STRATEGIES AND MACROECONOMIC POLICIES FOR THE DEVELOPMENT OF THE PRIVATE SECTOR IN ETHIOPIA

Befekadu Degefe

1. INTRODUCTION

The economic policy of the Transitional Government of Ethiopia (TGE) has redefined responsibilities for economic growth and societal development between the private and the public sectors. The private sector assumed the onus of producing and providing goods and services while the state is by and large, to be the facilitator and regulator of these activities. The general policy framework (TGE, 1991) and the specific measures implemented thereafter envisaged and aimed to shrink the role of the state in direct participation limited to those activities that are of strategic importance and those considered essential but are beyond the interest and/or capacity of the private sector. The compression of the state and the elevation of the private sector operating within a competitive market economy is a significant departure from the military regime’s state-centred and centrally planned development paradigm.

The reshuffling of the burden of growth and development between the public and the private sector and the acknowledgement of the market as the mechanism for resource allocation are moves in the right direction. Lessons from the economic history of nations, including our own recent past have conclusively established that market-based private sector anchored economies grow much faster than centrally planned market-driven regimes.

While the positive correlation between the private sector and economic performance are undeniable, the qualitative and quantitative effect depend very much on the extent to which the opportunities that are provided by and through the market are exploitable and exploited by private economic agents. The market institution in other words is a necessary but not sufficient to bring about high rates of economic growth. The existence, resilience and dynamism of the private sector is an essential component.

The quality of the private sector determines not only the latitude of the market but also the role of the state in economic activity. Where private economic agents are un or underdeveloped, it would be incumbent upon the state not only to create an enabling and conducive environment for a free enterprise economy, it must in addition nurture and develop the private participants. Among the proven and time honoured private enterprise developing techniques and strategies available to the state are teaching by doing, training and education, support and protection from predators.

This paper seeks to review the conditions and capacity of the private sector in Ethiopia and evaluate the overall macro/micro policy framework from points of view of its compatibility for
its growth and development. The rest of the paper is organized as follows. Section 2 takes stock of the private sector in Ethiopia and precipitates politics-economic framework in and under which they are expected to thrive. Section 3 is a critical assessment of the compatibility between private sector development and the general political and policy environment and suggests alternatives where these are deemed necessary. Section 4 looks at some supplementary measures necessary for the vibrancy of the private sector. Section 5 considered external assistance and support and Section 6 concludes the paper.

2. PRIVATE SECTOR DEVELOPMENT: INITIAL CONDITIONS

The Ethiopian economy has been made to surface from the highly repressed, incompetently overregulated and bureaucratically over centralized depth and launched on the path of private sector anchored and market driven economic regime. The general public have been informed, in no uncertain terms, that they control their own economic destiny and the quality of their lives are to be determined by their own enterprise. In line with this philosophy, the state has started the evolutionary process of self compression. A good number of employees have been retrenched (Getahun, 1993) and public enterprises have undergone reform and are slated for divestiture (Gulilat, 1993).

It would be of interest to take a brief look at the new engine of economic growth and development and take an intuitive assessment of their capacity and capability to assume the awesome responsibility that is thrust on them.

2.1 The Private Sector

Private enterprise and entrepreneurship is alive and well in Ethiopia today. One of the perhaps not so surprising ironies of the policies of the last two decades is that a regime which ferociously sought to exterminate private enterprise and marginalize its role where this was found impossible and impractical effectively contributed to its proliferation. President Mengistu’s regime left behind considerably more entrepreneurs and private enterprise than it inherited from a government that ostensibly went out of its way to develop it.

Favourable conditions for private sector development was created precisely by the policies that aimed at its destruction - the supplantation of the market by administrative fiat and controls and the economies of shortage it engendered... The main reasons behind the perverse outcome are the opportunities and challenges created by the system. No sector nor class of society failed to participate in this flourishing activity, perhaps with the exception of the President himself.

First and foremost, the suppression of the market created profitable opportunities for those who had access to goods, services and/or the means of acquiring them. Consequently high officials,
government bureaucrats, managers of public enterprises, administrators, regulators at all levels turned into entrepreneurs. Such behaviours are endemic in all countries where attempts are made to supplant the market by administrative fiat (Kruger, 1974, Bhagwati, 1982).

Secondly a large number of people who traditionally were outside the market were forced into it because of the high cost of living. These included academic staff and other intellectuals, housewives as well as children under age. The purchasing power of income from employment were growing more and more insufficient to support decent life, forcing people to device and develop their own survival strategies which again invariably turned them into entrepreneurs.

Privately owned manufacturing industries were nationalized and the private sector was limited to small scale enterprises with capital not exceeding half a million birr. Even where daredevils were willing to set up plants legally within the ambit of the regulation, their efforts were frustrated with impossible licensing procedures, shortages of foreign exchange, acquisition of land, etc. But the profitable opportunities created by the economics of shortage were too big to be missed, providing them with sufficiently strong incentive to circumvent the law, usually with the assistance of those who were assigned the responsibility of implementing the repressive legislations. Land, although nationalized was bought and sold and title deeds provided, free foreign exchange markets proliferated, limits on plant size as well as branching restrictions were ignored. Production went underground and industrial entrepreneurs mushroomed in the backyards, garages as well as open spaces.

The condition was no different in agriculture. Despite billions expended to develop state farms and naked attempts at socializing residences through villagization and farms through cooperatives, the peasants maintained their rugged individualism and exercised their creativity in evading and mitigating the impact of government controls and regulations.

The market slated for extinction grew in importance and was performing its classical function of allocating resources on the basis of "right prices" not only domestically but in international trade. Informal foreign trade supplied all goods and services in demand and was paid for by smuggled exports. Despite the huge monetary expansion, inflation was surprisingly low, averaging less than 5% per annum between 1980 and 1989.

The surprisingly low rate of inflation is due neither to the price control (which was ineffective) nor the growth of the formal economy but because of the informal economy. The official GDP and foreign trade figures definitely underestimates the true values. According to my own estimates, the likely size of the GDP is three to four times higher than the official figure while unrecorded imports and exports were about twice the recorded values (Befekadu, 1991).

Although the private sector is large and vibrant, two of its essential characteristics must be brought out for their possible influence and impact on policy.
Problems and Prospects of Private Sector Development

The first is its diminutive size. It is an individualized business with no institutional support. Most of the financial resources are sourced from personal and/or family saving or the informal money markets (Dejene, 1993). The second is their predominantly speculative character. Most activities are trade related operating under conditions of seller’s market.

Both of these characteristics are the results of the system in which they existed and operated, which sought to exterminate them and, therefore, forced them to operate underground.

2.2 Politico-Economic Framework

A most important factor determining the nature and extent of private sector participation in any economy is the politico-economic environment in which they operate. Where the environment is conducive, they will come out in the open and engage themselves in the different facets of economic activity. Advantages of providing an enabling environment to the private sector include minimization of the cost of doing business, increase in investment, expansion of employment opportunities, revenue to the government as well as low prices of goods and services. On the contrary a suppressive environment would not eliminate the private sector but would simply drive them underground and most of the benefits identified above are lost.

2.2.1 Economic Policy

The new economic policy inaugurated by TGE in November 1991 departs markedly from the previous regime’s statist and dirigistic policies (TGE, 1991a). The basic policy framework privatized the economy in the sense of shifting the burden of growth and development to the private sector operating in a competitive market. The role of the state as producer and provider of goods and services is to be severely curtailed, its production and distribution enterprises to be divested, and its activities restricted to what are considered strategic.

Subsequent policies within these policy framework have devalued the currency by 142% and introduced the Dutch Auction in the foreign exchange market. Tight monetary policy, increased interest rate, decreased tariff, decentralized and frugal fiscal policy were put in place while public enterprises were reformed with an eye to privatization. A new investment policy with incentives including tax concessions and some foreign currency retention or remittance provisions were promulgated (TGE, 1991c).

Among the most important of the issues that remain to be settled is the question of land ownership. Government has so far favoured public ownership with leasehold tenure in the urban and usufructory rights in the rural sectors. Whether such an arrangement is final or transitory is yet to be seen.
2.2.2 Local Administration

Early in its tenure, the TGE introduced a new administrative framework, based mainly on ethnic criteria with considerable autonomy (TGE, 1991b). The administrative units so created have departed markedly from the traditional arrangements in many ways, particularly in the definition of the working language and ownership of natural resources. The lingua franca in each of the administrative regions are the local languages with Latin script in many. The administration of natural resources, particularly land seems to have devolved to local administration.

3. ASSESSMENT OF POLICIES AND PRIVATE SECTOR DEVELOPMENT

How conducive and supportive are these political, administrative and macro-economic policies, given the nature of the private sector and the responsibility it is expected to assume. What should be done to build-up the confidence of the private sector and help them move into more interesting and particularly productive activities in industry and agriculture?

3.1 Political Framework

A primary prerequisite for an investor of domestic or foreign origin is the perceived political stability as well as credible and sustainable government policy. This is of special relevance in Ethiopia because of the unfortunate experience over the last two decades.

The current Ethiopian political landscape does not seem to be as encouraging as investors would want it to be. The uncertainty mainly emanates from its transitional and fluid nature of both policy and political arrangement. There are sensitive and contentious issues and the rivalry among interest groups moving in different directions casts strong cloud of uncertainty. What are important here are how the issues are to be settled, how long a time it takes and the likely outcome.

Investors have so far been very cautious and hedging. A large number have expressed interest, particularly in industry and agriculture and have acquired the necessary licenses. But much of these interests have yet to be backed by actual commitment. Most of the private sector remain in trade and services basically because such activities carry minimum risk in that the investors are in the possession of their assets either in the form of goods or in money at all times.

3.2 Administrative Framework

While the overall political uncertainty is a major inhibitive factor, it is nevertheless not the only constraint on private sector investment. Closely linked to political stability and heavily influencing investors' perception about the future are the new administrative framework. The ethnic based, heavily decentralized internal administration with ill-defined or undefined division
of authority and responsibility between itself and the central government are causes of concern not only to the investor but the general public. The balkanization and fragmentation of the market through language, administrative and other barriers impact negatively on the investor and impede their operations.

In particular the ethnic based internal administrations constrain the free flow of goods, services, capital and people among the different regions, and are likely to prove detrimental to the overall political stability and minimize investor uncertainty.

The fragile political environment should be mended to provide investors the confidence and continuity they need to make an investment of long term duration. The more useful type of investment of interest to the nation is production of goods which is a long term investment that derives from the confidence and credibility they perceive in the political system.

A clear and more convenient division of authority and responsibility should be defined between and among the central government and local administrations. The current arrangement which leaves a lot to discretionary power is indeed over bureaucratized and unnecessarily segmented. Take the issue of investment in industry or agriculture. Investors are required to acquire licenses from the central government and thereafter negotiate on the terms and conditions of acquiring land with the local administration where the investment is to be located. Acquisition of a license does not automatically guarantee the provision of land since the two come under distinct and independent authorities.

To acquire a license, it would be necessary to present project documents with plant or farm layout. But these presume the acquisition of land which may be available only after the license is granted. Such an arrangement certainly discourages investment and unduly increases the cost of doing business. A better and more convenient arrangement is to bring the licensing and land granting authority either the central government or regional administration or divorce the land question from the bureaucracy and leave it for the market.

A clear and unambiguous division of responsibility between the central government and regional administrations are an urgent necessity. The essence of the system to be set up should make possible and encourage the free flow of goods, services, people and capital between and among the regions, a national working language and a unified fiscal arrangement.

3.3 Macro-economic Environment

The macro-economic environment presents both opportunities and challenges and imposes limitations and constraints on private sector development. The positive elements are its shift to the free market and private sector driven economy. The market environment allocate resources on the basis of expected returns on investment and is anticipated to result in a more efficient utilization of resources.
Unfortunately these positive trends are overwhelmed by the constraints emerging from the overall economic policy, the most significant of which are pointed out below.

3.3.1 Economic Stability

The economic policy pursued by the government has the cardinal objective of stabilizing prices at home, and the balance of payments by decreasing domestic demand. It was in line with this objective that the government decreased its expenditure, reduced the volume of credit to be extended by the financial institutions, increased interest rates, and devalued the Birr.

While the targeting of macro-economic stability is correct, the cardinal error of SAP type models lies in their demand suppressing policy. The more appropriate and rewarding strategy should have sought to achieve the goal of macro-economic stability by focusing on the supply side of the equation. The advantages of stability through growth are obvious.

The first is humanitarian. In a country where more than 50% of the population are poor, (World Bank 1992:23) and the national average daily calorie intake is 73% of the requirement (UNDP 1993:139), stabilizing the economy by suppressing demand and increasing prices borders on the inhuman policy of clearing off the excess population. Attempts at mitigating the impact of structural adjustment through the social dimension is likely to be overwhelmed by the stagflationary nature of SAP. The best solution and the most effective remedy for poverty is growth and this requires supply enhancing policies rather than demand restricting strategies.

Secondly, there is no better engine for private sector development and economic growth than excess demand, provided the right policies are in place. The higher prices would serve as an incentive to increase production of goods and services. The same policy is being pursued in the developed countries. The current recession and weak recovery in the developed countries are due to low demand and efforts are being taken to encourage consumers to increase their purchases (IMF, 1993). Interest rates in the US for example is at record low and Japan is being pressured to increase public expenditure to help energize the World economy. In other words lack of demand is a constraint on economic growth.

In Ethiopia where the potential to alleviate poverty and improve the standard of living lies idle, supply enhancing private sector developing policies are definitely superior and more rewarding than demand suppressing approaches.

3.3.2 The Role of the State

The macro-economic policy framework is driven by the need to ostracize the state from active participation in the economy and relegating it to regulatory and facilitating role. The argument against the state essentially source from and are based upon three central tenets. The first is inefficiency, the second crowding - out of the private sector and the third ideology. These
justifications are either not true or have been overtaken by events. After the disunion and demise of Soviet Union, the case against the state on ideological grounds have more or less been eroded. The private sector in Ethiopia was crowded out not by financial constraint but irresponsible policies and regulations. As for efficiency, the public sector in Ethiopia, with the exception of state farms, was both socially and financially profitable and provided a sizable proportion of revenue to the government (Eshete, 1993).

Given the nature of the private sector in Ethiopia which are predominately diminutive in size and myopic in entrepreneurship, development without an active participation of the state is an Herculean task. Not only should the state provide political but also economic leadership. It must play the role of entrepreneur and producer of private entrepreneurs.

Such role of the state is not an innovation but a tradition in the currently developed economies as well as the newly industrializing countries (NICs) of East Asia and the Pacific (Wade 1990).

It is true that Ethiopian bureaucrats were corrupt, misused and inefficiently utilized resources. But this should not invalidate the useful role of the state. What needs to be done is to minimize the negative effect and maximize the positive aspect rather than banishment of the state from the productive sectors of the economy. A strategy of critical importance in increasing the efficiency of public enterprises is not privatization since ownership does not necessarily render it so, but the separation of policies from economics and the definition of specific and unambiguous task or objective. Operating under difficult domestic and external conditions, public enterprises particularly in the industrial sector, have been found to be efficient. There is no reason why they cannot perform better under more conducive environment.

Granted that the state should play a major role, the issue of the areas of its participation is important. The answer to this important question was provided by Keynes 1926:47, "the important thing for government is not to do things which individuals are doing already, and to do them a little better... but to do those things which at present are not done at all."

Based on this dictum, we ask ourselves what the private sector is financially, psychologically and technically capable of doing. In general, the diminutive nature of the private sector in Ethiopia and absence of institutional arrangement to mobilize resources such as capital (share) market, the role of the private sector. Consequently an urgent task for the state at this juncture is to help develop the entrepreneurial vision of private entrepreneurs as well as building institutions.

If the Ethiopian government should be forced into privatization it could take advantage of its commitment and kick-start capital market by offering shares in the public enterprises to workers, peasants and government employees. Such an arrangement is socially beneficial and economically auspicious for a number of reasons.
Befekadu Degefe: Policies for Development of the Private Sector

i) those with capacity to purchase the enterprises to be privatized should be given the opportunity and incentive to use their resources to build new plants and thus increase the productive capacity of the nation. One of the problems in Ethiopia is the dearth of the modern sector - both in transport and manufacturing industries, and policy should target their expansion. Consequently selling existent plants and enterprises to investors with capacity and vision to install new plants tends to suppress the growth and development possibility. The better policy lies in encouraging these people to initiate new ventures.

ii) the emergence of new productive enterprises not only increases capacity but also intensifies competition. It should be remembered that a non-competitive market is likely to be as inefficient as the condemned state and more harmful to social welfare compared to state monopoly. Expansion of private sector productive capacity enhances the efficiency of the public enterprises, intensifies competition, reduces prices and increases welfare and effectively stabilizes the economy.

iii) the sale of the public enterprises to small economic agents distributes benefits widely and creates "popular capitalism" and serves as a means of equitable income distribution. As the burden of production shifts from labour to machines, because of technical and technological development, the share of income collected by owners of capital is liable to increase. Under such circumstances it would only be fair to turn labour into owners of capital by selling shares to them.

iv) such divestiture process extends and expands the resource mobilization capacity to members of society that could be difficult to reach otherwise.

The public enterprises could be used to motivate and invigorate the private sector through the disequilibrium they are to create in the economy (Hirschman, 1958). The backward and forward linkage that emerges could be strengthened through formal arrangements such as sub-contracting the private sector.

3.3.3 Trade Liberalization

The current policy liberalizes both domestic and external trade. Domestic liberalization is a necessary condition for private sector development. However, exposing the domestic economy to external competition tends to suppress it. Of these two forces with opposite effect on the private sector, the negative external impact is definitely more aggressive and stifling to the development of the private sector.

In countries pursuing the SAP model, domestic producers are invariably disadvantaged by trade liberalization in a number of ways. First, devaluation and high interest rate increase the cost of production. Second, SAP induced depression tends to decrease the volume of sales. Consequently, effect of these policies decrease profitability.
In addition to these negative effects, domestic producers are rendered less competitive to imports that flood the domestic market as a result of removal of quantitative restrictions and the slashing of tariff, which attenuates the import repressing effect of devaluation.

The combined effect of these policies results in the under utilization of existing productive capacity, declining investment and eventual de-industrialization of the economy.

The external pressure must be contained and the domestic economy protected if we want to see an orderly recovery and the continuous development of a private sector anchored economy.

The SAP models envisage an export-led growth based on the principle of comparative advantage. There is no milage in an out-ward looking export oriented policy in the short to medium run. Our export would continue to anchor on primary commodities - mainly coffee, hides and skins whose world price trend and prospects leave room for optimism. What is advocated here is not autarky but a more realistic development strategy in which exports play complementary but by no means the leading role as the engine of growth and development.

We need to diversify and there are only two ways to do that: improving the efficiency of state owned enterprises and developing and redirecting the private sector into production, processing and transport activities. This can be done only by protecting the domestic infant firms from the giant multinationals.

No country in the World developed by turning itself into an open-house. All the now developed countries protected and continue to protect their vital interest. The Uruguay round of GATT negotiations started nearly a decade ago is stalling because of disagreement on agricultural subsidy. The interesting thing is that this row and disagreement is not between the developed and developing countries (as it should have been) but among the former - the US and EEC (mainly France). Japan is being harangued by the rest of the world because it allegedly closed its domestic market. Korea and Taiwan were virtually closed until the early eighties and are even now heavily protected.

The upshot of these experience is that we should protect our economy if the private sector is to grow. But, the nature and condition of protection should change drastically. In the past we imposed tariff and non-tariff barriers on consumer goods and provided cheap and easy access to intermediate and capital goods. These produced perverse results. Producers, rather than developing these goods domestically resorted to importing them, with two unfortunate effects on the economy. First, our domestic industries went only as far as substituting light consumer goods and neglected the development of intermediate and capital goods industries. This had the unproportions consequences of rendering the industrial sector an enclave with limited multiplier and accelerator effect on the rest of the economy. Second, the more damaging impact of such industrial development was to render the economy hostage to foreign exchange. Capacity
utilization and new investment were locked into the availability of foreign exchange derived from external credit and export earnings, a very unhealthy development approach, indeed.

Protection and incentives must, therefore, be marshalled to encourage the domestic production of these vital yet neglected sources of growth and development. But, the structure of protection must be selective to speed up development and make the economy more competitive.

3.3.4 Monetary Policy

The restrictive monetary policy is not conducive to the development of the private sector mainly due to the decreased volume but increased cost of credit as well.

In countries such as Ethiopia, where domestic saving is low on account of low income, credit is the major means of increasing investment. But to increase the productive use of domestic credit, the interest rate should also be rendered attractive to investments. The tight monetary policy and the high interest rate are in breach of this principle.

The right policy in the use of credit is to make sure that it is utilized to increase the productive sectors of the economy, mainly agriculture, industry and transport. Consequently, the instrument of selective credit control is the more appropriate means of ensuring not only the development of the private sector but the employment of resources in ways beneficial to society. The use of targeted credit need not compromise efficiency since the allocation would be based on the viability of the projects presented for funding.

4. PRIVATE SECTOR CAPACITY BUILDING POLICIES

This paper dwelt at length on the need to create an enabling environment, because it is the most important condition for the development of the private sector. While a conducive and enabling environment is necessary it is not, in and by itself, sufficient condition for an emergence of a private sector capable of serving as an engine of economic growth and social transformation. It must be supported to develop its vision and entrepreneurial capacity and provided with assistance and supplied with collaborative factors of production to help them translate their dreams into reality.

The private sector in Ethiopia is extremely diminutive and socially inefficient. Its greatest asset is the desire to survive and eventually get rich. The second advantage is its creativity and ingenuity. The urban based private sector firms are in trade and service while the rural based ones and particularly the agriculturally occupied suffer from their alienation from modern technology. An estimated 80% of the labour force cannot feed the balance. Converting urban
speculators into producers of goods and providing assistance to increase the productivity of the peasants is a necessary precondition for the wholesome development of the private sector.

The private sector is by no means a homogeneous lot - consequently the support should be differentiated and properly targeted to the disparate groups. The private sector could be divided into two - the entrepreneurs and collaborators. The former are the leaders since they are the primary initiators of change whether these are in terms of producing new goods or developing new ways of production. But, these innovators and drivers must have the support of and access to the constituent elements to effectively utilize their creative capacity and translate their vision into reality. These include the traditional factors of production such as capital, land, skilled and unskilled labour as well as technology. The extent and conditions under which these factors are available determines the visions and capacity of the entrepreneurs.

4.1 Developing the Entrepreneur

Whether entrepreneurs are created or made, they need the support of the government to realize their potential and stimulate their interest. The growth of entrepreneurship over the past two decades was more an outcome of circumstances rather than a result of an internally generated visionary drive that may lapse when conditions improve. Second, few in the private sector are entrepreneurs in the real sense. The majority were simulators of the new innovators.

4.1.1 Training

Developing entrepreneurship is both a short and long term process. The short term focuses on training while the long term is embodied in the educational system of the country.

The training of entrepreneurs should be designed in ways that would help them discover their potential, sharpen their motivations, build up confidence and identify the specific area(s) of interest. Countries as diverse as Malaysia, Thailand, Taiwan, Korea and India have proven that such an approach is successful in identifying and launching new and dynamic entrepreneurs(Patel, 1977, 1990, Seiji, 1990).

The Indian experience could be summarized as follows (Patel, 1990). The target population are technical employees, non-technical employees, young engineers, other graduates and drop-outs, artisans and craftsmen, traders both formal but particularly informal, ex-service men, the rural poor, as well as unemployed women. The entrepreneur identification and selection process is based on the following assumptions (Patel, 1990:19):

"a) all persons cannot be entrepreneurs as entrepreneurs have certain traits b) such traits are identifiable (and measurable) through psychological, behavioural tests and social indices c) people possessing these traits at a certain minimum level can be developed to acquire necessary dimensions of entrepreneurship".

44
Bekele Degefa: Policies for Development of the Private Sector

The training should focus on a) achievement motivation development; b) opportunities counselling; c) market survey and project plan guidance; d) information on organizations, procedures and sources of assistance; and e) confidence and competence development strategies.

Training is provided over a period of three months to one year and are conducted in the evening. After graduation the entrepreneurs are provided with post-training support involving setting up business, follow-up on loan applications for finance, facilitating acquisition of infrastructure, such as land and factory shed, etc.

The performance of the graduates have been impressive. As Patel says the trained entrepreneurs had less than 10% closure rates and 80% were making profit at the end of the second year of graduation.

The Indian experience has been replicated elsewhere with similar results. The Ethiopian government could launch such a program with the assistance of the Chamber of Commerces and the international donor community.

4.1.2 Finance

Finance is a major constraint for the realization of entrepreneurial capacity. The problems come from lack of collateral, red tape and the high standard of the formal financial institutions that renders them inaccessible to the upcoming entrepreneurs. As a result daring entrepreneurs depend on personal and family savings and the informal credit market.

The development of entrepreneurs dictates easing such constraints. The financial system should device ways in and through which upcoming entrepreneurs should be provided with seed money on the merit of the project. The seed money could either be a loan or better still equity participation by the financial institutions. The provision of venture capital is an important contribution that the financial institutions could make to the entrepreneurial development. In addition, the financial institutions should have research and project identification departments to develop bankable projects.

In addition to the formal financial institutions, the government should set up credit institutions targeted to the development of small scale operators. Such an institution should be multi-purpose including helping entrepreneurs to identify and initiate viable projects and providing with financial assistance at concessionary rates.

In the longer run, the better source of venture capital is the share (stock) market; to which the government should pay special attention. As suggested earlier, the government can offer shares of public enterprises for sale to selected and targeted members of the public.
4.1.3 Confidence Building Measures

In order to encourage the entrepreneurs, it is necessary to provide them with institutional support and enforceable legal provisions. Among these the most important, in addition to credible political stability are: a) the maintenance of law and order; b) respect for private property; c) effective contract laws; d) provision of public goods; and, e) an effective and efficient public administration. Licensing procedures and regulatory requirements should be designed not to inhibit or stifle the development of the private sector, particularly the small scale operators. Policies should be designed to help the informal sector graduate to the formal and further enhance its growth and development.

A particularly useful and effective means of developing and sustaining small scale operators is the linkage it needs to create with large firms through sub-contracting and marketing. Such strategies have been very successful in countries such as Japan, Taiwan, Hong-Kong and Malaysia among others.

4.1.4 Capacity Building Measures

Training of entrepreneurs, although decisive, is nevertheless a short to medium term measure. The longer-run and more effective source of entrepreneurs and support staff such as managers, technicians, engineers, etc., should be sourced from the educational establishments.

Unfortunately education in Ethiopia is neither purpose driven nor targeted to produce the skilled people the economy requires. It is heavily biased against skill and aims at producing elites. As a result, education has failed to support development efforts by producing skilled and innovative manpower. Vertically there is huge gap between University graduates who are supposed to be producers of ideas and the unskilled literate or semi-literate workforce. The absence of skilled middle level manpower has resulted in using the highly skilled workers for these jobs. For instance, an engineer not only designs but also serves as his own draftsman and site supervisor because of the intermediate skill gap.

The educational establishment in Ethiopia produce functionally illiterate people, who, if they fail to join the University end up us unemployed. The unfortunate thing is that it extracts from the rural areas the most productive asset - the young and the capable - to render them unemployed and unemployable in the urban milieu.

While the errors of the past should be rectified through short term vocational and other skill oriented training, the educational system must be restructured in a way that will meet the development needs of the country. A possible starting point could be:

i) grades 1 - 6 compulsory universal education with heavy dose of skill creating training, based on regional resource endowments;
Befekadu Degefe: Policies for Development of the Private Sector

ii) grades 7 - 8 for those with highest potential for vocational and skill development training supplemented by academic oriented courses;

iii) grade 9 - 12 different types of training based on the interest and capacity of the individuals and aiming at producing lower middle level manpower; and,

iv) post grade 12.

a. The most brilliant and capable should join the University on degree track.

b. The rest should joint advanced vocational and skill developing diploma track training to produce middle level manpower.

The virtue of such arrangements are that

i) drop out at all levels acquire skill and could be productively employed or self-employed.

ii) the educational system produces manpower with marketable skills from the top scientist down to the lowest support staff.

Skill based training is the best source of entrepreneurs and provides a most viable avenue for private sector development.

5. EXTERNAL SUPPORT AND ASSISTANCE

While the major responsibility for national development should reside with the people and the government of the country, their efforts should be assisted by the international community. The support could take different forms with variable impact on private sector development. Two general areas are identified for support - the one aiming at developing a more viable environment and the other to assist private sector development.

The most pressing development problems confronting the Ethiopian government are high rate of population growth and extensive environmental degradation and desertification. International organizations particularly UNICEF and WHO have done an admirable job of saving lives while the World Bank financed and supported projects aimed at rehabilitating the environment. But much needs to be done to bring about a quick demographic transition and environmental rehabilitation. Given the enormity of the two interrelated problems, external assistance and support are essential input to stem the tide of population growth as well as to reverse the process of environmental degradation.
Of related significance to the efforts at private sector development is the need to create alternative sources of income and the necessity of moving people out of agriculture into other types of employment. This requires two pronged policy of increasing agricultural productivity to feed the non-agricultural population and generate foreign exchange to finance the import of necessities. The second strategy should endeavour to create alternative employment such as rural industrialization and the development of small scale and handcraft industries.

Both of these initiatives can use direct and indirect external support and assistance. For those to be retained in agriculture, productivity enhancing inputs such as improved and disease resistant seeds, chemicals, fertilizers and labour using technologies are essentials. These partly require investing in research and manpower development, an area that could use technical, financial and material assistance from the donor community.

The generation of alternative rural community activities could also profit from external assistance in the form of transfer of appropriate technology, financing and technical training.

6. CONCLUSION

The purpose of this paper was to examine the condition of the private sector, assess the political and economic policy environment and suggest possible avenues for improvement. The government’s policy of privatizing the economy in the sense of reducing the involvement and intervention of the state in economic activity and allowing the private sector a full and unrestricted participation in all sectors of the economy is a move in the right direction.

Two points for anxiety and apprehension are the speed with which the government intends to withdraw from direct participation in the economy as well as the extant politico-economic policy framework.

Although the private sector is extensive and vibrant, it is nevertheless not sufficiently strong nor visionary to assume the responsibility of economic growth and development without the support of an activist state, at least at the initial stage. A strong and visionary state can expedite the development of the economy and the private sector. This is a major lesson that we learn from the economic history of the developed nations, including those that became developed in the recent past.

The creation of a conducive, enabling and credible politico-economic environment is a critical prerequisite for private sector development, particularly for people who experienced nationalization and persecution in the recent past. The fluid nature of the politics of the transition period and the new ethnic based regional administrations do not seem to be as stable and encouraging as investors would like them to be. Although investment worth more than Birr
Befekadu Degefe: Policies for Development of the Private Sector

5 billion are licensed, these have yet to be implemented partly because of doubts on political stability and problems related to acquisition of necessary infrastructure, particularly land.

The macro-economic policy emphasizing stability before growth do not augur well for private sector development. The better approach should focus on stability through growth and implementation, supply enhancing rather than the demand depressing current policy. In particular the tight fiscal and monetary policies as well as trade liberalization are policies with strong negative consequences on private sector development.

Specific policies targeting the development of private sector include training in the short run and human capacity building, by restructuring the content and system of education, in the medium to the long run. The entrepreneurial class must be supported by easy access to credit and marketing among others.

Although the major thrust for private sector development must be anchored nationally, external assistance is necessary. In particular, the donor community could be of assistance in population control and environmental rehabilitation, research to increase agricultural productivity as well as the development of alternative employment in the rural areas.

REFERENCES


