The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Ethiopian Journal of Economics, II(2), October 1993, pp 67-86

PUBLIC ENTERPRISE REFORM AND PRIVATIZATION: A REVIEW OF EXPERIENCE*

Getachew Yoseph
Department of Economics, Addis Ababa University

ABSTRACT: *The paper provides a review of country experiences on public enterprise reform and privatization in a regional and socio-economic context. The discussion concludes that there is no single optimum strategy. Differences in socio-economic setting dictate that selective and properly evaluated procedures be used specific to an enterprise. The success or failure of a strategy however rests on whether or not the favourable macro-economic environment is set right apriori. The experiences of many developing countries witness that the central question is not one of ownership but that of proper mix of managerial skills at the enterprise level*

I: GENERAL INTRODUCTION

1.1. Scope of the Paper

Since the early 80s, privatization and public-enterprise-reform has become the center of public policy concern in all societies. It is excessively emphasized to be an engine of growth, a means to broaden the basis of ownership and instrumental in fostering technological upgrading, particularly in the ex-socialist and developing economies. Though these policy objectives are more or less the same, different countries have followed different approaches and there is divergence in efficacy.

The coverage of this paper is less ambitious than what the title suggests. The paper only attempts to make a gross review of these experiences in a regional, social and economic context. Some efforts of course have also been made to include specific country experiences to support this contextual presentation.

The reform program is an on-going-experiment. These experiences are diverse and our " tour d'horizon" demonstrates that there is no such thing as an optimum privatization modality. The reason is quite trivial. Power elites in different countries differ on

---

* The paper was written for the Workshop on Public Enterprise Reform and Privatization in Ethiopia, jointly organized by the Department of Economics and the Ethiopian Economic Association. (July, 1993).

perception of the concept; and there are differences in priorities, long-term development objectives and immediate problems. No less important is disparity in the social fabrics and setting the policy-makers live in.

The paper therefore does not close with a prescription. It can generally be recognized, however, that the chance of success is higher if this reform program is integrated into a broad policy framework that envisions to tune the economy on the path of competitive market forces while choice of strategy is non-dogmatic.

The presentation of the paper is sequenced as follows. First, the changing perceptions as regards the role of the state vis-a-vis the economy is discussed as a background; then we proceed to the experiences of countries in a socio-economic context; and finally conclusions are drawn.

1.2. The Changing Role of the State

1.2.1 A Revisit

The period that followed the end of world war II, the socialist revolutions and the liberation of the ex-colonies, until late 70s witnessed a strong argument for state and public intervention in production and distribution activities for both ideological and/or economic reasons [8:7-12; 5 :1-2]. The then political economy urged that planning and public ownership in the key economic sectors are vital to achieve rapid progress, resource mobilization, fair income distribution and productive allocation of resources. This is because the price mechanism does not always guarantee the desired level of goods and services commensurate with development objectives.

a) There prevailed an infant private sector and imperfect markets in the newly independent countries. The private sector lacked the necessary finance and entrepreneurial and managerial skills. It was felt necessary for the state to actively participate in economic activities, mobilize domestic resources, protect the infant industries against international competition, pursue import substitution strategies and allocate resources in priority areas. As the economist would say development thinking was overwhelmed by the Harrod-Domar growth model. The state was expected to mobilize savings and investment resources in order to expand the productive capacity of the economy.

b) In the industrialized bloc, state intervention was called for mainly as a matter of market failures in few cases.

i) In some economic activities, there may exist a natural monopoly position. Public regulation or ownership may therefore be necessary in the interest of the public and smaller firms.

ii) A private firm may not find it profitable to go into the production of public or merit goods for the market. It thus becomes incumbent upon the state to provide such goods and services to the public.

iii) Usually short-term and long-term development objectives require state intervention in view of cushioning social welfare, alleviating regional imbalances and following up economic activities of strategic importance for the economy as a whole.

c) In the then socialist countries, it was believed that exploitation, poverty, mismanagement of resources, unemployment and inequality are inherent features of a market economy. It was contended that the economy would preform better and more efficiently under social ownership than in private hands. It was therefore the mandate of the state and the party to own, control and direct the allocation of resources, administer prices and distribute goods and services to the public. State control was also advocated on accounts of the social and development goals enunciated in (iii) above.

Unfortunately, whatever the social and economic context may have been, the preceding propositions are now dispelled on the grounds that the outcomes and achievements have not lived up to the expectations of the public, the proponents and designers of such policies.

This is not in any way to imply that state intervention is undesirable and unnecessary in the developing countries but it should be one of creating a conducive economic environment for both the private sector and the public sector to grow.

Naya [8] underlines that, " At a more fundamental level, the central issue is not government intervention per so but the nature of that intervention. It is not just a question of government versus private sector but, more important, how government can create the best environment for a successful, competitive and technologically dynamic private sector."

1.2.2 Why Shift?

The functions of the state in the economic sphere are now being redefined and appraised as a result of the changing international economic environment, and experiences of countries that performed overwhelmingly better than those with state interventionist systems [8: 13-25]. The basis of delineation between state and private domains is becoming comparative advantage.

i) There are a host of empirical evidence supporting that market-based economies have done significantly better and the living conditions of the people improved better than in countries with unrestrained government interventions.

ii) The developing countries have now realized the potential dynamism of the private sector in developing their economies and its resilience to cope with changes in the international economic environment. These countries are faced with fluctuating export earnings, balance-of-payments problems, protectionist policies of developed countries, fiscal imbalances and dwindling inflow of foreign capital. Policy-makers have now become cognizant of the need to work hand-and-glove with the private sector in the development process.

iii) The public-owned enterprises in many of the cases suffer budget deficits and public debts. The financial burden has become so big that governments envisage at least in the long-run to withdraw from economic activities that can possibly be handled by the private sector.

1.2.3. The New Function

The state should demarcate economic activities between the private sector and itself, depending on comparative advantage, existing power setting, production and ownership structures, institutions and past policies. This complexity makes the reform program a dynamic and yet protracted process in its own right. The state needs to regularly consider its objectives and functions with the changing internal and external economic factors and enact policy measures accordingly. One cannot thus possibly be exhaustive and conclusive in prescribing a role to the state per se. But it is crystallized [8: 20-25] that the state:

- should continue with the provision of public and merit goods (education, health, defence, public order, etc.)

- actively engage itself in the development of social overhead (transportation, communications, power system, etc.) that enhance and support economic development and the smooth functioning of society.

- disseminate economic information so as to ensure efficient resource allocation and create awareness on the impacts of policy measures on welfare, production, trade, prices etc.

- institute a clear-cut legal and regulatory framework that minimizes bureaucratic nitigrity and stifles discretionary practice of the authorities.

- promote and internalize scientific and technological research and development.

- provide a safety net program for the ultra poor.

- prepare indicative and rolling plans with long- term development objectives in perspective.

II. COUNTRY EXPERIENCES

2.1. The Broader Framework

The concept of privatization is broad and loaded [10:4]. It covers a wide range of policy measures. It not only shows who should own assets but also includes the principle of public enterprise performance within the context of market forces, i.e., short of divestiture also. In recent years, privatization connotes "marketization" of the economy. That is to say, public enterprise reform is one form of privatization so long as the enterprise is operating on the basis of market principle. Its interpretation is therefore to be taken within the relevant discussion.

There is now a universal agreement on the need for privatization to revitalize economic growth and achieve efficiency. This policy orientation is a result of objectivity and surrender to reality. The role and nature of privatization and public enterprise reform is once again to be discerned within the existing institutional framework [1: 45-49].

In mixed economies, privatization is a management reform in public enterprises. It is a product of the universal consensus that social interest can be served better through market forces than through cadre-led institutions or time-consuming government regulations and control. In the ex-command economies, privatization is to serve as a leverage to transform the old economic order into capitalism. It is a result of the fact that a market-based economy cannot emerge without privatization. In the case of non-socialistic societies, privatization is a means to "pull back the frontiers of government intervention" and create an enabling environment for the private sector to flourish. In theory the objectives of privatization are better realized in capitalist-oriented countries than elsewhere because the preconditions such as financial markets, stock exchanges and well-defined property rights are already in place. The task in the ex-command system is arduous and complex for the obvious reason that these supportive conditions are non-existent. The social and political repercussions call for prior scrutiny of the implications of the reform policy as privatization disturbs existing power and property relations in the then socialist countries.

In the following sections, a review of experiences within a regional and/or socio-economic context is presented. Lessons of experience are drawn on the basis of these experiences.

2.2. Latin American Countries

Privatization has become a key part of Latin America's growth strategy in recent years both as a matter of choice and response to financial difficulties [3: 6-17]. A comprehensive and longest privatization program has been going on in Chile after the fiasco of the 1970s. The other countries in the continent are also pursuing privatization but slowly and selectively. There is a cross-country variation in achieving the objectives of privatization. Some have enjoyed modest success and in other cases it has been a failure.

Chile is a pioneer in this exercise. The country enjoys favourable resource endowments and its people are better educated by Latin American standard and yet posted a poor record on the economic front. The military government claimed that this poor performance is a result of mismanagement of resources and leadership mediocrity. The government thus tapped technocratic and professional excellence in order to revamp the economy. Privatization in Chile is viewed as an integral element of SAP. It is supported by a series of other policy measures such as fiscal restraint, trade liberalization, price decontrol and so on. The policy implementation is a "learning-by-doing" process and "evolutionary". The experience of Chile clearly witnesses the importance of "putting the economic house in order" if allocational efficiency is to be attained.

Argentina had also carried out a significant reprivatization program during the late 70s and the 1980s. The outcomes, however, were not impressive. The program faced wide opposition from labour union and the public. For one, the state lacked sufficient political commitment. Second, the program itself was not integrated with the necessary changes in the macroeconomic environment. Third, the bureaucracy preferred to maintain the status quo and abused its responsibility. The state machinery is very well known for its Byzantine process of policy and decision-making. Fourth, the private sector in Argentina is largely rent-seeker and accustomed to corrupt practices.

Privatization has also been on the policy agenda of Mexico for long. The results are less than modest here too. The program has an amorphous structure. Privatization comes to the fore for purposes of debt relief and political flirtations. The approach is versatile and ambivalent. The private sector is one that is guided by immediate gains. The cumulative effect has been allocational abuses and poor performance of the economy.

Brazil seems to be less enthusiastic about privatization than Chile, Argentina and Mexico. This is believed to be a product of the good performance of state-owned enterprises which enjoy technocratic and professional leadership. The pace of privatization has been modest but the results are acknowledged to the satisfactory.

The experiences of Latin American countries offer the following lessons [3: 6-17 ; 117-130].

a) Since there are differences in context, there is no such thing as "an optimum model of privatization" for all countries. The attainment of allocational efficiency, however, requires a clear understanding of the interaction between macro-economic policies and micro-economic performance. Privatization should thus be considered as an integral part of a broad structural adjustment package.

b) The start-off line in the privatization process is to clarify priorities and put the preconditions in place. That is, the government should begin with reforms that restore the macroeconomic environment to health.

c) Formal privatization does not always guarantee positive results in an environment of rent-seeking behaviour. Better results could therefore be attained if other plausible alternatives, in the short and medium term, to divestiture are sought under such circumstances.

d) The creation of a "lead institution" has been found useful to expedite the privatization process and availing advice and credit to the private sector.

e) Privatization programs have been resisted by managers, white-collar workers, civil servants, the general public, and other interest groups, obviously scared by massive lay-offs and dislocation or eventually diminishing benefits and favours. These are usually the intelligentsia that have strong influence over public opinion in casting doubts about the program. The experience of Latin America suggests that these political obstacles could be substantially reduced by depoliticising the privatization program. Some of such calming measures are encouraging workers' participation in privatization by introducing employee stock ownership programs, increasing enterprise autonomy while commercializing their activities and removing part of the accumulated debt burden, and the provision of safety net programs for the poor.

To overcome these political hurdles, the government may also launch an educative program to the public on the logic of privatization. The public should be told that privatization is not a complete withdrawal of the state from economic activities. The state is only redirecting its efforts and energy to social overhead projects, infrastructure and other priorities. The social goals of state interference are still noble and the state shall not in any way turn down these social objectives.

2.3. The Growing Asian Countries

It is an uncontested fact that the ever growing Asian countries have recorded a sustained growth by world standard. This has been a result of objective market-based policies.

These countries very well recognize that there is a long way to achieve the objectives of privatization [1: 97-98]. The thrust of enterprise reform in the short-run has been increasing managerial autonomy, instituting a prudent financial discipline and operating on the basis of markets and prices. Cognizant of the influence of property rights on the performance of public enterprises, ownership responsibilities are given to lower-level agencies. The role of the state is clearly delineated vis-a-vis the private sector. The two are conceived as complimentaries and not as adversaries. Over time, the private sector is gaining the upper hand, with the exception of China and Vietnam. In Asia, privatization is not a search for a laissez-faire economic policy [8: 27-30]. The "tigers" of Asia are often cited as testimony for the superiority of capitalism over alternative development strategies. The truth is that these countries have effectively distributed assets to the people, especially land [14: 37-38]. This has allowed expansion of the domestic market. Policy formulation is not dictated on political grounds but is a result of realistic assessment of the pros and cons of the outcomes of different modalities. It is to create a conducive environment for both the state and the private sector to facilitate the market process. There is a good relationship between government and businessmen. The government holds regularly policy dialogue with industrialists and bankers and coopts them in selecting viable and economic projects. In short, the two parties share knowledge and experience in promoting the policy implementation process. Naya comments that while this joint effort is to be taken positively, necessary safeguards have to be put in order to ensure that the macro policy is not compromised and corruption does not undermine policy objectives. As the supportive macro conditions and the tradition already exist, privatization is a smooth but gradual process.

China has also introduced policy measures in recent years to enhance aggregate efficiency and productivity of the economy [8:94-95 ; 14:56].

In the agrarian sector, production and investment decisions are left to the household. The household is given leasehold rights over land. Prices of farm products are now close to market prices. Positive achievements have been reported in the agricultural sector in response to these policy changes.

Official laws are now enacted that recognize the active role of the private sector as necessary. Owing to this legislation, the private sector is now aggressively participating in the service sector, light manufacturing industries and the informal sector in general. This policy change has been even more effective in transforming rural China.

As a first step to a market-based economic system, a considerable number of state-owned enterprises are now operating under a contractual responsibility arrangement. The main features of the new system are that managers enter into contract with the relevant government department and a provision is given to them upon guaranteed product delivery. The enterprises retain all above-quota profits. The modality however faces problems as the enterprises are not free from government price control and wage regulations.

Efforts are also under way to attract foreign investors under joint-venture arrangements. Import rules have been relaxed for those producing export goods. Other piecemeal and selective measures have also been implemented to improve the investment climate for foreigners.

Some people contend that the registered positive results may not be sustained for long since the enabling macroeconomic conditions are missing. In the long-run, the political implication of the reforms may not be welcomed by all. That is to say, it may be difficult at the end of the day to contain such market-based reforms within the existing political order.

Viet Nam is also undergoing an aggressive economic reform toward "a socialist market economy". These changes, among others, give greater autonomy to public enterprise management and legal status to private institution and guarantee peasants long-term right to use the land [14: 64]. As a result of these reforms, the Vietnamese economy has grown significantly despite the challenges and difficulties of external nature (collapse of the Soviet Union, U.S embargo). But the demobilized forces from Cambodia and the retrenched from state enterprises and public services pose a serious challenge to the reform process.

2.4. The Ex-command Economies

The state sector in the ex-socialist East European countries remains dominant. There were times when the state sector produced very good results but this was irrespective of cost considerations. Past reforms attempted to make the sector responsive to prices, costs and consumer demand. The then reforms considered only the productivity enhancing aspects of the market. Even then these programs were not pursued in full vigour. Enterprise management and the bureaucracy showed a "risk-aversion" behaviour dictated by political and vested interests or fear of breaking away with old ways of doing things.

It is now recognized [9: 1-2] that any piecemeal approach is inadequate. In these countries recent public enterprise reform and privatization is a central aspect of a plan for a fundamental change. Past public enterprise reform policies did not address the question of ownership. Of course, they gave greater self-management to enterprises but failed to introduce stringent financial discipline. The reforms thus did not make much of a difference. The causes of failure are now understood to be shortcomings in macroeconomic policy, uneconomic pricing regime and deficient legal and regulatory framework [4: 39-41].

In the East European countries, privatization is embodied in the transformation of the economy along market forces. The problem is more complex than in countries with different socio-economic set-ups since the institutional and competitive framework are yet to be instituted [4: 21-24]. Small-scale firms in trade and services are largely privatized through auctions. Many or most of the large-scale enterprises are in government hands to date. The reform so far envisages that these enterprises operate along the principle of market forces and prudent financial management. In short, as there is no blue print on the question of ownership, these governments have adopted multi-faceted approach, ranging from establishing ownership rights to technocratic leadership on behalf of the state.

The experiences of Poland and Russia can provide a good example on the effectiveness of the reform program in Eastern Europe. Poland is gradually achieving macro-economic equilibrium [14: 62]. The private sector is expanding. The trade and distribution sector is nearly all privatized. Many small and medium size enterprises are also privatized. Management in the big enterprises is reorganized and restructured with greater independence. Greater efficiency has thus been reported. But many observers are sceptical of the distribution of these benefits. It is noted that unemployment in small towns and rural areas has reached the range of 20 percent.

The economic and political difficulties of Soviet Russia has reached a catastrophic proportion [14: 63]. It is reported that in 1992 food alone claimed 75% of household expenditure and nearly 80% of the population has descended below poverty line. Some degree of privatization is underway in the midst of unprecedented economic, social and political crises. It seems that Russia is paying such a price because it wants to do away with its accumulated problems all at once.

Aside from the absence of macroeconomic institutional and competitive environment, the objectives of the privatization reform in the ex-socialist countries appear inherently contradictory. The ultimate goals of privatization are to improve efficiency, broaden ownership of assets, and augment fiscal revenues [4]. Suppose the government opts for the sales of assets. Then it can raise revenues but will concentrate ownership in a few hands, usually the "nomenklatura", black marketeers, and rent-reekers, thus defeating the major objective of privatization. Assume also that the government pursues free distribution of assets. This may result in equity in ownership but generates no revenue for the government and may even adversely affect efficiency promotion. What these hypothetical cases aim to transcend is that a policy measure may be socially and politically justified but can bring in unintended results such as political dissatisfactions and mismanagement of resources. The multiplicity of the problems in the then socialist countries thus calls for a conscious effort to follow a multi-track path depending on circumstances and the magnitude of the implied social, political and economic grievances.

The experiences of these countries grossly suggest the ensuing policy considerations (UNDP, pp. 143-149), [7: 22-25].

i) The multiplicity and complexity of the problem necessitates a pragmatic selection and sequencing of privatization options and modalities.

ii) There is need to clearly prioritize goals so that appropriate means are worked out to achieve these objectives.

iii) The state is not detached from old practices and interference. The program should therefore clearly bring out the role the state is to play in the process of instituting a market economy.

iv) There is a sound reason supporting privatization in these economies. It should be recognized, however, that this transition is not easy and requires patience and perseverance. It is taxing to conceive and implement such a program in an essentially socialistic economic configuration. Formal privatization is therefore a long-term objective. In the short and medium term, due attention should be given to creating the supportive macroeconomic environment.

2.5. The Developing Countries

Privatization is also gaining increased momentum in the developing countries as a result of continued financial deficits in the public enterprises and international financial lenders (Bank/Fund) pressure. The program is slow and opaque for there is mixed feeling and misconception on the part of governments and the public [2: v-vii], [6: 10].

In the first place, the developing countries are not ready to sell profitable state enterprises. They want to privatize the money losers only. It is not well apprehended that formal privatization should be based on comparative advantage considerations, economic efficiency and best use of resources. There is also a strong political opposition to divestiture because of the concomitant lay-off of workers and the just fear of people-friendly politicians that the rich and the privileged are to benefit. Nationalistic feelings are also frustrating the process as governments are resisting purchases by foreigners. On the other hand, the domestic capital market is too thin to discharge the task. The problem is further complicated by the fact that many government officials lack the political commitment. In many instances, it is also a lip service.

These limited experiences of developing countries suggest for the following actions:

- these countries need to clarify objectives, costs and benefits from formal privatization.

The objectives of privatization in the developing countries so far are borrowed from the developed countries. There is need to re-evaluate these objectives in light of existing circumstances.

- they need to make sure that the reasons for privatization and public enterprise reform are well understood by the people and the policy is clear and impartial. That way, consensus could be reached.

- they require to set up appropriate institutions that search for alternative forms of privatization and evaluate different options and modality.

- most important, countries in this category should concentrate in the short and medium-term on creating a favourable policy environment that encourages efficiency, competition, and efficiency pricing both in the private sector as well as in the state sector. It should be understood that privatization is a continuum concept. Commercialization may be more relevant than formal privatization in the immediate future.

The African countries have many problems in common with other developing countries. In most African countries, privatization is on the reform agenda [8: 42-65],[14: 57,58,60]. Many, if not all, of the large enterprises are under state ownership to this day. Privatization is not perceived as an ideological faith but as one of the strategies and techniques to improve efficiency and productivity of public enterprises. Some economists and policy-makers are increasingly advocating for divestiture but many doubt its viability in the African context. The sale of enterprises to private investors assumes the existence of a competent and entrepreneurial private sector. The private sector in Africa is weak in terms of capital, managerial skills and entrepreneurship. On the other hand, foreign investors demand concessionary terms such a protection and other discretions to let them retrieve their investment in a short span of time. More serious is that most of the public enterprises in manufacturing, extraction and services are state monopolies. If these are to be sold to private business, they will end up as private monopolies. In such cases, there is no guarantee that socio-economic interest of society will be better served under private ownership. While the bottom line criterion could be financial relief, the social and political dimension of the reform could not be ignored. As in other developing countries, they need to work out the objectives of privatization in clear terms. The thrust could not be reducing the unmanageable size of the public sector. The central issue should be efficiency and productivity enhancement.

Privatization in Africa therefore requires time, wisdom and patience. Circumstances dictate policy-makers to be pragmatic, country-specific, and sector-specific while reform is necessary and urgent.

Subsequent to the economic crises of the 80s, many African countries have attempted to liberalize their economies and shy away from state guidance of the economy. In Egypt, efforts are underway to re-institute a market based economy [14: 57]. It has been reported that the immediate impacts have been positive in general terms, though unemployment has grown and prices of basic goods and services have gone up. In Ghana, the policy direction has been improving efficiency in the state sector and divest itself of a large number of these enterprises gradually [14: 58]. The private sector in Ghana has taken advantage of the favourable macro-economic environment and aggressively invested in the gold mining sector. The major bottlenecks have been shortage of capital for private sector borrowing. As in Egypt, the majority of the people remain poor. The experience of Kenya does not lend itself to any conclusion [14: 60]. The policy framework is not enthusiastic about divestiture for two reasons. Economic power is already concentrated in the hands of foreigners and second empirical evidence has shown that managerial skill is more responsible for good performance than private ownership.

In view of these considerations, the experiences of sub-saharan Africa have so far been [9],[15: 28-35]:

i) Divestiture is effected in enterprises that are small in terms of assets and employees

ii) Rehabilitation of strategic and large public enterprises with present ownership arrangements has been a prime policy concern through managerial and institutional reforms along commercial lines.

In order to realize sustainable results in future, policy measures need to pick on the following issues as a matter of highest priority in Africa:

- Under conditions of imperfect markets, the rule of profit maximization may not bring in the desired social outcomes. So, other logical alternative tools such as cost-benefit analysis, a specified rate of return on capital or setting prices to long-run marginal cost may be invoked to lead the actions of public enterprise.

- No less important is the creation of macro-economic policy conditions within the public policy paradigm that will give the proper signal to private producers and state enterprises.

- Decentralization of decision-making process is important. The government need to clearly state the objectives of the enterprise and support to be given while financial/commercial return is the driving force for the enterprise.

- In Africa, public sector officials are known to take the law into their hands and widely practise nepotism. Competence and integrity should therefore be the prime criterion in their recruitment. A program of education in ethics may also be necessary.

- Private and public sectors need to be perceived as complimentaries in the development process.

As the focus of the workshop is on Ethiopia, it will be proper to say a few words on the Ethiopian experience. Formal privatization was not considered under the defunct Derg regime. It was, however, cognizant of the bad performance of the state sector in general but its strategy was to improve efficiency through commercialization within the framework of state control [10 :354]. Even this was not implemented. On the other hand, the Transitional Government has explicitly stated that the direction of change and reform is to tune the Ethiopian economy on the path of market structures. Public-enterprise-reform-and-privatization is integrated into the broad structural adjustment program. Reforms are already under way to institute the supportive environment for effective privatization. Beyond this, the time frame is too short to judge the impacts.

III: CONCLUSIONS

Our global exploration in the foregoing chapters suggests the importance of the following points in the exercise.

(i) Privatization is on the testing ground. Different modalities have been designed as deemed appropriate vis-a-vis existing socio-economic factors and development objectives of different countries. Various options and approaches have also been utilised within the state sector of a country, depending on circumstances and previous policies. It should be emphasized that a single procedure can work differently in different socio-economic settings. The experiences of different countries offer the lesson that there is no single and neat avenue to follow.

ii) Effective privatization has a gradual nature and it takes sometime before it bears fruits. It is a "learning-by-doing" continuum. Of course, one should begin with the institutionalization of the relevant macro conditions; then various forms of privatization may be considered and evaluated specific to an enterprise. A second-best choice may be preferred if the social and political implications prove less severe.

iii) There is need to vow the private sector in Ethiopia. Many of the people with the ability to invest were engaged in seeking short-term benefits and are used to manipulation of bureaucratic discretions. Whatever entrepreneurship the country enjoyed prior to the Derg, was eroded as a result of ill-conceived policies. In the Ethiopian case a cut-throat competition amongst potential investors is wasteful. They should rather complement one another as in southeast Asia. The government should make every effort within its limits to mould their outlook, provide expertise and information. It is to be understood that each potential investor in many cases may not be strong enough to establish a firm. The government may therefore help them organize under joint-stock arrangements and identify project. A regular policy dialogue with the business class may also be useful to internalizing the foregoing ambitions as success stories confirm.

iv) It should also be recognized that some policy measures could produce conflicting results vis-a-vis development objectives. One must clearly weigh and evaluate the effects of alternative procedures. Unlike what some economists contend, macroeconomic equilibrium is not always healthy. For instance equilibrium can be achieved with minimum effort through increased prices, lowered output and reduced consumption. But this is as good as defeating development and growth objectives. Efficiency should thus precede the objective of financial relief on the part of the government particularly when existing capacity is under utilized.

In conclusion, it should be underlined that privatization is not always a solution. It is " a political process" in its own right [7 :51]. The rationale for privatization has to be clearly weighed and articulated and it is not a question of endorsing a fad. If hastily pursued, there is a high risk of intensifying the very problems we want to redress.

REFERENCES

Andic, Fuat, **Privatization Theory and Policy**, UNIDO, (1992).

Berg, Elliot and Shirley, Mary M., **Divestiture in Developing Countries**.11, World Bank Discussion Paper, (1987).

Galal, Ahmed, **Public Enterprise Reform: A Challenge for the World Bank,** Country Economics Department. The World Bank, (1990).

Gelb, Alan H. and Gray, Cheryl W., **The Transformation of Economies in Central and Eastern Europe.** The World Bank,17.

Glade, William (ed.), **Privatization and Development,** International Centre for Economic Growth, (1987).

Hanke, Steve H. (ed.), **Privatization and Development,** International Centre for Economic Growth, (1987).

Lee, Barbara and Nellis, John, **Enterprise Reform and Privatization in Socialist Economies, 104,** World Bank Discussion Paper, (1990).

Naya, Seiji, **Private Sector Development and Enterprise Reforms in Growing Asian Economies,** International Center for Economic Growth, Number 3, (1990).

Nellis, John, **Public Enterprise Reform in Adjustment Lending,** Country Economics Department, The World Bank, (1989), Public Enterprises in sub-saharan Africa, World Bank Discussion Paper, 1. (1988).

Ramanadham, V.V. (ed), **Privatization in Developing Countries**, (1989).

Schjelderup, Guttorm, **Reforming State Enterprises in Socialist Economies,** Country Economics Department. The World Bank,(1990).

Transitional Government of Ethiopia, **Economic Policy of Ethiopia during the Transitional Period**, (1991).

UNDP$_a$, **Guidelines on Privatization,** Interregional Network on Privatization, (1991).

UNDP$_b$, **Human Development Report 1993,** (March, 1993).

UN, ECA, **Review of Recent Experience in Public Enterprise Reform and privatization in Africa**, (1991).