1	11.7	2	4.5								
8 CONSTRUCTION	7	12.6	9	6.1	6	4.5	10	4.5	8	2.1	8	2.2	6	1.3	5	1.4	3	3.8
9 FINANCIAL INSTITUTIONS			1	6.6			1	0.2							1	45.9		
10 OTHERS							3	8.3	3	8.8	4	8.2	1	8.4				
TOTAL	44	96.8	52	100.5	56	118.8	67	104.1	66	88.7	48	98.2	61	81.7	45	185.1	24	26.6

Total number of PEs 106 202 218 226 220 221 188 125 64

NOs : Indicates Numbers of PEs

Sources: Audited Account Figures. MOPED Files

Annex 5

Sectoral Distribution of the Loss Making (PEs) in Numbers and Amounts
(in millions of Birr) Audited Figures

CTY	1975		1976		1977		1978		1979		1980		1981		1982		1989	
	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT	NOS	AMOUNT
1.AGRICULTURE	14	43.6	16	61.5	19	71.2	20	40.9	16	30.0	12	41.8	5	26.0	4	38.6		600
STATE FARMS	11	41.4	12	36.0	15	15.7	15	26.4	12	26.8	11	41.4	5	26.0	4	38.6		
MINISTRY OF AGRICULTURE			1	0.7	1	0.2	1	[illegible]										
MINISTRY OF COFFEE & TEA	1	4.2	3	4.9	2	22.1	4	30.7	2	11.6	11	10.2						
2.INDUSTRY	16	15.5	17	13.6	29	26.2	26	36.3	30	27.5	18	38.9	47	71.4	31	40.8	22	25.6
3.FOREIGN TRADE	1	0.4	1	9.4	1	2.6	1	1.0	1	0.0								
4.DOMESTIC TRADE									1	7.8								
5.TOURISM & HOTELS	1	0.4	4	1.5	2	0.6	2	0.7	5	5.2	5	3.6	2	1.1				
6.TRANSPORT & COMMUNICATION	2	4.8	1	5.1			1	3.6	2	0.0	1	3.6	2	3.6	2	7.4		
7.MINING	2	19.4	1	21.0	2	18.7	1	41.7	2	50.0								
8.CONSTRUCTION	7	12.6	9	4.3	9	4.2	11	4.5	6	3.1	10	2.0	4	1.8	5	1.4	2	1.0
9.FINANCIAL INSTITUTIONS			1	6.9			1	0.2							1	40.9		
10.OTHERS							3	0.2	2	0.7	1	0.2	1	4.4				
TOTAL	44	96.4	52	100.5	59	14.6	67	120.1	66	99.7	49	98.2	61	61.7	40	248.1	24	[illegible]

Total Number of PEs 106 202 208 226 220 221 208 126 64

NOS = Indicates Numbers of PEs.

Sources: Audited Account Figures. MOPED Files

Annex 4

PE's Debt/Equity Ratios and Net income/Total assets on the Basis of Audited Figures.*

	DEBT/EQUITY RATIO					NET INCOME/TOTAL ASSETS					
	Less 50%	50-80%	80-100%	Over 100%	Total No PEs Aud.	Negat ...	Less 1%	1-6%	6-10%	Over 10%	Total No PEs Aud.
1.INDUSTRY	21	56	40	27	144	50	18	29	11	24	132
-Food	2	11	10	9	32	13	4	6	3	4	30
-Sugar	2	1			4	1		2	1		4
-Beverage	4	7	2	1	18	7	1	5	1	2	17
-Tobacco & Matches		2			2		1	1			2
-Textiles	4	5	4	7	20	10	3		1	2	15
-Leather & Shoe		11	2	1	14	2	8	2			12
-Cement	1	2		2	5	4		1			5
-Printing	1	7	2		10		1	2		7	10
-Chemical	3	4	6	3	13	4		6	1	2	13
-Metal Works	2	4	11	4	21	7	1	8	3	1	20
-Share	3	1			4	2		2			4
2.AGRICULTURE	2	7	7	13	29	18	2	4	2	6	30
-State Farms	2	4	3	10	19	14	2	1		2	19
-Ministry of Agriculture		2	2		4	1		2		1	4
-Coffee & Tea		1	2	3	6	3			2	1	7
3.FOREIGN TRADE			1	1	4			1		1	2
4.DOMESTIC TRADE	1	3	6		10			2	2	6	10
5.TOURISM AND HOTELS		5	2	2	7	4	1		1	1	7
6.TRANSPORT & COMMUNICAT.	1	2	5		8	3		3	2	2	10
7.MINES & ENERGY	2	1	1		4			1		1	2
8.CONSTRUCTION	3	3	4	9	19	12	2	2	1		14
9.URBAN DEVELOPMENT	7	4			7	5			2		7
10.PUBLIC HEALTH		1	4		5			1	1	1	3
11.AUDIT SERVICE		1			1					1	1
12.LOTTERY ADMINISTRATION			1		1					1	1
	31	81	71	72	257	90		44	21	44	123

Source: Various Financial Plan Documents and Audited Accounts.

*The Debt Equity ratios as well as the net Income/Total Assets ratio in 175 PEs' were calculated on the basis of EFY 1982 audited documents. However the remaining PEs the audited available figures for the latest years were considered.

Annex 5:
Percentage of Net Equity to Capital and
Debt/Equity Ratio of PEs.

SECTORS/SUB-SECTORS	CAPITAL & RESERVE IN '000	ACCUM. SURP.- DEFICIT IN '000	NET EQUITY IN '000	PERCENTAGE OF NET EQUITY /CAPITAL	DEBT/EQUITY RATIO	PERM-ANENT EMPLOYEE 1982
1. INDUSTRY	906,094	(166,461)	741,597	87.1	85:15	78,113
- Food	85,077	(26,895)	58,182	68.4	99:9	5,750
- Sugar	88,772	(21)	88,751	99.9	48:52	8,717
- Beverage	95,678	(17,844)	77,834	81.2	73:27	9,821
- Tobacco & Matches	6,830		6,830	100.0	74:26	1,384
- Textiles	277,638	(51,294)	226,344	81.5	88:12	34,385
- Leather & Shoe	78,302	(23,387)	54,915	69.9	73:27	3,319
- Cement	17,279		1,441	4.1	175:-75	1,430
- Printing	22,515	(15,838)	22,411	99.4	69:31	3,590
- Chemical	23,524	(124)	23,225	98.5	79:21	2,717
- Metal Works	176,132	(1,299)	144,537	85.1	82:18	4,630
- Share Companies	26,127	(29,559)	26,127	100.0	30:70	N.A.
2. AGRICULTURE	989,091	(1,266,149)	(782,685)	131.5	112:-12	77,430
- State Farms	505,466	(1,113,519)	(695,467)	167.0	146:-46	51,264
- Coffee & Tea	417,050	(150,562)	(81,969)	-120.0	113:-13	22,132
- Agriculture	68,575	(3,088)	14,733	82.7	78:11	4,054
3. DOMESTIC TRADE	73,182		73,182	100.0	76:24	13,404
4. FOREIGN TRADE	17,023	(3,928)	13,102	76.9	97:3	1,072
5. TRANSPORT & COMMUNICATION	885,189	(3,262)	881,927	99.5	48:52	12,505
6. CONSTRUCTION	75,859	(57,057)	18,302	22.2	127:23	2,894
7. URBAN DEVELOPMENT*	184,225	(15,073)	171,304	92.2	55:45	7,570
8. HEALTH	22,359		22,895	100.0	83:17	N.A
9. MINES & ENERGY	444,679	(14,248)	430,431	96.9	57:43	11,981
10.HOTELS & TOURISM	37,734	(13,196)	24,558	65.0	81:19	6,067
11.FINANCE	200	N.A	200	100.0	77:23	N.A.
12.AUDIT SERVICE	1,927	N.A.	1,927	100.0	52:48	N.A.
13.FINANCIAL INSTITUTION	408,795	(84,153)	324,642	79.4	N.A	7,534

SOURCE: Ministry of State Farms & Audited Reports - MOPED PI

Annex 6
Historical Trend of Loans Granted & Disbursed by Sectors
(in Birr millions)

SECTORS	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	AVERAGE 1972-83
Agriculture	272.1	368.1	357.8	355.1	181.7	260.6	136.4	272.5	531.4	235.0	127.6	94.0	279.4
Industry	184.1	82.8	88.7	85.1	93.3	109.0	82.9	80.3	84.0	176.7	133.3	89.6	107.8
Domestic Trade	144.1	109.9	121.2	236.4	109.5	61.1	129.9	101.6	61.8	121.5	110.6	145.4	125.6
Foreign Trade	688.1	447.4	392.7	832.6	464.7	250.1	92.8	154.0	131.0	129.0	91.2	87.1	286.9
Hotels and Tourism	12.7	7.2	4.1	11.7	8.7	6.9	12.8	17.8	4.3	11.8	17.5	21.7	11.8
Transport & Communication	133.7	26.6	39.8	60.4	47.2	49.1	29.0	18.5	32.4	18.1	17.5	28.1	45.1
Housing & Construction	78.8	71.8	28.4	106.2	37.1	59.8	31.1	49.5	139.0	88.0	95.8	34.2	68.8
Mines & Energy	11.6	0.1	4.3	3.0	8.6	2.1	3.9	25.9	-	23.6	15.3	-	8.0
Personal	25.6	8.6	9.4	16.0	10.1	11.8	13.2	6.2	12.4	7.9	16.1	20.8	12.4
Others	-	-	-	7.8	7.0	3.0	3.7	7.9	2.8	7.0	8.7	8.8	6.7
Total	1523.9	1111.8	1079.2	1824.4	1096.7	744.2	722.8	760.0	891.9	819.7	723.8	527.5	950.1
Borrowers													
Public Enterprises	784.8	813.1	785.4	1118.8	712.4	478.9	434.6	462.4	517.4	456.0	377.5	187.4	594.0
Cooperatives	65.4	54.4	38.2	60.2	68.2	34.9	90.0	94.2	169.1	175.1	142.2	130.5	92.3
Private Enterprise & Industry	475.8	242.3	252.4	445.7	305.8	230.4	211.0	172.4	205.4	187.6	204.2	209.8	261.9
Total	1326.2	1111.8	1076.3	1624.8	1086.3	744.2	722.4	729.0	891.9	818.7	723.7	527.7	948.3
PERCENTAGE share of PEs	59.3%	73.2%	73.1%	68.3%	65.6%	64.4%	61.6%	63.4%	58.0%	55.6%	52.1%	35.5%	60.8%

Source: Various Financial Plan Documents, MOPED Files.

Annex 7

Ratio of Profits Before Tax/Total Sales + Non-Operating Income

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	AVERAGE 1972 - 1980
1. AGRICULTURE	1.0	2.9	1.4	-0.2	8.9	8.1	3.1	1.3	8.8	2.0	3.8
- State Farms	1.8	3.8	2.9	3.2	-27.2	1.2	3.7	2.1	2.8	4.9	-1.4
- Coffee & Tea	4.3	14.8	1.2	1.7	82.3	17.5	4.4	5.1	1.5	7.4	12.0
- Agriculture	20.9	4.3	11.8	-4.1	-0.8	16.3	9.7	1.6	0.4	2.3	6.2
											0.0
2. INDUSTRY	14.7	11.8	10.1	11.8	13.6	8.4	10.2	10.8	9.9	7.7	10.7
3. DOMESTIC TRADE	2.7	2.1	3.1	2.7	4.7	2.8	4.4	6.3	4.9	3.6	4.3
4. FOREIGN TRADE	4.5	11.3	3.4	3.3	2.6	3.8	8.4	5.9	3.6	3.9	3.7
5. HOTELS & TOURISM	7.4	3.5	8.3	8.2	13.4		13.2	6.3	7.2	8.1	7.8
6. TRANSPORT & COMMUNICATION	8.3	7.4	9.7	12.1	14.0	12.1	13.3	11.2	9.4	8.4	10.8
7. HOUSING & CONSTRUCTION					1.9	-0.8	1.4	1.4	3.0	5.6	1.4
8. MINES & ENERGY	0.03	13.3	6.8	10.7	12.3	15.8	17.1	13.7	22.4	26.8	15.9
9. URBAN DEVELOPMENT	23.8	43.8	46.8	48.1	40.3	32.0	44.0	45.5	35.0	33.3	39.4
10. FINANCE	42.8	39.1	41.7	43.3	44.2	42.0	46.6	46.6	43.8	45.5	43.2
11. BANKING & INSURANCE	63.9	66.4	60.2	37.3	37.7	39.2	37.6	62.2	39.5	60.4	60.7
12. AUDITOR GENERAL	19.4	29.4	35.1	23.8	26.1	24.0	20.0	19.2	23.8	31.9	24.3
13. HEALTH	7.1	2.7	6.8	1.0	10.2	6.3	13.2	8.1	6.5	2.1	8.0
14. OTHERS									7.3	-27.3	-3.0
NET PROFIT/TOTAL INCOME	13.9	14.9	11.8	11.8	13.0	16.1	16.1	11.1	15.0	13.8	14.8

Source: Various Financial Plan Documents, MOPED.