

CHAPTER ONE

1. INTRODUCTION

Ethiopia was under command economy in the late 1970s and 1980s which led to the growth of public sector in the country. This command economy system of socialist orientation was replaced by free market orientated economic system following the fall of Military regime. The economy was very protracted and at its negative growth rate due to misguided economic policy, expanded famine and war during the Military government. To reverse this dark image of the country and to be in the right course of economic growth, the new Ethiopian government implemented free market economic system and commenced the privatization in 1995.

However, the implementation of privatization has not been easy task because the necessary pre-privatization conditions were immature or they were not in place. It was a surge or push from international aid donor organizations. There was also no sufficient awareness among stakeholders for participation, benefits utilization and impact management. In addition, there were no policy guidelines and organizational structures to assess, evaluate and take effective measures to tackle the negative impacts in terms of social, economic, legal and ethical issues. In fact, the privatization program was not effective as it was expected to be for many years. A new proclamation was given in 2004 to enhance the privatization process and obtain better results. Some restructuring and improvements have been made on Privatization process, Privatization and Public Enterprises. Supervision Agency was established with new organizational responsibilities and structure. Due to this, improvements were observed during the past few years and many enterprises are privatized, but the privatization process is not yet completed and about 80 big companies are waiting for privatization. In order to strengthen the gains achieved and solve the problems that affect the privatization process, it needs continuous evaluation, monitoring and controlling.

The pre-privatization, privatization and post privatization situations of enterprises have to be assessed and evaluated along with the privatization impacts in social, economic, legal and environmental aspects.

There is widespread grievance among workers and other stake holders regarding privatization. Employees in many enterprises explain that they are affected by impacts of privatization, neglected and given no chance to participate in the process. Therefore, this study concentrated on the social impact aspect of Ethiopian privatization and tried to assess, evaluate and forward remedial proposals to problems identified. The study examined the major social impact implications and outcomes that affect employees, consumers and other stakeholders.

For effective work of the study, the following six privatized enterprises were selected.

1. Misrak Flour Mill and Bakery Share company
2. Addis Modjo Edible Oil Share Company
3. Ambo Mineral Water Share Company
4. Abay Technique Services Share Company
5. Alkyd Resin Share company.
6. Saint George Brewery (BGI Ethiopia)

To facilitate the study process, questionnaires were prepared and discussions were made with employees, management, union leaders of selected companies and other stakeholders and experts from affiliated offices and relevant agencies such as the Privatization and Public Enterprises Supervisory Agency as well as with one of the senior executives of the Ministry of Labor and Social Affairs. Interviews and discussions were also made with Federation and Confederation Trade Union leaders. Data were collected based on purposive and simple random sampling techniques and the analysis was made based on the qualitative analysis method.

In Ethiopia the public sector has expanded under command economic system during the Military regime. The development of public sector was backed by World Bank and other international organizations.

In a number of cases, centrally controlled governments in Africa and other parts of world upon achieving self-rule imposed sweeping nationalization of foreign assets mostly in retribution for perceived misleads backed by nationalities sentiments. The Ethiopian Military government (Derg) nationalized all private manufacturing and service enterprises in

1974 and created public enterprises of which some of them are now privatized through the privatization program.

The public sector has been used as a tool to solve many economic and social problems by the government for many years. But many people were perturbed by the ailing performance of the public sector. In most cases, public sector was not competitive and efficient to generate profit or surplus to support the intended economic growth and better services. Even some of the public enterprises needed subsidy budget from the government for their operation. The public sector was not efficient to meet ever changing customer and market needs and changes. The performance of Ethiopian state owned enterprises was very weak. Eshete (1994: 24-27) mentioned the internal and external factors that caused the poor performance of Ethiopian public enterprises.

The management autonomy was highly tempted by the excessive involvement of many organs such as worker's committee, party leaders, plants, enterprises, corporations and ministries. The management on employment, production and prices was deprived of right decision making and investments. Hishe (2005:26-27) also cited the reasons for poor performance of public enterprises. Many public enterprises became loss-makers due to poor initial investment decisions. New investments and expansions were: also done haphazardly. Moreover, many of the public enterprises had been contradicting their basic functions such as administrative and regulatory functions which made the performance and evaluation difficult.

The public manufacturing enterprises had a lot of problems. The machineries they were using were obsolete, broken and not properly maintained. Spare parts and raw materials were not sufficiently available due to lack of foreign currency. Many of the public enterprises lacked capital to operate effectively. This was manifested in their lack of expansion, maintenance and creation of employment opportunities.

Governments have tried many improvement programs for their public sector, but results were not encouraging in many instances.

Rather privatization was championed by some leaders and was supported by many scholars in the world. The firm reasons for privatization were dissatisfaction with government provided services that were regarded inefficient, bureaucratic, and unresponsive to consumers. The loss making enterprises caused debilitating problems to the national economy too. Therefore, privatization is believed to be the solution by many leaders, economists, and managers. All developed and developing countries are implementing the process based on their economic and political conditions.

The government of Ethiopia has developed the policy for privatizing state owned enterprises and implemented the privatization process for the last 15 years and 228 enterprises having a total number of 31160 employees were transferred to private owners up to the end of 2009 G.C. The summary of privatization activities carried out starting from 1995 to 2009 is shown in following table.

Table 1: Privatization status from 1995 to 2009 G.C

SN	Year or date of hand over	Mode of Privatization								Total no. of enterprises transferred	no. of employees at contract date
		S a l e				conc ession	joint venture	manage ment contract	leas e		
		busines s	asset	total	MEBO						
1	1995	2	3	-	-	-	-	-	-	5	104
2	1996	10	29	-	43	-	-	-	-	82	4826
3	1997	9	15	-	2	1	-	-	-	27	1927
4	1998	1	15	-	-	-	-	-	-	16	3346
5	1999	4	4	-	-	-	1	-	-	9	2094
6	2000	-	11	-	-	-	-	-	-	11	2588
7	2001	-	6	-	-	-	-	-	-	6	126
8	2002	-	2	-	-	-	-	-	-	2	134
9	2003	3	-	-	-	-	-	-	-	3	92
10	2004	3	-	-	-	-	1	-	-	4	1053
11	2005	-	-	-	-	-	1	-	-	1	73
12	2006	1	11	-	-	-	2	-	-	15	4273
13	2007	-	1	8	-	-	1	-	5	15	4533
14	2008	-	-	12	-	-	-	-	1	13	2472
15	2009	-	-	13	-	-	2	-	4	19	3519
		33	97	33	45	1	8	1	10	228	31160

Source: PPESA unpublished report

The number of the employees in 228 privatized enterprises during the transfer was 31160. Though there is no enough data that will help us to know the exact number of employees which have been affected by various implications due to privatization, it can be assumed that a significant number of employees could be affected by privatizations implications such as retrenchment, loss benefits, adverse working conditions, and negative workplace relations.

1.1 Statement of the Problem

According to many literatures in most cases, privatization leads to changes in labor adjustment structure, working conditions, salary level, and employees benefits. These changes will directly affect the employees and the management of privatized enterprises. Privatization can also affect the price, the quality and the quantity of the products or

services produced by privatized companies. Most of the time, the price of goods or services is highly increased after the transfer of ownership from public to private. This increase in price will adversely affect the consumers. Privatization can also enhance negative impact in income distribution, employees and management relations and work environment. Privatization can also have a direct effect on fiscal implication.

The implication of privatization in relation to these problems have been observed in privatized companies selected for this study such as Abay Technical Share Company, Ambo Mineral Water Share Company, Alkyd Resin Share Company , Addis Modjo Edible Oil Share Company and Misrak Floor Mill and Bakery Factory. For instance, many employees have been fired out, laid off and retired early from these privatized companies. Workers employed in temporary and contract basis were dismissed immediately after these companies have been privatized. Therefore, this study surveys and analyzes the social impact of privatization in these companies, specifically regarding unemployment, dismissal and lay-offs.

Some of the privatized companies increased the price of their products or services immediately after the privatization. At the same time, the price of these products has increased in the market very significantly. The price increase of such products adversely affected the income and the living condition of many consumers. Some of these companies such as Misrak Floor Mill and Bakery, Addis Modjo Edible Oil Share Company and Ambo Mineral Water Share Company produce basic consumable products like wheat flour and baked bread, edible oil and bottled water respectively. However, salaries and benefits of the employees are not increased. Rather they were decreased in many ways in most of the privatized companies. Benefits such as position, transport and housing allowances, stock and cash indemnity fees are cancelled or forbidden. Yearly bonus payments and salary increments are stopped or cancelled in most of the privatized companies mentioned above. These conditions indicate the decrease of salaries and benefits.

Besides that, the labor union, the management of employees and management relationship is adversely affected by the privatization of enterprises. The overall relationship of management, employees and labor union are worsened in most of the privatized companies selected to be studied. Furthermore, the number of disputes and

court cases are highly increased and peaceful work environment is deteriorated. Hence this study surveys, analyses and investigates the social impact of privatization of enterprises in Ethiopian. The following are the basic questions to be addressed through this study.

1. What are the implications and social impacts of privatization in relation to retrenchment, lay-off and unemployment?
2. How is the impact due to price change of privatized companies products and services on consumers?
3. What are the change implications in salaries and benefits of employees in privatized companies?
4. How does the relationship between management, employees and labor union look like in privatized enterprises?

1.2 Objectives of the study

This study provides insight into the social impact implications and effects due to Ethiopian privatization.

1.2.1. General objectives

The general objective of this study is to survey and analyze the social impacts of the Ethiopian privatization and proposes solutions for its problems.

1.2.2. Specific objectives

1. To explore the retrenching, downsizing or lay- off, and unemployment aspects of the process;
2. To critically examine the effect of privatization on wages or salaries, working conditions and benefits of employees;
3. To critically examine the effect of privatization on price, quality and quantity of products and services of privatized enterprises.

1.3 Significance of the study

It has been a decade and half since Ethiopia embarked on privatization. So far, more than two hundred and eighty companies comprising a large number of employees have been privatized. As the number of employees that are working in privatized enterprises is substantial and the implications due to social impact of privatization

affects this large size of employees and their family. Consumer population can also be affected by the increasing of prices, and negative change in quality and quantity is also significant, the contributions that these enterprises can make to the nation is high, and there are many enterprises to be privatized, it is worthy to focus on this area and carry out study. This study may:

1. Inform policy makers about the real implications and effects of privatization
2. Recommend solutions for the problems observed.
3. Pinpoint the strengths so that concerned bodies will keep them stronger.

1.4 Scope of the study

The major aim of this study is to assess and provide insight into the social impact implications and effects due to the privatization process in Ethiopia. The study focuses on the social impacts of privatization such as retrenchment, price change of products, production output, quality of products and services, implications in salaries and benefits of employees, working conditions and the relationship between management, employees and labor union.

Due to limited time and resources, collecting basic data was limited to six privatized enterprises which are located in Addis Ababa and which were selected to obtain representative data. Other institutions such as Privatization and Public Enterprises Agency and Confederation of Ethiopian Trade Unions and their affiliates were involved only in providing the necessary information. The data collection process was difficult and most of the data which were required for the study were not adequately and easily available.

1.5 Organization of the study report

This study paper has five chapters. Each chapter discusses with different issues related to the study. Chapter one discusses about the background of the study, problem statement, objectives of the study, significance and scope of the study. Chapter two discusses about concepts related to the study and literature review of the study. Chapter three discusses about methodology of the study, data sources and instruments used. Chapter four discusses about data analysis, results and discussions. Chapter five discusses about the result findings, conclusions and recommendations.

CHAPTER TWO

2 THEORY/CONCEPTS AND LITERATURE REVIEW

2.1 Introduction

The different issues related to public enterprises, privatization and literature review are important aspects of the study. The rise of the public enterprises, their objectives, performance, failures and the rationale for privatization are discussed in detail in the chapter. Furthermore, the effects of privatization specifically the social impacts resulted from the privatization process are discussed in the literature review in sequential manner.

2.2 Definitions of State Owned Enterprises

State Owned Enterprises (SOEs) are production units which sell, their output and thus directly involve in the market process unlike defense, provision of law and order which are not marketed (Turner and Hulimes, 1997, 176). Experts gave the following comprehensive definition for SOEs in 1980:

An enterprise is a public when the state or any other national, regional or local authority holds at least 50% of the capital; it is under state control and reports to the state, and its objectives are of public and multidimensional nature.

This aspect presupposes financial investments, the marketing of products and services, financial returns, a system of business accounts and a social return, which the enterprises must account for (Hishe:2005). In sum, the above definitions have common points in that the public enterprises are related to the majority or full control of the state.

2.3 The rise and expansion of public enterprises

The public enterprises originated mainly in Europe after World War II. The reasons for the origination of SOEs differ from situation to situation. But the main reasons for the establishment of public enterprises were almost similar. Palley (2003:5) expressed that their establishment was political and economic though their proliferation was related to the end of the World War II.

Due to devastating and humiliation effects of World War II, social protection and basic needs were highly demanded in Europe. Since unemployment was at peak and too

sensitive issue, the scarcities of basic needs were at the highest level, and the public enterprises were believed to have a great contribution in alleviating these problems. Therefore, the establishment of public enterprises for the stabilization of the then European context was beyond any question (Palley, 2003:15). Then, public enterprises were used to maintain strategic sectors and to fill “entrepreneurial gap” (Nellis and Shirley 2000:3). Thus their economic aspect was related to the control of decisive aspects of the economy like the public defense industries and public transport enterprises. Similarly, they were also conceived as means of having the power in the economy. Many states also considered the public enterprises as national symbols and prides.

Governments in post colonial Africa provided basic social infrastructure as part of the social contract with government (Meggison, 2005). State participation in production either at a central or regional level was intended to fill gaps left by inadequate local entrepreneurial capacity (Lewis, 1987). The absence of private investors in large scale activities and investment in poorer countries due to thin capital of private sector was one of the conditions. A World Bank Policy research report (1994:99) indicated that the developing world had an overextended public enterprise due to several factors. The 1980 economic crises had a strong impact in developing world that it has taught them a lesson that the government should have “something” at hand.

The declining economic growth had reduced the tax base, depriving governments to pay for their staff from their resources, improve infrastructure and deliver social services. The indigenous private sector was also weak dominated by foreigners.

2.4 Objectives of public enterprises

Many writers have mentioned different objectives to public enterprises. According to Fernandez (1980), Kagwe (1987:58-59), Hemming and Mansoor (1988:1-3), Mandaza (1987:379) and Abdelaziz (1987-156), public enterprises have the following objectives:

The public enterprises were considered to help the implementation of socialist mode of development, control strategic section of the economy, provide requisite economic infrastructure, control and manage essential services as well as resources and “natural

monopolies". They were also considered to develop backward areas and provide regional development, stimulate agricultural development, increase the availability of essential consumer goods, utilize more fully and help stabilize prices, and subsidize the necessary commodities.

According to the writers, public enterprises had also objectives of generating technology development, providing primary exports and generating foreign exchange earnings.

They were also considered to help create employment or decrease unemployment and reduce income inequality, meet the needs of people not the profit and enhance national prestige and to implement government policy.

2.5 The rise of public enterprises in Ethiopia

The establishment and expansion of SOEs in Africa is attributed to the colonial powers whereby the bulk of the African economy was directed by foreign administration (Coavan.1990:2). Similarly, Oyugi, (1990:176) stressed that state owned enterprises were established during the colonial era to serve the mean nature of the colonizers. Even after independence, state domination in every perspective remained prevalent for what Africans was familiar to (Cowan, 1990:2). Hence, there remained a deep-seated suspicion towards the private sector due to the hangover emanated from foreign domination. Glade (1990:2) explained the establishment of public enterprises as ideological and economic. The ideological aspect was that capital formation, fair income distribution and efficient allocation of resources were unthinkable without central planning and public ownership. Additionally, the state control systems in socialist countries were ideological. It was contended that exploitation, poverty, mismanagement of resources, unemployment and inequality are inherent traits of free economy.

The contention also includes that public enterprise would perform better under public ownership than private ownership and social goals like tackling unemployment and others would be achieved.

Some researchers also believed that state owned enterprises have made great contribution to economic development. They believed that state owned enterprises helped economic growth during the early stage of economic development (crane ,1989-90;KVO et al ,1981), assisted in promoting successful changes in economic structure

(i.e., from agriculture to industries) , as protectors of the “ people’s livelihood “ helped reduce inflation at critical moment, and aid in short and long term stabilization of economy.

In Ethiopia, the establishment and expansion of state owned enterprises is attributed to replacement of Emperor Haile Selassie’s government by the Derg Military Government. The Derg Military government nationalized all major production and services organizations when it came into power in 1974. These nationalized enterprises were reorganized under various corporations. The Derg government has also tried to establish some new manufacturing and service providing enterprises during its stay in power under the centrally planned socialist economy. The major reasons for the establishment of state owned enterprises are mainly ideological and political. Socialism was seen as a means of reversing the evils of capitalism.

In addition, governments backed state owned enterprises were necessary because there were many instances of private sector failures in meeting the interests of the public. Moreover, the private sector was not conducive for labor unions to bargain and hence, they expressed their unconditional affection for the state owned enterprise. The state owned enterprises in Ethiopia were organized under ideological and economic consideration. Since the ideological philosophy of the Military Government was socialism and the imitation of former Soviet Union capital formation, income distribution, and efficient allocation of resources were believed to be effected by central planning and public ownership.

Therefore, the Military Government organized the enterprises under various corporations in relation to their types of product and services. Regulations and proclamations were given to determine the responsibilities, and duties of these corporations and enterprises. The first proclamation was given in 1974 after the nationalization and other proclamations were given in 1977 and 1992 after the fall of the Military Government. Privatization proclamation was given in 1994 and another proclamation was given 2006 to unite two governmental Agencies, Ethiopian Privatization Agency and Supervisory Agency for Public owned Enterprise and to form the existing Governmental Agency (Privatization and public Enterprises Supervisory Agency). The Agency was given responsibilities and duties to-

organize, direct and manage the privatization activities and supervising the activities of public enterprises. The organization and control system of public enterprises during the Military government was based on socialist guidelines because the state control systems in socialist countries were doctrine based. It was believed that exploitation, poverty, mismanagement of resources, unemployment and inequality are inherent traits of a market economy. The argument was that the economy would perform better under public ownership than under private hands. State ownership was also advocated on account of the social goods like solving unemployment, controlling the strategic areas, to provide the requisite economic infrastructure to control and manage the essential services, etc.

The Military government tried to establish new manufacturing and service enterprises at various sectors in addition to nationalizing the enterprises by the help of ex-socialist countries and the Soviet Union. But it was impossible to solve the social problems such as poverty and unemployment. The unemployment rate was high and the level of poverty was very deep. The products needed for basic need consumption were very rare or insufficient.

2.6 The failure of public enterprises.

It is known that public enterprises had significant contribution in nation building, but when the business environment changed they failed quickly. According to Turner and Hulmes (1997, 180-181), even though there were some success stories, most of the public enterprises never performed as they were expected due to their vague and conflicting goals. The regular reshuffling of the management and wrong management decisions were the other reasons for the inefficiency of public enterprises.

According to Cowan (1990:4-5), public enterprises caused heavy burdens of subsidy on governments. He criticized the governments for the bad performance of public enterprises. To him governments used them for purposes different from for what they were established, and they were given contradicting objectives. For example, social and financial objectives considered side by side. The pricing and labor policies added to assignment of novice management contributed to unprofitability of public enterprises.

The reasons for the failure of public sector in developing countries also attributed to external and internal factors. In the 1980s, the number of foreign lenders declined to

provide loans they promised for reasons not clear for many. The foreign currency reserves the countries accumulated before independence were totally exhausted and there remained no chance to revitalize the public enterprises. The competition and business environment changes in the world market could not be easily adopted by public enterprises. The current world was a big challenge to them. The political interference and misguided policies were common. Mismanagement, irresponsibility and corruption were prevalent according to many studies. In some African countries governments decide prices of goods and services for social or political reasons.

In most cases, public enterprises were not autonomous to discharge their functions effectively. Internally inefficient management with low capacity utilization and poor project planning and execution endangered the public enterprises; shortage of skilled, trained and qualified manpower was also another negative factor. Efang (1987: 8-13) described the performance of public enterprises as a mixed blessing, some of them did well, but others extremely poor. Some studies revealed that public enterprises in Italy and U.K. outperformed the private sector. According to studies of Abdulaziz (1987:156), public enterprises became failures due to the problems of pricing, the use of obsolete technology and poor management of manpower.

On the other hand, Matin (1993:156) mentioned four basic reasons for failure of the public enterprises. These were outmoded structures and methods, chronic under funding government decisions to put them or prepare public opinions for privatization and systematic parasitism and corruption.

2.7 Definition of privatization

Even though privatization was recommended and imposed in some cases to solve problems of public sector, it became a source of debate and difference in its meaning. Different writers defined it so differently that it gave rise to altogether different perceptions of privatization. For instance Bailey (1987:138) conferred that privatization has not been clear in theory and practice. Aktan (2004:6) on the other hand, mentioned that privatization has narrow and wide meaning. The narrow meaning being the sale of some part of an asset called denationalization, while the wider meaning is the transfer of functions that were exclusively performed by the public previously to the private sector. Some writers considered privatization as the prime cause of political differences. Star (1988:1) contended that privatization has two dimensions, political and economic. Besides, some writers from the African context define privatization as the transfer of operational control of an enterprise from the government to the private sector (White and Bhatia, 1998:10).

Other similar or related definitions of privatization include, privatization has been referred to as any process aimed at shifting functions and responsibilities, in whole or in part, from government to the private sector (United States General Accounting Office, 1997:46). Seidenstat (1996) offers similar definition and explains privatization as the transfer of ownership, control, or operation of an enterprise or function from the government/ public sector to the private sector. At the international level, the term privatization includes various meaning because of the individual political and economic situation in many countries. For example, Cook and Kirkpatrick (1988:3-4) explain the term privatization from three approaches.

- (1) Denationalization or divestiture, which means a change in the ownership of an enterprise (or part of an enterprise) from the public to the private sector;
- (2) Deregulation which involves the liberalization of entry into divestitures previously restricted to public enterprises;
- (3) Contracting out, relates to the transference of the provision of goods or services from the public to the private sector.

These different definitions are closely related to the background and motives of privatization policy. In their study of privatization policy and public management, for example, Johnston and Seidenstat (2001:390) explain that privatization became the primary strategy for policy makers and public managers because of the increasing interest in fiscal retrenchment, the output-oriented efficiency model, and the new view of citizens as customers.

In United Kingdom, Dunsire (1990:40-41) explains several motives for privatization. First, privatization increases individual freedom of choice because state-owned enterprises (SOEs) limit consumers' choice. Second privatization increases efficiency, both at macro-economic level and at the level of the firm due to the fact that nationalized industries do not fear bankruptcy or takeover, and their managers have little incentive to maximize the effective use of the resources available to them. Third, privatization encourages employee identification with their firms through share holding, and thus generates greater productivity. Finally, privatization promotes greater public identification with the capitalist system through wider ownership of shares. Dunsire (1990) further argues that these motives are not entirely compatible with one another and they are in part responses to changing circumstances and political goals.

Despite its various definitions, the implementation of privatization policy can include many options or strategies. For example, Johnston and Seidenstat (2001:391) identify major privatization options, including contracting out (outsourcing); franchising; load (service) shading; public private partnerships; grants, subsidies and vouchers; asset divestment; competitive contracting (managed competition); volunteer service, and total privatization. Many of these privatization strategies have been recognized by Salamon (2002) as important governmental tools in the age of new governance. At the international level, most studies of privatization tend to examine policy or managerial issues that are related to privatization or deregulation among SOEs (Delion, 1990; Ramanaham, 1989).

Furthermore, an extension of the definition of the heated debate continued regarding the merits and demerits of privatization. Some perceive privatization as a solution to inefficient public sector, while others consider it a means of making few people powerful at the expense of the majority. Other writers praise privatization to situation where there

is budget deficit. Staurt Burtler as cited by Starr (1988:17) argued that privatization could cure budget deficit by breaking up the condition of public spending.

Even though, the proponents of privatization argue against the dismal of public sector, they do not totally deny that privatization could be messy, non-transparent and subject to some market failures as mentioned by Bardeleben and Barry (2003:2). Though they usually preached advantage of privatization is efficiency. However, Star (1988:2) is skeptical about the impact of privatization in bringing efficiency. He further contends that wages in the public sector tend to be equal, but the private sector employs the least costly clients or low wage workers. This in turn leads to the varied nature of income distribution.

2.8 Issues and Problems

For more than two decades, privatization has been one of the major public policies emphasized by many developed and developing countries to reduce the role of the state in national economies and to increase government performance and efficiency (e.g., de Ru and Wetten Hall,1990, Cook and Kirk Patrick).

Privatization policy has been emphasized in the developed countries such as United States, United Kingdom, France and Canada since 1980. Similarly privatization policy has been adopted by several newly industrializing and developing countries in Asia (e.g., India, Malaysia, Singapore, Korea), Africa (e.g., Kenya, Nigeria, Ghana, Ethiopia) and Latin America (e.g., Chile, Honduras and Peru), (Shin, 1990, Ayubi, 1990 Lim and Moore,1989, Coot and Kirk Patrick,1988, and Stren,1988).

Many scholars believe that privatization promotes economic efficiency and growth by reinforcing macroeconomic adjustment. In the short run, however, privatization can lead to job losses and wage cuts for workers and higher prices for consumers. It can also lead to other negative effects such as corruption, de-empowerment of workers, negative labor and management relationships, higher rate of disputes and instability.

Privatization being one form of restructuring and economic reform is believed to result in efficiency and economic growth. State enterprises especially in developing countries, tend to be over staffed, pay excessive wages and have low productivity (Kikerin, 1997).

Consequently these enterprises are often considered as a drain on the budget and drag on economic growth because they are subsidized by government budget.

Privatization along with other structural reforms has therefore been seen as promoting economic efficiency and growth. However, some structural reforms can have an adverse social impact to be considered and handled. For instance, privatization can be associated with job losses and wage cuts from workers, and higher prices for consumers. In this context, the IMF's policy advice has increasingly sought to address these and similar concerns in programs that it supports. As a result, many IMF - supported programs have incorporated cost effective social safety nets to protect the vulnerable during adjustment period and maintain their access to basic public services, (Sanjeev Gupta, Christian Schiller, and Henry Ma,1999).

Proponents of privatization hold that the private sector is more efficient and productive than the public sector and private sector employees are better performers than public sector employees (Liou Zool; Merian 1994). They also contend that privatization can help improve service delivery and service cost (Diger et al. 1997; Eggers 1993, Savas 1987), promote economic stability (Shin1990). Levac and Wooldridge (1997) and Bishop et. (1994) emphasize that privatization helps improve accountability and promote transparency in the public sector.

Opponents of privatization, however, contend that the massive downsizing and demoralization of public employees caused by privatization hinders public sector performance due to loss of expertise and demolition of organizational competence, (Farazmand 2001a, 2002; Bliss and Di Tella 1997; Elliot 1997). Despite reports of the positive aspects of privatization, negative consequences of privatization on society must be noted as a balance. In analyzing privatization in post-revolutionary period, Farazmand (2001b) identifies a number of potentially negative consequences of privatization:

1. Loss of government control over the market;
2. Increased corruption caused by privatization;
3. Dominance of business power elites that helps expand the private business sector by promoting inequality and creating negative externalities;

4. Economic, political, and environmental devastation because of globalization and privatization;
5. Shrinking of responsibilities of government sectors by excessive privatization;
6. Loss of public interests and;
7. Inefficient allocation of national resources (Farazmand 2001b 193-196).

In developing countries, privatization policy has been promoted for declining economic conditions and large fiscal deficits associated with the poor performance of SOEs (Asfaw, 1996). Successful privatization is, therefore expected to minimize distortions in resource allocation and reduce budget deficits (Ademola and Afeikena, 1999). In the context of numbers and values of privatization transactions, researchers in recent times have raised two important questions like the determinants and outcomes of privatization.

There has been concerted effort to assess the impact of privatization at the firm level (Boubakari and Cosset, 1999; Megginson and Netter, 2001), industry level (Galiani, Gertler, and Schagrodsky, 2005; Walls, 2001), and at a country level (Filipovic, 2005; Plane, 1997). However, less empirical work has focused on determinant of privatization, especially in the context of Sub Saharan Africa.

From the discussion made above, it can be seen that there is strong debate among the proponents and opponents of privatization. This may continue for the coming many years based on researches and surveys. In general, most of the scholars agree that privatization has its own negative implications and effects. The negative results of privatization include job losses, decrease in wages, loss of benefits, demoralization, unfair income distribution, increase in price on consumers and other stakeholders.

These implications should not be under estimated rather they should be seriously emphasized, surveyed, identified, analyzed, evaluated and mitigated. Therefore, the researcher believes that the impacts of Ethiopian privatization process has to be critically analyzed, evaluated and the negative effects have to be identified and mitigated and on the other hand the positive gains have also be identified and strengthened by developing and implementing necessary policy measures. It is known that much research work has not been done to investigate the social impacts and implications on Ethiopian

privatization process to help to mitigate the negative effects through supportive policy measures.

This study tries to analyze and identify the social impact and implications issues occurred due to privatization in Ethiopia. The negative and positive effects on employees, consumers, and other stake holders will be critically analyzed and evaluated.

Since the life standard and wages obtained by most of Ethiopian employees working at state owned enterprises (SOEs) is very low, any negative effect related to loss of job, decrease in wages, will have significant impact on employees life and this may lead to other social problems.

The price of basic needs such as food, clothes, and shelter has dramatically increased for consecutive years due to inflation and other reasons in Ethiopia.

The price increase in consumer goods after privatization adds another negative implication on consumers. Other negative impacts and implications such as high difference in income distribution, employees and management relations, fiscal implications are common in many cases. Therefore the degree and extent of these social impacts have to be known and mitigated and properly handled.

2.9 Motives for privatization

The motives for privatization could be economic and political. The economic goal of privatization policy of many countries focuses on liberalization of their SOE (Liou, 1992). The term “liberalization” represents both the reduction of government control and regulation in economic spheres and the gradual elimination of state subsidies to manufactures (LU, 1985: 1080).

For the past decades, SOEs have made great contribution to economic development. SOEs contributed in the following major areas. Firstly, SOEs helped economic growth during the early stages of economic development (Crane ,1989-90;KVO,et al, 1981). Second, SOEs assisted in promoting successful changes in economic structure (i.e., from agriculture to industries). Third, as protectors of the “people’s livelihood”, SOEs have helped reduce inflation at critical moment, SOEs have also helped as sources of employment and countercyclical stimuli of growth (crane,1989-90).Specifically, SOEs

aid in the short-term stabilization of economy (including maintain national growth, controlling inflation, and leading in capital investment) and provide state managers the means to carry out a significant portion of the longer-term structural changes (e.g., SOEs role in Taiwan's ten major projects). Despite their contributions to economic development SOEs received criticisms about their performance.

Researches in many countries revealed that SOEs are found to be in over all deficit. Researches also criticized SOEs also as being inefficient and unprofitable.

For example, researchers notice that SOEs financial performance was inferior to the performance of private enterprises with 300 major enterprises during the period 1976-19849(Chang, 1986).

In 1980 the expansion of public enterprises came to halt. The role of government in the economy was questioned. The argument is that the government has become so over extended, inefficient that should be rolled back. Additionally the decade was escorted by the economic crises that many parties ascribed to the ineptness of state.

2.9.1 Economic motives

The economic motives of privatizing SOEs are related to government concerns of inefficiency of several SOEs the short-term economic condition, and the longer-term economic transformation. It may be to mediate inflationary pressure, to encourage public investment and maintain the stability of the price, to enhance economic transformation.

On the economic transformation, the intention may be to replace labor intensive industry by technology intensive or capital intensive by technology- intensive or capital- intensive industries (Lu,1985). Privatization policy will permit the establishment of private banks and financial institution, which is important to the development of the capital industry.

2.9.2 Political motives

For many reasons, another motive for the privatization policy is political democratization movement. As researchers indicate, the privatization decision is mainly a political decision (e.g., Dunsire, 1990; de Ru and Wettenball,1990). Policy makers

adopt and implement privatization policy to promote their political philosophy (e.g., reducing the role and the size of government) and political interests(e.g. gain in public opinion for reducing government waste).

With the progress of the democratization movement, the old ideology faded. Privatization is viewed as a right direction because, if democratization is good politically.

Then privatization in both forms (denationalization and deregulation), can be considered will benefit the society because it represents democratization in economic activities.

Since the 1980s, many developed and developing countries have recognized the problem of government growth and inefficiency and promoted new public policies to reverse the trend of growth and to improve the management of government. The new public management (NPM) movement represents the philosophy behind these new policies and emphasizes such concepts as output and performance, entrepreneurship and competition, as well as new instruments for steering control and accountability (Boston, et al.,1996; Rhodes, 1997).

2.9.3 Environmental changes

Besides the economical and political motives, the changes in domestic and international environment have affected the implementation of privatization policy. The situations in financial and trade market, and economic development have significant effect on privatization policy.

The effect of privatization policy will be influenced by the growing problems of recent global financial crises originated from developed countries. The financial crisis represents a challenge from the external environment and will affect the attraction of foreign capital investment in the implementation of privatization policy.

These changes in Taiwan domestic environment have had negative impact on Taiwan's economic development and its implementation of privatization policy. In the past, researchers have recognized several factors that SOEs contributing to Taiwan's economic development, including for example ; social stability, labor-management harmony, strategic economic planning , and a responsible government (Liou 2002).

These factors are critical to attract foreign capital and to implement public policies for the long-term development .

According to findings of many researchers:

- (1) Privatization will enhance efficiencies if it corresponds to its policy philosophy;
- (2) Privatization can facilitate organizational competitiveness if it considers organizational atmosphere and culture ;
- (3) Lack of accountability in privatization leads to corruption; and
- (4) Privatization tends to disregard the public interest if the government fails to recognize its changed function.

2.10 The conditions for privatization

According to Aktan(2003: 1- 4) the process should consider some of the following matters associated with privatization. Timing is very important because it tells the necessary schedule of the process. Necessary preparation and awareness creation are vital for effective privatization. Mass media like radio, television, press play tremendous role in this respect.

Preliminary studies should be conducted before privatization. The study should include representatives from different areas of specialization and various stake holders such as academia, concerned ministries and agencies, business institution, central bank officials, union representatives.

The public should also be informed about the progress of the process. Investment banks, consulting firms, environmental experts, accountants and lawyers may play important role.

The other step to be taken is to choose which public enterprises to privatize and to whom. Some writers forwarded the criteria of size of work force and monopolistic nature. According to their criteria, the bigger ones should be considered first, while enterprises, with high workforce and monopolistic nature should be considered last. But the choice can be determined based on existing conditions of each country. Moreover, the potential buyers have to be indentified in a clear manner. The gradual implementation of the

program is also required in many cases. When the process becomes gradual there will be chances to correct when things go wrong.

According to Rahim Ashkeboussi, Ahmed Tootoonchi (2007) most of the literature on privatization analyzes the micro economic effectiveness of privatization. However, as privatization required liquidation of public assets, its macro economic impact should be an indication of its success or failure. Therefore, the issues of privatization with in the emerging and former planned (transition) economies where a well functioning market system was not present, should address the presence of the common policies (procedures) among the applied models, and the necessary prerequisites (plat form) for launching a successful privatization strategy should be analyzed and identified. Further more the writers suggest that the order (sequencing) of privatization industries (e.g., financial industry before manufacturing etc.) has an impact on the success of the privatization program. This issue is important as it directly relates to minimization of the social / economic costs of privatization.

Beyond liberal regulation and private ownership, a market economy requires adequate institutions (Kolodko, 1999,p.2). For command economies the introduction of certain rights and regulations governing the ownership, investment and competition before implementing any privatization program is a prerequisite.

As Sigtiz (2002), concluded, any privatization program with out necessary institutional infrastructure led to stripping rather than wealth creation, and promoted rather than restrained corruption by contrast, privatization accompanied by regulation,

corporate restructuring and strong corporate government has led to higher growth. Majumdar (1996) also in his study of Indian firms showed that the gap between private and public firms performance partly closes during those periods when government is pursuing reform agenda. He concluded that reform could improve SOE performance. Thus economies that seriously pursue a privatization program, should first consider a systematic reform based on the following. This is especially a more pressing issue for economies in transition.

2.10.1 Macro- economic stabilization

The imposition of deflationary policies, price regulation, and unification of the exchange rate through the implementation of appropriate fiscal, monetary, and foreign exchange rate policies are the ones to be applied. The desired outcomes of these policies should be carefully safe guarded against the adverse impact of other policies conducted simultaneously. This is a strong argument against conducting rapid reform in transition economies where the inefficient market structure is not capable of smoothly delivering the expected out comes of macroeconomic policy tools.

2.10.2 Financial system reform

The financial system reform requires reform of the banking system by restructuring and recapitalizing the commercial banks through attractions both domestic and foreign private investment and establishing markets for trading securities.

As Stark (1990: 359) pointed out the slogan “let the market decide” where there is not yet a market is clearly problematic. In this climate the potential buyers came from abroad at a price “ for next to nothing” would take over everything they could(Gowan,1995,p.45.). There was a brutal struggle to steal every thing they could get their hands on in many countries (Holmsstrom and Smith,2000, p).

2.10.3 Liberalization of markets, ownership rights, and investment laws.

This requires creating a regulatory environment with in which all the barriers to business entry (red tap, the lengthy delays and costs of registration and the minimum paid-up capital requirements) and trade are eased or removed. Further more, it necessitates the implementation of appropriate policy measures that consider the removal and or restructuring of inefficient enterprises and enticing foreign competitors while calculating the risks of such polices on sudden bankruptcies, un employment rates, and the resultant political unrest.

In an empirical study Bortoloti et al, (2001, p.109) explained that the success of privatization in terms revenues generated from the sales of SOEs and stakes sold requires suitable institutions and developed capital markets. In the case of mass privatization in transition economies, Lieberman,1997) points to the lack of proper legal

frame work, which in most cases was composed impetuously, resulting in poorly defined property rights among other deficiencies.

2.10.4 Enactment of competition laws.

Promoting competition in product and financial markets by enacting new laws to eliminate barriers to business entry and trade and price liberalization are essential ingredients for a successful transformation of command and emerging economies.

Sheshinski and Lopez-Calva (1999) maintain that there should be “important efficiency gains from changes to private ownership in competitive structures”. They also contended that, in a global economy, the effects of competition can be so strong that SOEs, may be forced to respond to pressures that maximize productive efficiency with out the ownership change of privatization.

Djankov and Kreacic(1998) mentioned that import competition was associated with improvement in enterprise’s performance. Further more, Carlin et al (2001) concluded that competition has a significant and non-monotonic effect on the growth of sales and labor productivity.

2.10.5 Approach to privatization

According to researchers, it is only after effective implementation of the above four steps that a successful privatization policy can be envisioned. It is unrealistic to privatize the economy without primarily:

- Liberalize the markets, price and foreign trade;
- Unification of foreign exchange rates;
- Setting up a competitive business environment; and,
- Institutionalizing ownership rights.

Another issue that has to be addressed in the process of privatization is the sequencing of sector or industry for privatization. In other words, which industry or sectors should be privatized first? Rahim Ashkeboussi, and Ahmed Tootooni, (2007) relate the issue to the following three concerns:

2.10.6 Status of financial markets

In countries with primitive or non-existing financial markets, which used the direct sales method for disposing SOEs, there is evidence of under pricing, lack of transparency, rampant corruption, and thus exists a clear need for reform. Under these conditions rapid reform and privatization of the financial markets should be priority, since an efficient banking system and securities markets can pave the way for future sales of the SOEs at fair prices without erosion of the public confidence in the process.

2.10.7 Prioritizing competitive enterprises

If the financial market is sufficiently accommodating, government must first privatize the enterprises that are capable to compete most effectively against both domestic and foreign rivals. With liberalization of prices, markets, and a mass privatization of SOEs will result in massive bankruptcies, rising unemployment, loss of public confidence in the process, and unwanted political consequences.

2.10.8 Establishing support system after privatization

It is essential to have an operational infrastructure in place to support the newly privatized firms in a market driven economy. This may include technical assistance in areas of business planning, management, and financial management, finding sources for their financial needs (Michel and Ngo, n.d).

Djankov and Murere(2000,pp41-42), attribute the minimal success of privatization in some countries to the lack of appropriate institutions, which could effectively support the labor managed firms. This suggests that the privatization program should envision these needs and first privatize the enterprises and markets that are instrumental to the success of the newly privatized firms.

Another aspect of privatization process to be discussed is the speed of the implementation process. According to some writers liberalization policies normally unleash inflationary forces in transition economies with varying degrees, depending on the size of the “monetary overhang”, and the administration of monetary, fiscal, and foreign exchange rate policies. Management of exchange rate is very important in the early stages of transition to a market economy. If the local currency devalues excessively

then the residents will decrease their demand for domestic money, which will result in a spectacular acceleration of inflation, leading very often to hyperinflation. Thus, the depth, speed and intensity of anti-inflationary policies must differ from one country to another. The so called gradualism or shock therapy approach for transition economies as proposed by different researchers should not be considered as an “either” or “decision”.

As there are political, social, and economic costs associated with rapid transformation of institutions and socioeconomic orders in different countries. The merit of each approach must be carefully studied and recommended. If an argument made for either the radical (shock) or gradualism approach it should be defined precisely within the context of each country’s social, legal structure, and its economy. However, some contend that for transition economies gradual liberalization is irrational method with consequences of higher expected inflation and money velocity, persistent budget, deficit, and prolongation of the shortage economy. Dabrowski (1992) claims the postponed liberalization in Ukraine and most other former communist countries at the end of 1994 resulted in further economic instability. On the other hand, Havrylyshyn and McGettigan(1999,p.34) point to Poland’s privatization strategy of being slow and deliberate, as more successful than Russia and the Czech Republic’s speedy privatization approach.

2.11 The mode of privatization

The other aspect of privatization process to decide is which public enterprises to privatize and to whom. Beesley and Littlechild in Aktan (2003) forwarded the criteria of size, work force and monopolistic nature. Therefore, the bigger ones should be considered first, while enterprises with high work force and monopolistic nature should be considered last. In addition, the rapid or gradual implementation of process is also another concern since they have their own specific merits and demerits. Other area of concern to be considered is the creation of supportive and conducive environment for effective privatization. Pre-privatization reforms and restructuring measures are forwarded by many writers.

Kolodko (1999, p.2) mentioned the establishment of adequate institutions, introduction of certain rights and regulation governing the ownership, investment and competition.

Stiglitz(2002) contended that any privatization program without necessary institutional infrastructure led to stripping rather than wealth creation, and promoted rather than restrained corruption.

In practice, we observe diverse modes of privatization across countries. According to Arie Auishar (2000) definition privatization has two prototypes, popular capitalism and Nomenklatura companies. Popular capitalism is characterized by mass floatation, normally monitored by the government.

A major aspect of such measure is limitation on the proportion of holding by individuals or control groups. This model of privatization is also associated with employee share ownership and injecting competition in industries introducing a regulation scheme as consumer protection.

For example, the Thatcher government sold a substantial amount of state owned enterprises through public offerings, while instituting employee share ownership (Vickers and Yarrow 1988)

A special case of popular capitalism could be the voucher privatization scheme. In the Czech and Russian experience, this approach served as a means of overcoming the private wealth constraint (Hanousek and Kroh 1998). However, while arguing for the case of mass privatization, Boycko et al (1994) acknowledge its subjectivity to political constraints, notably corporate governance, which distinguish it from the classical form of capitalism.

Domanski (1994) cited the establishment of Nomenklatura companies by former communist executives in Poland and Russia, as a method of privatizing the economy for the benefit of the ruling elite. Legally, in each case a joint-stock limited liability company was formed by combining the physical assets of the state-owned enterprise with the paid-in capital of share holders. The process is characterized by understatement of the physical assets and artificial overstatement of paid-in capital. Employees' ownership is not evident nor have any steps been taken to improve consumer welfare. Referring to the Russian case Boycko et al (1994) describes this form of privatization as a "massive theft of state assets by managers" (p.252).

According to many researchers, privatization programs lie on the continuum of possibilities between the prototypes. Evidently, under pricing is a universal feature of privatization due to political nature of the process. As Jones et al. (1994) argues, public offerings are concentrated in democracies especially in Europe. Governments initiating public offerings often retain veto control over major changes in the structure and ownership of the firm.

Countries where the government is less sensitive to public opinion, implying an ineffective marginal support functions, are likely to be characterized by a close relationship between governments' officials and small number of private investors. Nomenklatura companies are an extreme form of such privatization where a large-scale under pricing term is designated to the managers of the state owned enterprises.

Voucher privatization has been implemented in Czech, Slovakia, Lithuania, Poland, Russia and Mongolia. In principle, this form of privatization could be classified as another form of popular capitalism. However, based on the cases of Russian, Czech, and Polish privatizations, Boycko et al (1994) show how the specific elements of those programs were designed to meet different political constraints in each country. The low levels of accumulated private wealth and the extremely uneven distribution of public wealth have dictated that voucher privatization would be only publicly acceptable program.

A second constraint was the political power of incumbent managers. To overcome this constraint, managers were retained in office and allowed to acquire large ownership stakes at subsidized price. Likewise, special demands of employees in privatizing companies were met by voucher privatization could theoretically take the form of classical capitalism; its implementation can be regarded as a mid point on the minimum between the two extreme prototypes.

Another midway approach to privatization is to reserve a core share holding for strategic investors with a significant stake in the economy. This method of privatization could be justified on the grounds of the need to promote investment in infrastructure and to inject advanced technology into industries for the benefit of society at large. In many cases however, this form of divestiture reflects the actual forces operating in the political markets of a given country. Notable examples are the first round of privatization in Chile,

during the years 1974-1979 (Hachette and Luders, 1993), and the case of Israel (Giza, 1996). In addition, Lopez-de Silanes(1997)reports that in a study of all 236 privatization contracts made in Mexico between 1983 and 1992, 87% involved sales of control rights, while remaining 13%were sales of government minority ownership in firms that had already been privately controlled.

This form of privatization is frequently associated with a stronger incentive to grant the privatized company a long-term monopoly concession. Therefore, the suitable modes of privatization and strategies have to be selected based on the specific social, economic and political conditions of each country.

2.12 Privatization and its impacts

Privatization is a change oriented process which has various effects on the lives of people from all areas of life. It affects the life of management and employees of privatized firms, government, trade union customers, and general public either negatively or positively (UNCTAD, 1995:15).

The major social impact effects of privatization are reflected in employment, salaries, working condition, and benefits, price, quantity, and adjustment, management-employees and management-labor union relations.

2.12.1 Employment-related impacts

According to the study of Ulrich F.W Ernst, Nelson Edwards, Deborah Gladstone, Peter Gregory, Tyler Hocht (1999), real and perceived threats to jobs, employment-related benefits for SOE employees engender spirited opposition to privatization plans. They also sited that shareholder groups should be of special concern in any evolution, as well as in the design and implementation of privatizations programs. Therefore, the discussion and analysis of employment aspects of impacts is of great importance. The different labor issues have to be evaluated and properly managed.

Much of the political resistance that has stymied or slowed, and sometimes, privatization in many countries has been rooted in years and concerns about special impacts-primarily expected losses of jobs and employment-related benefits by the notion that the state-owned enterprise sector is characterized by excess labor is virtually axiomatic in the policy debate. Redundancy is of course a relative concept; it means that the enterprise

employs more workers than it needs, given its level of activity and efficient production practices in the industry.

According to some researchers some of the factors cited for the existence of redundant labor in public enterprises include, the absence of profit maximization an objective of a public enterprise weakens the incentive to operate efficiently and promotes the continued employment of surplus labor. The creation of public enterprise was imbued “social function” in addition to the economic one of production.

SOEs were expected to serve a labor absorptive function to mitigate poverty or unemployment, often in lagging regions. State-owned enterprises also tend to assume the responsibility for providing housing, a variety of social services, as well as access to sustained goods and services.

The nature of the incentives governing manager’s performance may give rise to redundancy, for example in socialist countries managers had every incentive to hoard labor since their success was measured by their ability to meet the goals with little consideration for ease of achieving them. The legal framework governing employment relationship may impede the discharge of redundant workers as economic conditions change. Public enterprise employment has served political purpose of those in power, using the distribution of jobs as a means of solidifying political support for the government. Finally, redundancy may also result from technological changes that substitute capital for labor or from an enterprise inability to respond to a shrinking market for its product.

Researchers Ulrich F.W.Ernst, Nelson Edwards, Deborah Gladstoke, peter Gregory and Tyler Holt, 1999 also cited that the continued existence of excess labor in state-owned enterprises is possible only because of high levels of protections that negate any competitive pressures. The situation also depends on the willingness and ability of government to bear the burden of enterprise deficits or on their tolerance of low rates of investment made. But privatization implies coming face-to-face with the problem of these rents accruing to the enterprise work force. It normally entails increased competition and reduced protection, and therefore is likely to lead to a loss of privileges, including jobs.

Most of the state owned enterprises are often overstaffed. New owners reduce the over staffing to achieve higher productivity and profitability. This was seen in many countries in Asia, Latin America, East Europe and Africa. In SirLanka, privatization led to 22738 transport workers being laid-off over the period 1981-1991. In Bangladesh, the transfer of jute enterprises to private sector led to loss of 33 percent of the managerial and clerical jobs and 7 percent of the manual jobs (UNCTAD, 1995). In Argentina, close to 30 percent of the workers in five major privatizations had lost their jobs by the time privatization took place (Sheikh, 1996). In Ethiopia more than 280 enterprises have been transferred to private ownership in the last fifteen years. Most of the enterprises were over staffed and not performing well so that downsizing the workforce and replacing the pre-privatization management by new management were the imminent steps taken by new owners. Therefore, it is easy to understand that many employees and professionals including managerial staff might have become jobless.

What is the fate of these people? In the environment where unemployment is rampant, and too many skilled and unskilled people are seeking job. The chance of getting another job for those who lost their job is impossible. Even for those who have professional skill obtaining new job is difficult and tiresome. In most private enterprises people are not hired by the merits of their professional skill or competence. Personal relationship and contacts are given priority. Most of the employees who would be laid-off may be near to their retirement age and their experiences may also be limited to specific job area. For these workers obtaining job at other companies is unthinkable and they may remain jobless. Due to this and other reasons, the unemployment problem created because of privatization is a serious problem to be critically examined and mitigated.

Some scholars argue that new ownership and management may lead to an expansion of activities. Hence, the work force may actually increase over time. Some other studies indicate that in situations where restructuring has been conducted prior to privatization the negative effects of unemployment can be reduced. This suggests that over the three periods, the pre-privatization, the privatization period and the post privatization period the level of employment in the firm could follow a u- curve declining during the first two periods and increasing at some point during the third period (Sanjeev Gupta, Christian Schaller, and Henry Ma, 1999)

This relationship, however, may not hold for all types of enterprises. Some enterprises may be viable in the long run only with a permanently reduced workforce. Hence, the level of employment over time would follow a u-curve. Finally, some enterprises may not be viable even under new ownership or with reduced work force. For these enterprises, liquidation will be the only recourse, and all the laid off workers will have to seek jobs elsewhere. To deal with the job losses from permanent downsizing or liquidation, privatization should be accompanied by sound macroeconomic and structural policies that promote employment generation and provision of social safety nets. If these policies are successful in redeploying the laid-off workers, the positive impact on employment would be evident at the level of the overall economy, rather than at the firm level.

Therefore, the social impact of privatization in the country resulting lay off, permanent job losses and unemployment should be surveyed, analyzed and the degree and extent of impact should be known. Policies and guidelines should be developed and implemented to address the problem of lay off, unemployment, and related effects.

2.12.2 Salaries, working conditions, and benefits

Privatization can have an adverse impact on salary levels and structure, working conditions, and pay supplements. In many cases wages and benefits decline at the initial stage of privatization and increase when productivity and efficiency improve. Privatization often causes a move toward more performance-based pay schemes, more flexible working conditions (less security of tenure, increased use of no unionized contract labor, fewer benefits, and longer hours), and larger wage differentials.

In Argentina's privatized telecommunications and electricity companies, the work hour increased from 35 hours to 40 hours, wages were closely linked to productivity, and certain types of overtime and leave were limited (Sheikh, 1996). In Mexico's privatized telecommunications, deep-seated changes in labor relations such as a reduction in the number of labor categories and work areas, and intensification of the work place were implemented in return for substantial wage increases (Botelho and Addis, 1993)

For State owned enterprises, which are typically over staffed and pay excessive wages, privatization tends to reduce employment and wages, at least initially. Over time, if a

privatized enterprise can expand its activities and increases its efficiency, employment and wages are likely to increase. But the increase in wages and employment is determined by the changes of competitive environment when privatization occurs.

In competitive environment enterprises tend to reduce the work force, restructure the organization structure, and cut-off benefits. In addition to these, the behavior of privatization that causes a move toward more performance based payment schemes, more flexible working conditions and larger wage differentials creates severe negative effect on employees. Due to these instances or measures employees will be forced to obtain decreased salaries and lose all or some parts of benefits.

Many of the Ethiopian public enterprises employees were able to obtain annual salary increments, bonuses, over time payments, and various allowances according to collective agreement. Employees are not forced to work long hours without over time payment. Employees of SOEs have liberty to form labor unions and become members and participate in the activities of the unions. No pressure is exerted not to be organized in labor unions and not to participate in their activities

Privatization results in decrease in wage in many ways. It may reject annual salary increments, bonus payments, allowances, over time payments, and commissions. The rejection of these results in a decrease of received salary. As the rate of inflation increases the price of basic goods and items will be highly increased as it is seen in recent years in the country. Even though the employees are not laid-off their salaries are decreased due to loss of related benefits. The decrease in salaries results in decrease in income and the employees will not be able to afford their children's school pay, health care, enough food, shelter and other necessities.

Employees are forced to work long hours without overtime payments. They are also forced to work Sundays and holidays without overtime payments. They are not also given annual leaves or absence of leave according to their will. In most privatized enterprises the wages of employees could remain decreased or unchanged for many years. The stressful working conditions may also not be changed for years. Employees will be forced to stay on the job because the chances are limited to resign from job and

find another one. The impact of privatization due to decreased wages, bad working conditions and loss of benefits on employee's life is believed to be significant and severe.

Other possible effects of privatization on employment conditions include greater job mobility, need for retraining and skill up grading, increased managerial discretion, marginalization of union influence, and tougher stance of management on worker performance and discipline (UNCTAD, 1995).

In the case of privatization in Benin, Ghana, and Zambia, although there was indeed a move toward performance-related pay schemes for managers, these managers did not gain higher salaries after privatization. This could have been because the managerial market in Africa is not as light as commonly assumed (London Economics, 1996). This can be an indication that the decrease in wages of middle and lower level employees will be highly significant.

Due to decrease in wages and loss of benefits the living standard of employees will be deteriorated. The employees will not be able to afford for their basic needs. The life of employees and their family will be in a stake. The unfavorable conditions in the working environment will also create tension and psychological problem on employee's life.

2.12.3 Price, Quantity, and Quality aspects.

Privatization can have two contrasting effects on consumer prices. If privatization is accompanied by an improvement in productive and locative efficiency, then the prices of goods and services produced by the privatized enterprise should decline and their quality should improve. However, if the production of the state enterprises was heavily subsidized, a reduction of subsidies kept prices low for the vulnerable segment of population. These price increases will have an adverse impact on their living standard. The major objective of public enterprises was to make available products and services rather than profit and this helped to maintain fair and lower consumer prices. After privatization new owners may charge higher prices.

Furthermore, if a public monopoly is transformed into a private monopoly, that enterprise might exploit consumers and their welfare would not improve (Vickers and yarrow, 1991). Therefore, it is important to foster an atmosphere where enterprises pursue profit

maximization through increased competitiveness (increasing efficiency and providing goods that consumers actually demand) rather than through exploitation of a monopolistic position to earn rents. This outcome can be achieved through appropriate regulatory and supervisory mechanisms. Therefore the price, quantity and quality aspects of privatized companies goods and services have to be surveyed and appropriate regulatory and supervisory mechanisms have to be developed and implemented.

2.12.4 Changes in income distribution.

Privatization is often criticized for its purported negative impact on income distribution, on the grounds that buyers may enrich themselves with previously state- owned assets. Privatization affects income distribution through various channels. The first channel is the shift of real assets from the state to the private sector. This shift has consequences for capital income. If privatization leads to increases in the locative and productive efficiencies of the enterprises, then the level of capital income would increase, and the distribution gain between the state and the new owners would depend on the sale prices. If there is no improvements inefficiency, there would be no impact on the level of capital income. In practice, however, changes in the ownership of assets have had important implications for capital income, this is linked to the fact that state owned enterprises are sometimes under priced and therefore their sale implies a transfer of wealth from the public to the private sector. In this case, there is a redistribution of capital income from the state to the new owners.

The second channel is labor income. The impact on labor income could change over time, as enterprises move from a period of low employment and low pay (during pre privatization and privatization periods) to a period of increased employment and pay. The third channel is wage differentials. These differentials are typically greater in the private than public Sector, and privatization would therefore tend to reinforce them. Therefore the changes that have occurred in income distribution due to privatization have to be surveyed and known. The level of transparency and asset valuation methods should be examined and guidelines and procedures should be in place to protect under pricing and corruption.

2.12.5. Methods of privatization and their impacts

The method used to privatize will, to some extent, determine the social impact. In the long run, the method is probably less important, because the levels of price and output are determined by many other factors (e.g., technology, consumer preferences, and commodity prices). But the social impact due to each kind of privatization method should be analyzed and clearly known. This will help to select the method which may result in the highest positive and least social impacts.

2.12.6 Selected privatization modalities

SOEs have been privatized using one of the following six modalities in Ethiopia. The modalities are (i) sale of shares, (ii) sale of assets, (iii) joint ventures, (iv) lease agreements, (v) management contract or (vi) concession.

From the start of the program, the government of Ethiopia (GOE) primarily sold enterprises through the sale of shares or sale of assets. However, the privatization program began to slow down in the early 2000s, primarily due to the limited investment capital available in the country. To attract more potential investors to acquire SOEs, since 2006, new privatization modalities were introduced including joint ventures, lease agreements and management contracts. The new modalities offered flexible payment schemes to investors and were instrumental in increasing investors' interest and thereby revitalizing and accelerating the privatization program. Sale of shares of a SOE is sold as a going concern through the sale of its shares. Sale of shares to private industrial investors (domestic and international) has been one of the two more widely used methods of privatizing Ethiopian SOEs. Private industrial investors are long-term investors who already have knowledge of the industrial sector and have a primary goal to maximize the value of the acquired SOE and to generate a high return on investment.

Sale of assets: another widely used privatization modality is the sale of assets, which the GOE usually chose if the SOE was a loss-making operation, the buyer would acquire the desired assets (fixed assets and investment) at a price equal to at least the liabilities of the SOE, and the remaining items on the balance sheet of the SOE would be transferred to the Ministry of Finance and Economic Development (MOFED).

Joint ventures: A Joint venture is an entity formed between two or more parties (the

GOE and private industriously investor (s) (JV partners) to undertake economic activity together. The Joint venture partners agree to create a new entity where by the industrial investor would agree to create a new entity and would bring capital, technology, knowhow and market links to the JV. Both partners contribute equity, and they subsequently share in the revenues, expenses, and control of the JV.

The GOE has chosen to use the JV modality when the selected SOE is identified as a company that could lead the change in a sector or the GOE is required to stay as a partner for a short period of time to help the strategic partner achieve the determined goals, or the investor requests that the GOE remains as a partner until it adapts it self to the local market also, the JV modality is chosen when the SOE to be privatized is:

- (I) capital intensive;
- (II) would benefit from exposure to international markets;
- (III) would require technological transfer;
- (IV) would bring management know how , etc.;
- (V) One of the GOE priority sectors.

Lease agreements: through the use of leasing, the potential buyer (lessee) pays an agreed periodic lease payment to the lesser (GOE) for the use of an asset or property over an agreed upon term. The GOE has chosen leasing as a modality to permit the lessee to become familiar with SOE that is being privatized. Although a lease is classified as a privatization, there is no transfer of ownership of the assets and liabilities back to the GOE at the end of lease term therefore, a lease agreement should be considered as a first step towards privatization.

Management contract: In a management contract, the GOE agrees with a company to manage and improve the operational and financial performance of the SOE over a specified period of time. A detailed business plan agreed up between the management company and the GOE outlines the specific goals, investment plans and operating procedures. The business plan becomes part of the management contract. The management company implements the business plan and operates the SOE. A management company provides management expertise.

Concession: A concession involves a legal agreement whereby the GOE gives a company a contractual right or privilege to carry an activity on certain real state right in

certain conditions for a given time period. At the end of term of the concession agreement, all rights to the use of the real estate revert back to the GOE. The method or mode of privatization entails its own implications or social impacts. The degree and kind of implications is different from one kind of mode to another. Therefore, each kind of mode of privatization has to be critically evaluated during decision making.

In summary the social impact of privatization on employees, consumers, management, and other stakeholders needs critical analyses and investigation. Therefore, for each kind of identified problems discussed so far and their negative effects to be analyzed and discussed suitable analysis method was selected.

CHAPTER THREE

3. METHODOLOGY

3.1 Research Paradigm

The general approach of research requires selecting appropriate methodology to carry out the research project. Based on the research methodology the necessary tools and techniques that are necessary for the research can be selected.

The known approaches of research methodology include qualitative research methodology, quantitative (descriptive) research methodology, and mixed research methodology. Various definitions are given to these methods of research and their applications

“The term qualitative research encompasses several approaches to research that, in some respect, quite different from one another. Yet all qualitative approaches have two things in common. First, they focus on phenomena that occur in natural settings that are in the “real world”. And second, they involve studying those phenomena in all their complexity. Qualitative researchers rarely try to simplify what they observe instead, they reorganize that the size they are studying has many dimensions and layers, and so they try to portray the issue in its multifaceted form (Paul D. Leedy, Jeane Ellis Ormrod p.133, 2005)”.

“Quantitative or descriptive quantitative study involves either identifying the characteristics of an observed phenomenon or exploring possible correlations among two or more phenomena. In every case, descriptive research examines a situation it is. It does not involve changing or modifying the situation under investigation, nor is it intended to determine cause-effect relationship (Paul D. Leedy, Jeane, Ellis Ormrod p.179, 2005)”.

There is wide range of arguments frictions among researchers in definition, use or application of the two methods. They argue that , although objective methods may be appropriate for studying physical events such as electricity, chemical reactions, and black holes, an objective approach to studying human events-interpersonal relationships,

social structures, creative products, and so on is neither desirable nor, perhaps, even possible (Eisner,1998; Moss; 1996; Walcot 1994).

Qualitative researchers believe that the researcher's ability to interpret and make sense of what he or she sees is critical for understanding any social phenomenon. In this sense, the researcher is an instrument in much the same way that a socio gram, rating scale, or intelligence test is an instrument.

Furthermore, some qualitative researchers believe that there isn't necessary a single, ultimate truth to be discovered. Instead, there may be multiple perspectives held by different individuals, with each of these perspectives having equal validity, or truth (Cresswell, 1998; Guba & Lincoln, 1988). One goal of a quality study then might be to reveal the nature of these multiple perspectives.

Qualitative studies are seen in many academic disciplines, including anthropology, sociology, history, political science, medicine, psychology, and education. Qualitative study should not be taken as being "new" or modern, but many researchers believe that all inquiry starts out in qualitative form (e.g., Laver and Asher, 1988). When a little information exists on topic, when variables are unknown, when a relevant theory base is inadequate or missing, a qualitative study can help define what is important –that is, what needs to be studied? Thus qualitative study includes case studies, ethnographies, phenomenological studies, grounded theory studies, and content analyses. Because qualitative researchers tend to ask open ended question at the beginning of investigation, they sometimes have difficulties in identifying a head of time the exact methods they will use. But as they are studying and so on can ask more specific question, so too, can they better specify what methods they should use to answer those questions.

Qualitative research requires considerable preparation and planning. It needs to dig deep to get a complete understanding of phenomenon. It also requires collecting numerous forms of data and examining them from various angles to construct a rich and meaningful picture of a complex, multifaceted situation. Qualitative research studies typically serve one or more of the following purposes (poshkin,1993); description, interpretation, verification and evaluation.

Descriptive or quantitative research design involves observation studies, correlation research, developmental design,, and survey research. These approaches yield quantitative information that can be summarized through statistical analyses.

In descriptive (quantitative) research design the researcher aims to go beyond the observation. He tries to look at the world of people, and will be overwhelmed by what sees. But he should select from that mass of humanity at a well-chosen few, and observe them with insight, and they will tell him more than all the multitudes together (Paul D. Leedy, Jeane Ellis Ormrod).

There is a friction between the qualitative and quantitative research design traditions due to absence of specific and agreed upon definitions for what constitutes both qualitative and quantitative research. Traditionally quantitative and qualitative traditions are often oversimplified into “research with numbers versus research with no numbers”. But some distinguishing characteristics have recently been articulated by Cresswell(1994), Cassell and Symon (1994), Kvale(1996) and others.

Cresswell gives five differences between the two design methods. Moving beyond “numbers versus no numbers”, Cresswell (1994, p.5) argues that five fundamentally different assumptions separate quantitative from qualitative research. First, the designs of the two kinds of research presume different realities; this is called the ontological assumption. Whereas quantitative researchers typically assume a single objective world, qualitative researchers typically assume that multiple subjectively derived realities can coexist.

Second, the two forms of research presume different roles for the researcher (the epistemological assumption). Quantitative researchers commonly assume their independence from the variables under study, whereas qualitative researchers commonly assume that they must interact with their studied phenomena. Third, the two camps’ values are presumed to operate differently (axiological assumption). Quantitative researchers overtly act in value-free and unbiased manner. In contrast, qualitative researchers overtly act in a value-laden and biased fashion. Fourth, the two kinds of research adopt different language styles (rhetorical assumption). Quantitative researchers most often use impersonal, formal, and rule-based text, whereas qualitative

researchers most often use personalized, informal, and contact based language. Fifth, the two use different research processes (the methodological assumptions).

Whereas those in the quantitative group tend to apply deduction, limited cause-effect relationship and context-free methods, those in the qualitative group tend to apply induction, multivariate and multi process interactions, and context-specified methods. Cassell and Symon (1994,pp.3-7) identify six defining differences between the quantitative and qualitative methods and techniques practiced by British organizational psychologists. The first and most superficial is, difference often taken to be “numbers versus no numbers” or more accurately “quantification versus interpretation”. More specifically qualitative researchers endeavor to describe organizational phenomena. If “counting the countable” helps in that effort, then the qualitative researchers should undoubtedly use numbers and quantitative analyses. Thus the first difference can also be characterized as a “bias toward counting held by quantitative researchers versus counting only if clearly necessary held by qualitative researchers”.

Second, qualitative researchers explicitly and overtly apply their own subjective interpretations to understanding of organizational phenomena. In contrast, quantitative researchers more often seek objective (or less biased) and finely calibrated descriptions. In Cassell and Symon’s (1994) view, qualitative researchers favor greater personal investment in data, and quantitative researchers favor a more detached, impersonal orientation toward data. Third, qualitative researchers often encourage substantial flexibility in research procedures. By comparison, quantitative research often appears more rules driven. Whereas researchers enter with a clear mental model for their designs, qualitative researchers do not commonly enter with strong prototypical models to follow.

Fourth, qualitative researchers focus more on understanding organizational process and less on predicting outcomes and less on process variables. Although understanding and prediction are not necessarily exclusive, it is commonly held that qualitative and quantitative researchers often look at organizational events, processes, and characteristics from different point of view. Fifth, virtually all qualitative research is heavily grounded within the local text which the phenomena of interest occur. As a result, generalizing empirical results to a larger population or other setting can be problematic.

In contrast, quantitative research is typically presented as more context-free and therefore more generalization is most often presented as a trade-off, though neither is necessarily superior to the other.

Six, qualitative researchers are more explicit about participants' reactions than quantitative researchers. Indeed, qualitative researchers recognize and integrate the effects the research process itself (e.g., prompting, demand characteristics, intrusiveness) into the study's results much more so than do quantitative researchers. Kvale (1996) suggests that qualitative research most often focuses on the identification of meaningful categories (or points) of organizational phenomena. As a result, qualitative research often involves content analysis a nominal or ordinal calibration. In contrast, quantitative research involves more intensive calibration of organizational parts, and its analyses usually include (presume) at least equal interval scaling.

Some other points of arguments or tensions included that qualitative research is better suited for theory testing. In organizational science, this certainly appears to be true more often than not (e.g., Butterfield, Tervino, and Ball, 1996, Sutton and Hargadon, 1996), though there exceptions (Lee, Mitchell, Wise, and Fireman, 1996). It should be noted, however, that methodologists specializing in qualitative research clearly assert that these methods can be indeed accomplish both theory generation and theory testing. For example, Yin (1994) argues this point in regard to case study research, and Thomas (1993) takes the same stand regarding ethnography. Furthermore, quantitative methods can also accomplish theory creation as well. For example, a major purpose of explanatory factor analysis is to identify the underlying "latent traits" from a correlation matrix (Gorsuch, 1974) such identification (or discovery) of underlying factors can be interpreted as a step toward quantitative theory creation. Thus the larger literature indicates that both qualitative and quantitative research methods can be appropriately applied to create or to test organizational theories.

Second, Thomas W. Lee (2005) asserts that not only should quantitative researchers learn about and possibly apply qualitative designs (when possible), but qualitative researchers would be well-advised to learn about and possibly apply methods of categorical data analysis (when possible). In other words, qualitative researchers should follow Casewell and Symons's (1994) advice to "count the countable".

According to Thomas W. Lee (2005), suggestions, the tension and argument about the differences between the qualitative and quantitative research tradition can be summarized as that the differences may be held by organizational scientists. Qualitative research is taken to mean inductive, theory generating, subjective, and non positive processes. In contrast quantitative research is often to mean deductive, theory testing, objective, and positivist processes. Furthermore, a few management researchers believe that these differences are so meaningfully large that one must do either qualitative or quantitative research. Simply put, it is not feasible to do both. But according to Thomas W. Lee's judgment, however, the vast majority of organizational researchers believe that both traditions offer valuable and useful research designs and techniques that can help them to understand organizations better (e.g., McCall & Bobko, 19990). Thus it is possible to recognize a middle ground.

Based on above assertions I preferred the quantitative as well as qualitative research design methods to carry out my research work. It is my belief that using both methods will help me to understand more about the organizations selected to observe & understand the exact implications of privatization program in Ethiopia.

3.2 Source of data

To pursue this study primary data was collected from concerned bodies such as Privatization and Public Enterprises Supervisory Agency (PPESA), Confederation of Ethiopian Trade Unions (CETU), Trade Unions of Industry Federations. Six privatized enterprises, Misrak Floor Mill and Bakery, Addis Modjo Edible Oil, Abay Technique Service, Alkyd Resin, Ambo Mineral Water Share Company and Saint George Brewery (BGI Ethiopia) were selected. Ministry of Labor and Social Affairs was also chosen for data collection. The executives and professional experts of PPESA were contacted and discussions held and leaders and experts of Confederation of Ethiopian Trade Union (CETU), executives of trade unions of industry federations, the management staff members of selected enterprises were contacted and discussions were made. The employees of the selected enterprises were given questionnaires to answer them. Primary data were collected from the

discussions made and questionnaires answered by 20 employees from each of the selected enterprises.

I have chosen 20 respondents from each privatized enterprise by random sampling. The number is limited to 20 because of shortage of time and problem of getting many willing respondents. In many cases employees do not understand the purpose of research and will not cooperate in answering research questionnaires. In addition many employees in privatized enterprises are in fear to cooperate in participating with outsider to answer questionnaires. Because of these reasons obtaining many respondents is difficult and I limited the number of respondents to only 20.

Secondary data were collected from the reviews of different sources such as books, bulletins, research and policy papers, internet explorations, and written documents from concerned organs.

3.3 Analysis Method

The data collected were analyzed, interpreted, and discussed by using quantitative and qualitative method of analyses. The data were analyzed by using statistical tools such as percentages and averages.

3.4 Instruments

Interviews were carried out to obtain data and explore views, beliefs, and understanding of concerned people about the privatization process in the country. Interviews were structured, open ended, or semi-structured.

Discussions were held with Privatizations and Public Enterprises Supervisory Agency Senior officials, executives of CETU, industry federations of Hotels and Tourism, National Chemicals Energy Generation and Mines, Transportation and Communication, Textiles, Agriculture, Construction, Commerce Technique and Printing and the management of selected companies.

Questionnaires were also designed and distributed to employees and concerned persons of selected privatized enterprises, Abay Technique, Misrak Floor Mill and Bakery, Addis Modjo Edible Oil, Alkyd Resin, Ambo Mineral Water share Company and

Saint George Brewery. The questionnaires were composed of 15 main items and 35 sub items. The data collected by using discussions, interviews and questionnaire were thus analyzed by qualitative analysis method and presented in the following manner.

3.5 Validation and Verification

From each of the 6 privatized enterprises 20 participants were selected randomly and given questionnaires to give answers. Out of the 120 participants who were given questionnaires, 108 participants responded by giving answers. The rate of respond is 90 percent. On the other hand, all the concerned organizations such as the Privatization and Public Enterprises Supervisory Agency, Confederation of Ethiopian Trade Unions, Union of Industry Federations, the management of selected privatized enterprises and leaders of basic trade unions were contacted and necessary data were collected through interviews and discussions.

3.6 Limitations

Due to limited time and resources collecting basic data was limited to 6 privatized enterprises which are located in Addis Ababa and which were selected to obtain representative data. Other institutions such as Privatization and Public Enterprises Agency and Confederation of Ethiopian Trade Unions their affiliates only were involved in providing the necessary information. The data collection process was difficult and most of the data which were required for the study were not sufficiently and easily available.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

4.1 Introduction

The data that were collected using discussions and interviews by involving the senior executives of PPESA, CETU, Trade Unions of Industry Federations, basic union leaders and management of selected enterprise and questionnaires answered by employees were interpreted, analyzed and discussed in detail. The outcome is presented in the following sequence.

4.2 The establishment of Privatization and Public Enterprises Supervisory Agency.

There are arguments that privatization should be country specific, but there are some elements that have to be used at all environments. Privatization needs an organizational structure that directs, monitors and evaluates the process. The government of Ethiopia established an agency called Privatization and Public Enterprises Supervisory Agency to provide the public enterprises appropriate support and guidance. The agency (Privatization and Public Enterprises Supervisory Agency) was established by proclamation No. 413/2004.

4.2.1 Powers and duties of the Agency (PPESA)

The agency's power and responsibilities focus on two major areas i.e. implementing the privatization program as well as providing guidance and supervision to public enterprises. Major activities concerning privatization:

- Undertakes the necessary preparatory work for the privatization of enterprises;
- Determine the bid evaluation criteria for the selection of investors participating in the privatization program and designs ways and means to encourage domestic investors;
- Evaluates partnership proposals submitted by investors and seals approvals from the Ministry of Trade and Industry;

- Takes all necessary measures to publicize the privatization program and its implementation; through post privatization monitoring it ensures compliance of investors' obligations and under takes impact assessment of the privatization program in general;

concerning supervision and guidance of public enterprises;

- Undertakes project studies for the establishment of enterprises which may be of strategic significance and which are beyond the capacity of private investors;
- Undertakes studies and provides guidance to public enterprises in their endeavor to build their capacities;
- Appoints and relieves members and chair persons of the boards of management and directors of public enterprises and fixes their allowances;
- Approves corporate targets and investment plans of public enterprises;
- Follow up and evaluates the performance of public enterprises;
- Approves the financial reports of public enterprises submitted by external auditors.

4.2.2 Objectives

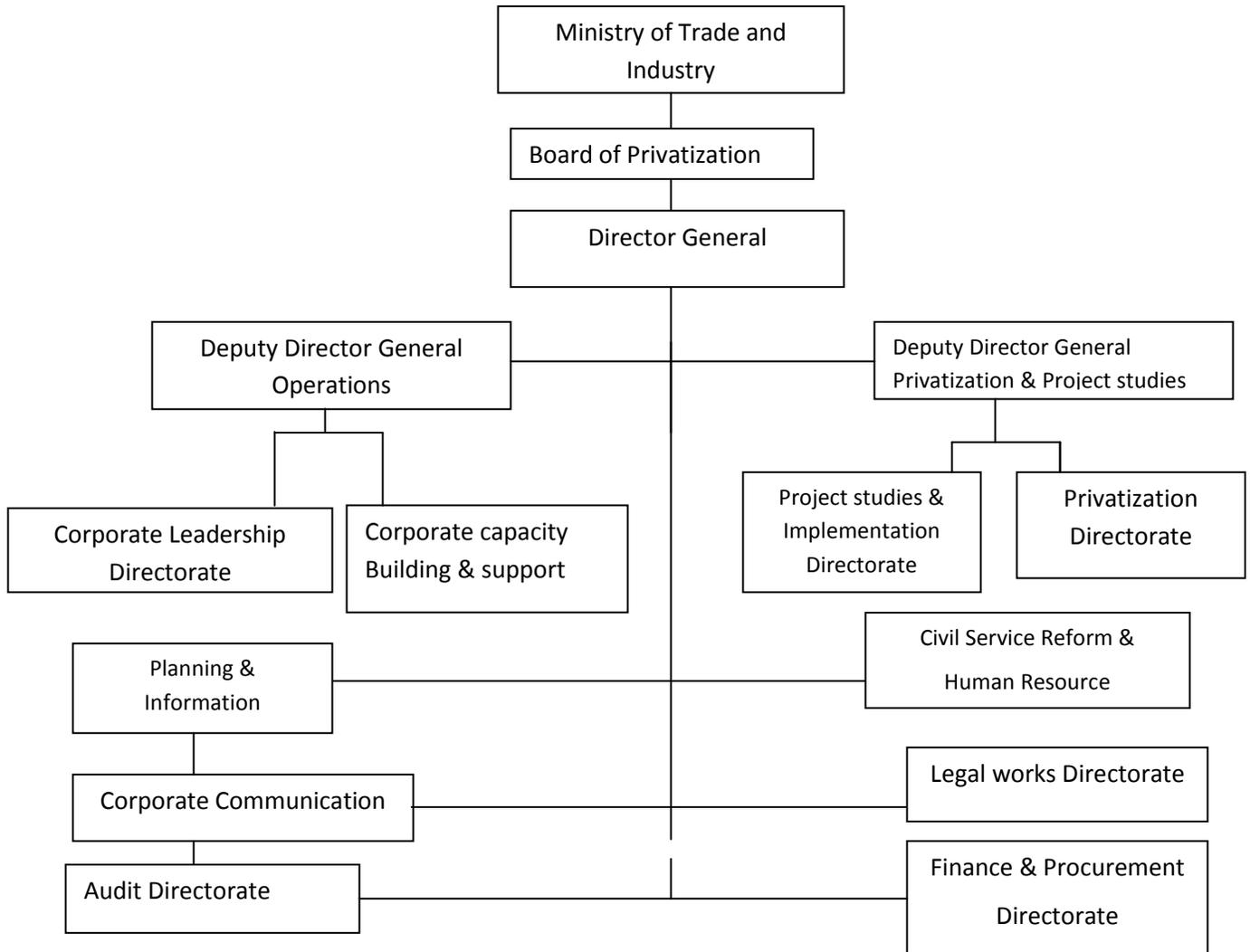
The agency has the following major objectives,

- To implement the privatization program in a transparent and efficient manner in accordance with the privatization of public enterprises legislation;
- To support public enterprises in attaining higher level of capacity utilization and the employment of better management systems and technology and there by improve their performance and to maximize their achievements;
- To assist in the establishment of new enterprises in sectors where private investors could not participate for various reasons and which will be bottle necks for the overall economic development;
- To supervise the management of public enterprises and to protect the ownership rights of the state in public enterprises and share companies.

4.2.3. Organizational structure of the Agency

The Ethiopian privatization and public Enterprises agency is accountable to the Ministry of Trade and Industry. The agency has a governmental appoint of board of management that provides general direction. It has director general and two deputy directors general and six directorates. There are four directorates two of them under each deputy director general.

Directorates under director general include Planning and Information, Civil Service Reform and Human Resource, Corporate Communication, Legal Works, Audit and Finance and Procurement directorate. **Figure 1: Organizational Structure of PPESA**



Source: PPESA bulletin

The Privatization and public Enterprises supervision has board of privatization. The board has members whom are appointed by government. The confederation of Ethiopian trade union is a member of the board and the president of union (CETU) a member of the board by default.

4.2.4 The performance of privatization activities.

The Ethiopian government in line with its policy of free market has started the privatization of public enterprises since 1995. In first ten years since privatization had

started i.e. 1995-2005, 214 enterprises and their branches were transferred to the private sector. The total revenue from the sales of these enterprises amounts to 3.13 billion Birr. In the next five years, i.e. 2005- April 2010, 73 enterprises and their branches have been transferred to the private sector at a sales price of 1.5 billion Birr. Hence, on aggregate 287 enterprises and their branches have been privatized in the last fifteen years and the total revenue obtained from their sales is 4.6 billion Birr.

Table. 2: Performance of Privatization for the last fifteen years.

Year	No. of privatized enterprises & their branches				Sales revenues i.e. Million Birr			
	Agriculture & Agro industry	Manufacturing	Service	Total	Agriculture & Agro-Industry	Manufacturing	Service	Total
1995-2005 total	31	31	152	214	945	1956	135.9	3136.9
2006	0	11	2	13	0	60.7	7.07	67.77
2007	4	8	1	13	23.1	138.95	4	166.05
2008	7	4	2	13	227.2	69.67	16.04	312.91
2009	7	9	4	20	19.4	141.1	103.52	264.02
2010 (April)	3	7	4	14	532.5	105.04	81.34	718.68
Total (2006-2010)	21	39	13	73	802.2	515.46	211.77	1529.43
Grand total 1995-2010	52	70	165	287	1747.2	2571.46	347.67	4666.33

Source: PPESA

4.3 The Ethiopian privatization process

The privatization Process of public enterprises under the supervision of PPESA includes the following steps to prepare the enterprise for sale through its ultimate divestiture, in a competitive tender scenario.

4.3.1 Due diligence

A due diligence is undertaken to identify all key issues that may potentially impact on the smooth divestiture process. The due diligence review will generally include a detailed analysis of:

- The regulatory, fiscal and tax regime issues periling in the sector;
- Legal issues including those related to title deeds, leases, contractual obligations, court cases, disputes, loan covenants, etc;
- Financial technical operational marketing, staffing and organizational issues at enterprise level.

The due diligence review provides a basis to the government for facilitating any decision making process to overcome identified constraints in the privatization process to ensure a smooth, efficient and timely divestiture.

4.3.2. Privatization Strategy

This aspect of the privatization process is aimed at defining an optimal mode of divestiture that is feasible of implementation and meets the government's privatization objectives. The preparation of a privatization strategy will generally include a detailed analysis of,

- The privatization objectives of the government;
- The attitudes and preferences of potential domestic, regional and international investors who may come to participate in the divestiture process;
- Government policies related to the sector;
- The overall operations of the public enterprises (PEs);
- The different options available with regard to the mode of divestiture with the pros and cons for each option;
- Decisions that need to be made by the government to implement a preferred option.

4.3.3 Valuation

All fixed assets held by an enterprise are re-valued in order that the financial statements reflect more realistic and market based values. These fixed assets may include properties, buildings, process plant and machinery, non-specialist equipment, vehicles, and office furniture and equipment.

The asset valuation exercise also facilitates a clearer understanding to the government and potential investors of the nature, capacity, condition and value of assets being divested.

Two methods of valuation are used by PPESA for the privatization of public enterprises.

- A. The first method is applied for enterprises which have been profitable for the last three years and now
 - ❖ The business valuation, namely the discounted cash flow method;
 - ❖ The business valuation the indicative price of the enterprises in the bid document;
 - ❖ The total liability of the enterprise services as the benchmark to decide on offers received in tenders.
- B. The second method is applied for enterprises which have been in the loss making situation for the last three years and now.
 - ❖ The depreciated replacement cost is used to determine the value of assets by taking into consideration the condition of assets, their service and future economic life, their down time and maintenance cost, technology and capacity utilization. Moreover, scrap; obsolete and non operational assets are excluded.
 - ❖ The total asset value is compared with the total liability of the business or enterprise to determine the sales price. If the value of the total asset is greater than the total liability, the net asset is taken as the indicate price for tendering the enterprise.
 - ❖ If the total asset value is less than that of liability, it will be the floor price. Therefore, for such enterprise the agency expects a price not less than the total liability.

4.3.4. Financial audit

The financial audit is undertaken in accordance with international accounting standards to provide a true and fair view of the state of the financial position of the enterprise at a given point of time.

4.3.5. Payment scheme

The payment modality for transfer through sales is conducted by the following manner

- Deferred payment scheme applies to all enterprises offered for sale.
- 35% is paid upon the signing of the sales agreement.
- The remaining 65% is paid evenly within a period of five years.
- The current average banks deposit interest rate is applied for the amount of money still owing.
- Defaulters will be charged on additional banks deposit interest rate.

The previous payment modality asset the deferred amount to 20% has been changed to 35%. This may have a negative implication on the process.

4.3.6. Financial restructuring

The purposes of financial restructuring are to ensure that all problematic items currently in the audited financial statements are segregated from other items. The restructuring measures, may include debt rescheduling or write offs, debtors write offs, stock write-offs and creditor write backs to ensure that financial position of each proposed new share company is sound and viable. The net assets in the opening restructured balance sheet reflects the amounts of the revalued fixed assets and other assets, and liabilities as per the audit report after incorporating the proposed restructuring measures.

4.3.7 Transforming public enterprise in to share company.

Public enterprises are transformed from legal entities into new share companies in accordance with the approved privatization strategy.

The share capital of each new share company is to be derived based on the value of the net assets in the opening restructured balance sheet.

4.3.8 Information memoranda

In order to provide the necessary information to potential investors and initial base of information on the company as a whole and the environment in which it operates information memoranda is prepared and submitted to investors. An information memoranda describes in detail all historical aspects of the company such as its principal activities, financial performance, markets, sales out lets, distributor, customers, competition, suppliers, production process, human resources, fixed assets, procurement processes, etc. It also provides the Ethiopian economy, key fiscal, regulatory and tax policies,

4.3.9 Tender instructions

The tender instructions comprise a set of rules and procedures that govern the tender process, the criteria by which bids will be evaluated and a description of what is offered for sale.

4.3.10 Bid evaluation

After the tender closes, the bids are opened and evaluated by a technical committee, members comprising from the PPESA, in accordance with the pre-determined bid evaluation criteria that were circulated to potential bidders as part of the tender documents. Bidders are ranked according to the scores they got in the bid evaluation.

4.3.11 Commencement of negotiations

The Board of Management of the PPESA approves the overall frame-work and strategy for the negotiations with the top ranked bidders.

4.3.12 Signing sale & other transaction agreements

A legally enforceable sales agreements and related transaction documents are prepared and signed on the basis of mutual agreements reached during the negotiation process by all parties to the transaction. The government receives the purchase consideration for

the sale of the company and the shares in the company are transferred to the new owners.

In summary the social impact of privatization on employees, consumers, management, and other stakeholders needs critical analyses and investigation. Therefore, for each kind of identified problems discussed so far and their negative effects to be analyzed base suitable analysis method was selected.

4.4 Improvement in policies and guide lines

According to the information obtained from Privatization and Public Enterprises Supervisory Agency the policies and procedures of privatization of Ethiopian government were modified to improve the process in the following areas:

4.4.1 Modalities for selling SOEs

At the beginning of the privatization program, the modalities used for the sale of SOEs involved the sale of shares and sale of assets to investors willing to pay the highest price through public tender process. Due to the limited investment capital available in the country and to provide a source of funding since 2006, the deferred payment scheme was introduced where by 35 % of the purchase price was paid immediately and the remaining 65% could be paid within a 5 years' time framework.

Other sale modalities were: Leasing agreements, joint ventures, management contract, and concession. These modalities were considered to be instruments in revitalizing and acceleration of the privatization program.

4.4.2 Stock exchange listing excluded as a modality

In privatization programs the governments use the sale of SOEs as a method to establish a stock exchange at the time of privatization due to:

- B. lack of domestic investment capital,
 - C. the need for private industrial owners to introduce management skills, technology and knowhow in almost every privatized SOE,
 - D. lack of established regulatory body that monitors the sale of public securities.
- The Ethiopian government excluded the stock exchange listing not to be used as one of the privatization modalities.

4.4.3 Sector approach to divest SOEs

A sector approach was used in the privatization since 2006, to prioritize the export market. PPESA was able to attract one or several potential investors to restructure a sector to become more internationally competitive. The government played a supportive role in the helping companies and sectors succeed internationally.

4.4.4 Limited restructuring of SOEs

Since 2006, it is recommendable that the government policy changed not a significant amount of time or money has been spent in an attempt to restructure SOEs in the privatization program: the primary focus has been to sell SOEs for the highest net proceeds. Therefore, much of the restructuring work was done before privatization program.

4.4.5 Human resource issues

Starting from 2006, PPESA made agreement with investors and paid for the voluntary retrenchment of employees in overstaffed SOEs before they were privatized in order to attract investors. Up to the end of 2008, the government paid retrenchment costs for approximately 4700 of which 1700 employees were employed at 22 enterprises.

The discussants from Privatization and Public Enterprises Supervisory Agency explained that the objectives of the Agency are being achieved and the privatization process is going smoothly. They noted that all objectives of the Agency are being achieved from year to year with the help of improved proclamation provided by the government. The government has provided many benefits to encourage local and international investors. With the help of such improvements, the privatization process is going quickly and effectively.

The discussants further pointed that since 2006, the government has made changes in the labor law to absorb the cost of voluntary retrenchment before privatization of an SOE to better serve the private sector development and the establishment of the requirement that employees who resign on their will having a service less than five years will not be paid severance payment have positive effects to attract and encourage investment.

On the other hand, investors are requested to present sound business plan and should agree to accept all the permanent employees. Such conditions are essential requirements in addition to financial proposals. Therefore, the employees of SOEs are granted to stay in their job after privatization. If enterprises were found to be overstaffed, employees will be retrenched by voluntary early retirement scheme.

The employees who have job experience of 20 years and age above 45 years will be retrenched getting retirement allowance by government cost. In addition, the discussants noted that the employees who have been retrenched through early retirement scheme will be given training and support to create their own micro and small scale business. The project is aided by World Bank according to their explanation.

They further pointed that due to protective measures taken by the government, the retrenchment level in the country after privatization is at a low level. New owners have obligations to maintain permanent employees. The retrenchments cannot be conducted out of the guidelines set by the labor law and agreed requirements in the agreement document. There is an organized body under PPESA to follow up, evaluate and monitor the post privatization status of the privatized enterprises.

The discussant from Ministry of Labor and Social Affairs explained that there are various proclamations that set guidelines for employers and employees relations and issues. The privatization process changes only the ownership of enterprises from state to private. This does not change the effectiveness of the laws and guidelines.

The law is equally implemented in all conditions. According to his understanding there is no changed condition and there will not be any negative impact in employment, working conditions, labor relations and the benefits that employees obtain.

4.5 Awareness creation and preparation

As transparency helps to build public support, instill confidence and maintain consensus among the citizens of a nation, any privatization program lacking transparency would be deemed as lacking almost everything (White and Bhatia 1998:132; UNCTAD:20.23). Furthermore, White and Bhatia (1998:69) further contended that in many African countries the perception that the privatization process is influenced by vested political and financial interests is common and one way of refuting this belief is to have crystal clear procedures and to keep the stakeholders informed.

When we examine the Ethiopian privatization process the main stakeholders are the government, the workers, and the confederation of Ethiopian trade unions, the business community, potential investors, the general public, the restitution claimants and lead

institutions. Hence the transparency of the process shall be judged from the extent of participation and awareness created and the degree of openness and consensus arrived with concerned stakeholders.

The discussion below reveals the extent of preparation and awareness creation among the employees who are one of the major stakeholders of privatized enterprises during the privatization process. The workers are categorically the test group stakeholders that their lives are affected by privatization. The confederation of Ethiopian Trade Union (CETU) is a member of the privatization board of management and this may be a positive measure by the agency that facilitates the upbringing of cases for discussion and decision that affect the lives of many workers. But in most cases, workers are not sufficiently made aware of the privatization process. The necessary preparation work has not been done satisfactorily according to the discussion.

The discussion and interview results confirm that more effort has to be done to make the process transparent and create awareness among stakeholders. Out of 108 respondents who have answered the questionnaire, 65 (60.2%) replied that they have got satisfactory information and 43 (39.8%) replied that they have not obtained satisfactory information about the privatization of their enterprises.

Table 3: The number of employees that got information about whether their organization to be privatized.

Have you got satisfactory information about privatization?	Total	Yes	%	No	%
	108	65	60.2	43	39.8

Source: own survey

The result indicates that the majority or more than half of the respondents replied that they have got satisfactory information, but this cannot be taken as satisfactory work was done to make the privatization process transparent and create awareness and preparation among stake holders, especially among employees.

A significant number 43 (39.8%) respondents replied that they are not well informed about the privatization that has taken in their enterprise. This reveals that many workers are not informed satisfactorily about privatization; they are not prepared mentally,

psychologically or materially for the impacts that may come. Additionally, the respondents were asked in what ways they have got the information. They replied that they obtained the information in many different ways or methods.

Table 4: The different way workers obtained information about privatization.

Ways workers obtained information			
		Number	Percentage to Total
1	Mass media	42	38.9
2	Meeting and discussion	26	24.1
3	Notice	11	10.2
4	Seminars and workshop	4	3.7
5	CETU	6	5.55

Source: Own survey

The results in the table above indicated that employees obtained information in many ways. They were not well informed through proper channel about what the government is doing regarding the privatization of enterprises. If employees are informed by using appropriate channel properly they will get prepared in many aspects and the negative impact against them could be minimized.

According to the discussion made with management and union leadership members in many privatized enterprises, the attitudes, work behaviors and beliefs of employees are not changed after privatization. In most of the enterprises, the management is implementing new organizational structure and other improvement actions. They are not training, coaching, and helping employees to change their attitudes and work behaviors. Many employees have not obtained chances, the necessary assistance and support to adapt themselves to the new conditions. Most of the employees from lower level to higher level are in deep fear and frustration. They do not feel security in maintaining their job. Therefore, early awareness creation and helping employees to make themselves prepared for the coming new situation is very important and must be done by using

proper information channels and ways. Employees should be given satisfactory information about the process of privatization and its implications.

Comprehensive campaign or education programs should be planned and executed by the agency and the management of enterprises. This will certainly help employees change their old attitudes, behaviors and cultures and adapt to new conditions

The comprehensive campaign or education should also include other stakeholders mainly the general public. This is essential to promote broad participation to instill confidence to overcome resistance Cowan (1990:17). A campaign of public information and education on the meaning and advantage of privatization, on what the government policy is like and what the criteria for privatization should also be given importance. The public also should be given chance to express opinions in the strategy. These could be conducted through newspaper, articles, radio and television as well as through discussion with public leaders.

According to the World Bank (1998:10-20), the privatization programs that don't place a heavy weight on educating the general public do always face inhibiting factors. Any privatization process that does not have a communication plan to address the rationale progress and objectives is a futile one. The high level of frustration and insecurity feeling among employees reveals that the necessary educating, training and rehearsal work has not been done. Therefore, satisfactory information, training and coaching should be given to all stakeholders.

4.6 The social impact of privatization regarding retrenchment

The major social implication of privatization in any countries is retrenchment. To avoid or minimize the retrenchment problem, the Privatization and Public Enterprises Supervising Agency has a criteria or obligation for investors to accept all the employees existing in the enterprises. The membership of CETU in the board of privatization also seems to grant the hearing of voices of many employees by the board, but the actual situations in privatized enterprises reflect the mixed implications.

From the results of questionnaire and discussion made with basic union leaders, industry federations and confederation executives, many employees are retrenched or laid off

soon after privatization. The employees of six enterprises were asked whether they expected changes that may have negative implications or not. Most of the employees in the observed enterprises said that they expected changes that may result negative implications and they encountered what they expected.

Table 5: Total expectation of changes that have negative implication.

	Have you expected changes that have negative implications?	Yes	%	No	%
		97	89.2	11	10.8

Source: own survey

Out of 108 respondents, 97 (89.1%) replied that they expected changes that may affect their lives. Only 11 (10.8%) respondents replied that they were not having expectation that negative implications may occur. Respondents were also asked what kinds of changes they expected and the following result is obtained.

Table 6: Different kinds of changes expected

	Kinds of expected changes	Yes	%
1	Retrenchment	86	79.6
2	Demotion	49	45.4
3	Unfair transfer	38	35.2
4	Early retirement	50	46.3
5	promotion	32	29.6

Source: own survey

The majority 86 (79.6%) of respondents responded that they expected negative implications and retrenchment at the highest level. Other kinds of expectations were early retirement 50 (46.3%), demotion 49 (45.4%), unfair transfer 38 (35.2%) and promotion mentioned by the least number of respondents 32 (29%). This indicates most of the respondents expected negative implications.

Respondents were also requested whether they believe or not that there is retrenchment in their enterprise. There was a mixed result that 59 (55.7%) responded that they believe there is retrenchment and 47 (44.3%) responded that they believe that there is no retrenchment in their enterprise. The respondents who replied they believe there is a retrenchment act in their enterprises were further asked to estimate the number of employees retrenched and the following result obtained.

Table 7: Estimation of number of retrenched employees.

	Estimation category	result	%
A	Less than 50	36	66.7
B	Greater than 50 and less than 100	6	11.1
C	Greater than 100 and less than 150	6	11.1
D	Greater than 150	6	11.1

Source: own survey

As it is seen from the table 36, respondents estimated that less than 50 employees are directly retrenched or laid off from their respective enterprises. This indicates that there is direct retrenchment which has taken place in the enterprise. In the second category of the questionnaire, respondents were asked to estimate the number of employees retrenched by early retirement scheme.

Table. 8. Estimation of number of employees retrenched by early retirement scheme.

	How do you estimate the number of employees Retrenched by early retirement	Result
A	Less than 50	27
B	More than 50 and less than 100	14
C	More than 100 and less than 150	1
D	More than 150	0

Source: own survey

27 respondents replied that less than 50 employees have been retrenched by early retirement and 14 respondents replied that more than 50 and less than 100 employees have been retrenched by early retirement. But only one respondent answered that more than 100 and less than 150 employees are retrenched by early retirement. This indicates that there is a retrenchment by early retirement which has taken place in different enterprises. Respondents were also asked to answer whether there was demotion or unfair transfer from one job position to another.

Table 9: Estimation of number of employees demoted or transferred unfairly.

	How do you estimate the number of employees demoted or transferred unfairly	Result
A	Less than 50	44
B	Greater than 50 and less than 100	11
C	Greater than 100 and less than 150	0
D	Greater than 150	1

Source: own survey

It can be seen from the table that 44 respondents estimated there can be less than 50 employees who are demoted or transferred to other job positions. This reveals that there are many demoted or unfairly transferred employees in privatized enterprises. When restructuring is implemented the organizational structures are made to be efficient for fast decision making or work processes and lean to have fewer people in the structure or process. Due to this, many employees are retrenched, demoted from higher job position to lower position or transferred from one branch office to another or from one job position to another different position unwillingly. These employees will be affected socially, economically and psychologically. They lose their social status and some income or benefit. This may affect the performance and productivity of employees. Employees who have lost their social status, income or benefits will not be motivated or encouraged for better performance and achievement, and hence the overall efficiency or profitability of the enterprise may be affected.

Data were collected from selected six companies regarding the number of employees before and after privatization to assess the retrenchment status in the privatized enterprises. There were a total of 1910 employees before privatizations and the number was decreased to 1768 on 31 August 2010.

The details are shown in the following table.

Table 10: Number of employees before and after privatization in selected enterprises

No	Company Name	Year of privatization	Number of employees		difference	%
			at hand over time	on 31/08/10		
1	Abay Technique & Trading	23/12/08	150	137	-13	8.67
2	Alkyd Resin	07/09/09	105	81	-24	-22.86
3	Misrak Floor & Bakery	17/09/09	188	179	-6	-3.2
4	Ambo Mineral Water	1/12/08	695	603	-92	-13.24
5	Addis Modjo Edible Oil	18/3/08	264	255	-9	3.41
6	St. George Brewery (BGI Ethiopia)	17/11/98	509	511	+2	+0.4
Total			1910	1768	142	7.33

Source: own survey

Alkyd Resin was privatized on 07/09/09 and was having a total number of 105 during privatization and has a total of 81 employees on 31 August, 2010. The number of employees is decreased by 24 (22.86%). According to company sources and information obtained from discussion, the enterprise has implemented new organizational structure and retrenched 26 employees.

Ambo Mineral Water has completed restructuring its organizational structure and assigned the employees found to be fit for the new structure. The company retrenched 70 employees using early retirement scheme. Employees who had a job experience of 25 years and age above 55 years had been retired through agreement by getting 15 months' salary and retirement allowance. Many others about 98 employees are not assigned to specific job positions. They are waiting for retrenchment or other sorts of decisions to be made by the management of the company. The number of employees is decreased from 695 to 603. A total of 92 employees which is 13.24% retrenched in

various forms of retrenchment according to information obtained from discussants from the company. This may further be decreased by higher rate near future because there are 98 employees who are not assigned to specific job position and waiting for further decision.

Abay Technique and Trading enterprise is under the process to develop a new organizational structure and implement it. But the number of employees is decreased from 150 to 137, which is a decrease in 8.67% without a new structure. According to the discussion, the number of employees may further be decreased when the new organizational structure is implemented.

Addis Modjo Edible Oil: The number of employees is decreased from 264 to 255. The company has not implemented new organizational structure and did not take retrenchment measures to decrease the over staffed employees, but the number of employees decreased due to natural retirement and resignations. According to the discussion with the management of the enterprise, the company is planning to employ new employees because the enterprise has increased its activities and output. The production process of the company is linked with cotton farming and the raw material cotton seed is supplied from its own farm to the factory. The raw material shortage which was the major problem of the enterprise before privatization is completely solved and the enterprise is able to expand its operational activities.

Saint George Brewery was privatized in 1998. The company was having 509 permanent employees and many other temporary employees at the time of privatization. The company had accomplished extensive retrenchment after privatization and 160 or 31.43% of permanent employees were retrenched directly by the restructuring process. The company has expanded its production capacity and output from time to time and has reached 1.2 million hectoliter beer production at 2010 from 220,000 hectoliter in 1998.

The increase of the capacity and output of the company is very enormous, but its increase in employment is very minimum. The employment level increased from 509 to 511. The change is only 2 persons which is an increase of 0.4% only. The overall number of employees retrenched from the observed enterprise is 142 which is a decrease of 7.33%. The number of retrenched employees from Saint George Brewery

after privatization by restructuring was 160 and if this is added to 142 (the number of employees retrenched from other five enterprises), the number of retrenched employees becomes 302 and will be 15.82% which is very significant.

According to the discussions made with basic labor union leaders and Industry Federation executives, the retrenchment problems in the privatized companies are complex and difficult to solve. Many of the discussants explained that repeated discussions and meetings have been conducted with the management of privatized enterprises. The discussants complained that there is no a single change in resolving conflicts or disagreements. Most of the company managers declare that they respect the collective agreements and the labor law in handling employees and not to retrench them unless disciplinary failures are committed. But in actual situation, many company executives do not respect the collective agreement and the labor law. They retrench employees by using various retrenchment methods.

In some cases, negotiations are carried out among government and the new investors to retrench employees by using early retirement schemes such as 20 years service and an age of 45 years or 25 years of service and an age of 55 years. These schemes are applied by agreements with employees and most employees are happy to be retrenched by using such schemes because they are getting permanent retirement or pension allowances and additional payments. Moreover some of them may be employed in other enterprises. From the discussion made with the executives of Confederation of Ethiopian Trade Unions (CETU) and Industry Federations, the following main points were observed regarding retrenchment and unemployment and other issues regarding social implications of privatizations.

The executives of CETU explained that CETU used to oppose privatization by forwarding arguments that necessary survey works have to be done in each sector, various choices have to be seen to effect restructuring, the various implications and impacts of privatization have to be surveyed and necessary impact eliminations or reducing methods have to be sought. If the negative impacts or implications could not be handled properly, this may create unnecessary negative effects including social unrest.

It was explained that many continuous meetings and discussions were held with concerned government bodies. It was also explained that CETU contended that privatization process should be conducted in slow and gradual pace in order to minimize the negative implications and to get time to learn from failures and seek remedies for other enterprises to be privatized.

The discussants explained that CETU had made efforts to convince to implement various arrangements such as retiring employees voluntarily for those who are above the age of 45 years and who have an experience of 20 years to establish other setups such as safety nets. The government was convinced and allocated birr 20,000,000 to effect the 20/45 retirement scheme and the safety net program. But the privatization process remained very slow and stagnant for many years. CETU was convinced that if some more effective policy and guidelines are implemented, the privatization process can be faster and the feared negative implications can be minimized.

Discussants also pointed that CETU argued for the transparency of privatization process to all stakeholders and participation of employees in the process and awareness creation. Making employees aware and get prepared to accept new work environment after privatization should be emphasized and worked, but satisfactory effort was not made.

Discussants also further explained that CETU argued for setting guidelines in the process that protects employees from retrenchment or for implementation of schemes such as early retirement by voluntarily basis and safety nets. CETU has also argued to participate in the decision making process by becoming the member of the Privatization Board. Most of the argument points have been accepted by the government and CETU became the member of Privatization Board after the implementation of new proclamation in 2006.

According to the discussion, one of the successes that CETU has achieved was the setting of a guideline to protect employees from retrenchment. Investors who desire to buy the SOEs should agree to receive all employees and maintain them for 5 years and to pay their pension contributions. Investors who need retrenchment should negotiate

with the government to retrench employees before privatization by voluntary basis by using 20/45 scheme.

Discussants explained that the Privatization Agency has clearly set a requirement to protect employees from retrenchment or unacceptable lay-off. But there is retrenchment or unacceptable lay-off in most of the privatized enterprises. The new management of privatized enterprises claims that their enterprise has established an organizational structure and could not accommodate all the old staff. Therefore, they retrench employees immediately after transfer. Many employees are retrenched against the agreement that they conducted with privatization Agency. Negotiations are tried in many cases through Industry Federations, but most of the new owners fail to agree to reverse their decision and many cases are taken to the court.

The discussant also pointed that post privatization evaluation and monitoring activities are almost non-existent. They claimed that there is no satisfactory evaluation and monitoring work done by PPESA. It was explained that most of the new private owners do not respect the agreement they conducted not to retrench employees before the agreed time frame and nobody asked them why they made such decisions. The discussants further explained that the basic rights such as forming a trade union, becoming a member of trade union, conducting a collective agreement and respecting the agreement are not respected by most of the new owners of enterprises. The discussion that was held with the industry federations executives of Agriculture, Textiles , Hotels & Tourism, Transportation and Telecommunication, Food, Beverages and Tobacco, National Chemicals, Power Generation and Mines, Construction and Commerce, Technique and Printing revealed that there are many problems that need immediate attention and solution.

According to the discussion with the executives of National Chemicals, Power Generation and Mines Industry Federation, 26 employees were dismissed and others were downgraded from 105 employees in Alkyd Resin Share Company. The management explained that the retrenchment is due to new organizational structure. The employees have applied to court for fair decision, but they are still out of their job.

The new owners of Nazareth Soap Factory denied the collective agreement and the benefits given to employees. The dispute was solved by court decision. In the same manner, the new private owners of Gulale Soap Factory denied the collective agreement and even the labor law of the country. The dispute is not yet solved because there no willingness to bilateral discussion by new management. Therefore, there no good relationship and work environment according to the discussion.

The discussant further noted that there is no strong binding rule or evaluating and monitoring system for such situations. Efforts have been made to discuss with the new private owners, union leaders and PPESA executives. The new owners were very reluctant for discussion. The discussants pointed that the membership of CETU at the Board of Privatization is not significantly important because it does not help to see deeply the problems of employees at grass roots level. The absence of organizational body in the government structure to inspect, follow up and monitor the post privatization process has very negative impact and should be changed.

The tendency of new owners not to respect existing collective agreement and not to conduct new agreement is a challenge to overcome. In addition, not recognizing the basic trade unions and their leaders and their roles is found to be a challenge according to the explanation of respondents. The discussion which was held with Hotels and Tourism Federation has revealed that many employees faces problems after privatization.

The first point the discussants commented was the incapability of some of the new owners who bought hotel enterprises. They discussed that hotel management needs professional skill and training to manage the business efficiently. According to their view, some of the new owners are not having professional skill or training, but they become managers or employ their relatives who have no satisfactory profession to manage the hotel business. Due to inefficient management, the hotels become losers or unprofitable. If hotels are not profit making, the employees will not benefit by getting increment in salaries and bonuses. In contrary, they may be exposed for retrenchment. The absence of post privatization follow up and monitoring exposed many employees for lay-off or dismissal. They cited examples where such problems occurred.

-**The Awassa No. 1 Wabesheble Hotel** which was having 105 employees could not operate after privatization due to lack of operation capital. The employees became jobless due to lack of work capital by the new owner.

- **Hotle Di Afrique** a big hotel in Addis Ababa which was restituted to the claimant could not be on operation as it was supposed to do. The 175 employees of the hotel are in a problem.

- 85 Employees of **Ambo Ethiopia** were dismissed immediately after privatization

- The employees of **Tourist Hotel** at Arat Kilo Addis Ababa and **Woliso Walga Hotel** were dismissed without any reason.

- **Hora Ras Hotel at Debre Zeit** is not functioning properly and the employees have become hopeless.

Accordingly the discussants explained that there is no smooth relationship between the basic trade unions and the management, and there are many disputes and conflicts and court cases. It was emphasized that evaluating the business plan to transfer the SOE to the private owner is not a sufficient action but evaluating his performance after privatization should be given more importance. The discussion with Transportation and Communication Industry Federation revealed that most of the SOEs in this industry category have not been yet privatized.

The Road Transport enterprises, the Shipping Line, the Postal, Telecommunication and Air Line enterprises are going to be in the hands of government until unknown time. The only privatized enterprise in this industry federation recently was Abay Technique and Trading Company. The company has not yet implemented due to new organization structure, but 13 workers are retrenched by various reasons. It was explained that the management is not respecting the collective agreement and relationship between the management and union leaders. As a result, employees are not in good condition.

The discussion with the Executives of Textiles Industry Federation revealed many important points that have to be considered seriously and addressed. According to the discussion, the working environment is not good in many aspects that occupational health and safety care measures are not adequately taken in many enterprises.

According to the report from 39 basic unions 503 male and 468 female, a total of 974 workers had major injuries, and 2 employees died in accident at work place in 2 years time. Further discussants explained that there is no serious attention and protection system in most of privatized enterprises. Regarding retrenchment, it was explained that retrenchment is undertaken in many ways. Many employees retrenched voluntarily or by forced retrenchment. In the year 2008/2009, a total of 3,309 employees were retrenched from 39 enterprises.

Table11: Number of employees retrenched from Textile sector in 2008/09

	Scheme of retrenchment	Male	Female	Total
A	Voluntary early retirement(20/45 scheme)	599	457	1056
B	Forced retrenchment	438	178	616
C	Resignations	864	773	1637
	Total	1901	1408	3309

Source: Report from Textile Industry Federation

Resignations are taken as retrenchment because new employees are not hired in their position instead the work is done by remaining employees. The report was compiled based on the report from 39 enterprises only. The federation has 59 member basic unions and it has not obtained a report from 20 member unions. If the report was compiled from all 59 enterprises, the number of retrenched employees in industry could be higher. According to the discussion 460 out of 1661 employees of Kombolcha Textiles, and 220 out of 2120 employees of Dire Dawa Textiles enterprises were retrenched by voluntary early retirement, 20 years experience and age 45 scheme through the agreement made by the government and new investor in order to minimize the redundant manpower.

Table 12: The proportion of retrenched and retained employees in two textile enterprises

	Name of Company	total no. of employees	retrenched	%
A	Dire Dawa Textile	2120	920	43.4
B	Kombolcha Textile	1661	460	27.7
	Total	3781	1380	36.5

Source: Report from Textile Industry Federation.

It can easily be seen that from the total number of 3781 employees in the two enterprises, 1380 employees which is 36.5% of the total are retrenched. This indicates that a large number of employees are affected by the retrenchment decision.

AKaki Textile is one of the oldest and biggest textile companies having the largest number of employees in the country that was totally liquidated, and 280 of its employees retrenched by the scheme, of which 20/45 and many others transferred to safety net program organized under micro and small scale industries development. Some are totally dismissed according to labor law guidelines. It was also explained that there were retrenchments in Adey Flower garment, Ethio Fiber and Meher Fiber Products enterprises.

The discussion indicated that a large number of employees were retrenched by voluntary early retirement scheme. But, many others who could not qualify for this scheme were retrenched in many other ways. The discussants mentioned that the relationship between the employees, the management, the union leaders and the management of new ownership is not good.

There are many conflicts and disputes in most of the enterprises. The union leaders are under heavy pressure to leave the union leadership role. The union leaders of Canvas and Plastic Products, and Batu Leather Company were forced to resign from their jobs. There is also strong pressure on the employees to leave the membership of the union. The discussants also pointed that there is no follow up, evaluating and monitoring body to resolve such problems. It was also cited that there is big discrepancy in giving immediate decision on the cases presented to the courts.

On the other hand, the discussants contended that there is no attitude and behavior change after privatization among employees. Many employees could not change their work behavior, culture and thinking in accordance with the attitudes of new ownership and working conditions. Most of the employees need all the articles of old collective agreements to be respected by new owners. However, this cannot be accepted by new management and becomes a source of conflicts and disputes. The discussants also emphasized that working environment is deteriorating. The occupational health and

safety issues are becoming neglected. Many employees are being badly injured and lives have passed due to negligence. They urged that this trend should be reversed.

The discussion with the executives of Industry Federation of Agriculture revealed that there are many encouraging positive and many other negative post privatization implications. The discussants commented that valuation of Agricultural SOEs had many shortcomings since most of the agricultural machineries operating in SOEs were very old. They should have been sold at their book value. But they were valued more than really they value. The new investors who bought these agricultural SOEs were urged to spend large amount of their income to depreciation costs. This minimizes their capital resource that can be invested in other operational activities.

Due to valuation problem, the agricultural firms of Debub, Ayehu and Wush Wush became not profit making and could not pay yearly salary increments and bonuses to their employees. The discussants further noted that some of the agricultural SOEs are sold to incapable investors. Some of the new private owners were found to have no sufficient capital to run the enterprise. They could not provide enough capital / money / to improve existing facilities, operation equipments and purchase necessary inputs and other resources. Due to such problems, the Agricultural firms Eleni, Tsedey, and Sille could not operate properly. Therefore, some of the employees are not paid their salaries for many months, some are retrenched by the scheme of 20/45 and some are retrenched without satisfactory services. It was also noted the pension allowance contribution deducted from employees salaries were not paid to Social Security Agency.

They also cited that when agricultural firms are sold and transferred to investors, the coordinating branches and head offices are left out. The agricultural firms or farms do not bear the expense burdens of such coordinating and head offices. Since the capital sources are the farms, the coordinating or head offices become without any capital/ financial / resource. The employees will be in problem in such conditions.

After the transfer of Sinana, Siroftu and Hunte agricultural firms of Bale Agricultural Enterprise, the employees at an enterprise level have got into trouble. Another problem mentioned by discussants was that when many of the agricultural firms from an enterprise are transferred to private owner and small number of firms left under an

enterprise the cost burden of the enterprise will be loaded on the remaining few firms and makes them unprofitable. These firms will not be able to pay yearly salary increments, benefits and bonuses to their employees.

In addition to these, negative implications bad relationship between management and employees, management and union leaders, not accepting the collective agreement and unionization right of employees were mentioned to be reflections of post privatization in Agricultural industry. Consequently, the discussants pointed that there is no satisfactory inspection, evaluation and monitoring activity by government bodies. Presenting best business plan and signing the agreement to respect the criteria set by government is not satisfactory and goal by itself. Privatized enterprises should be inspected, evaluated and monitored continuously. The inspection, evaluation and monitoring process should be done by Privatization and Public Enterprises Supervisory Agency and Ministry of Labor and Social Affairs. Issues which need decisions should be presented to proper decision making body of the government.

They also explained the federation has 136 member unions and 20 cases presented to the court. If there is a strong mediating and conciliation body most of the cases would be resolved by conciliation. The industry federation is facing challenges from employees, employers and government. These all parties should come together and find solutions collectively for the problems related to employees retrenchment, provision of benefits, and work environment.

The discussion with construction Industry Federation executive revealed that many employees have been retrenched, and became jobless after privatization. According to the discussion, the employees of Warka House Hold and Office Furniture's Manufacturing Enterprise, Blue Nile House Hold and Office Furniture's Manufacturing, Cemental Products Enterprise, Blue Nile House Hold and Office Furniture's Manufacturing, Ethio Compensato, Wanza Household and Office Furniture's Manufacturing are enterprises that most of the employees have been affected.

Warka was a profitable company for many years, before privatization. It was sold for 8,000,000 which was undervalued price according to discussant's opinion. It was resold after 7 years of privatization to another private owner. The pension and credit association

contribution money which was paid by employees was not paid to respective account owners. Due to these, employees who were at the age of retirement could not get their pension allowances. The enterprise was taken over by Dashen Bank due to defaulted loan. Finally the enterprise was closed and 185 employees became jobless.

Wanza was purchased by Star trading company. Due to disagreement between new owners Alemesh and Midroc Group, employees were denied many benefits until the case was finalized by the court in 2004 and the company was given to Midroc Group.

Cemental Products Enterprise retrenched many employees, and 6 of them returned by court decision and 4 employees transferred to Hawassa unfairly.

Blue Nile House Hold and Office Furniture's was sold to Forturne in 2003. The company was profitable before privatization. It claimed loss and retrenched most of its employees argued. Out of 220 who were permanent employees during transfer, only 72 are remaining in 2010. The discussants complained that some of the new private owners made the enterprise just a means to obtain bank loans and shift the money to other new areas of investment. Many of the construction enterprises were not upgraded and improved instead of that they are claiming loss.

Employees were not able to obtain benefits such as salary increments, bonuses, health care and other services. They could not even able to get their monthly salary on time. They could not also get back the contributions they made to credit and saving association, social affairs (Idir) and labor union. The discussants further noted that employees are badly treated and the relationship between management, employees and union leaders is not good at all after privatization. The discussants of industry federation of Commerce and Technique and Printing explained that almost all the state owned enterprises in their industry category are still in the hand of government. Therefore, there were no cases to be raised and discussed in specific terms. but they explained that there are problems by not respecting the collective agreement and unionization of employees in their own and other industries by management.

From the results of discussions with federation executive, it is known that there are many retrenchment and related implications in all industry federations. The impact and implication level of such retrenchments actions is significant and these implications need

proper handling and mitigation. According to the information obtained from the data collected from PPESA, there were 31,265 employees in 228 enterprises at the time of their transfer to private owners. The number of employees in 228 privatized enterprises during their transfer to private ownership was 31160. Though there is no enough data that will tell us the actual number of employees who have been retrenched by restructuring actions more than 10% of the employees might have been retrenched according to some reports.

In the observed 5 recently privatized enterprises which were having a total number of 1403 employees during transfer have a total of 1254 employees on 31/08/2010. This shows that 149(10.62%) employees were retrenched.

Table 13: Number of total employees and retrenchments from 5 selected enterprises.

	Company name	year of privatization	no. of employees		no. of retrenched employees	%
			at transfer time	31/08/10		
A	Abay Technique		151	137	14	9.3
B	Alkd Resin	07/07/08	105	81	24	22.9
C	Misrak Floor Bakery	17/09/09	188	178	10	5.3
D	Ambo Mineral Water	1/12/08	695	603	92	13.2
E	Addis Modjo Edible oil	18/03/08	264	255	9	3.4
	Total		1403	1254	149	10.6

Source: own survey

It can be seen from the table that there is a decrease of number of employees in all observed enterprises. AlKyd Resin has implemented a new organizational structure and has assigned employees who can fit to the new structure and referential 24 employees. The rate of retrenchment is the highest (22.9%) from all other enterprises. According to the information obtained from the enterprises 26 employees were retrenched in relation to new structure.

Ambo Mineral Water has also implemented a new organizational structure and retrenched 92 (13.2%) employees in various forms of retrenchment.

The rest three companies have not implemented organizational structure but they are under preparations to implement new structure and when they implement new structures

more employees may be retrenched. The total number of retrenched employees 149 shows that 10.6% of total number of employees in the observed companies was retrenched since the transfer. This number does not include the retrenched employees who have been retrenched before transfer under 20/45 scheme by pre-privatization restructuring.

To sum up the discussion of social impact of privatization relating to retrenchment or lay off, and its implications are significant and should be considered and addressed. The number of employees affected by retrenchment is significant but satisfactory efforts are not made to help these employees maintain their lives. The government, CETU and other concerned institutions should work together to help employees to be trained, or be supported to create their business under safety net program.

4.7 The social impact of privatization in price change, output and quality

Respondents were asked whether the price of their companies products are increased or not and at what percentage. Most of respondents replied that the price has increased at some rate. Out of 96 respondents who replied to the questionnaire 88 (91.67) have said there is an increase in the price of their product and 8 (8.37%) said there is no increase in price. The respondents were also asked about the percentage increase in price and the following result is obtained.

Table 14: Respondents answer to what is the percentage increase in price of their products

	What is the percentage price increment	Result	%
A	Less than 25	18	20.5
B	More than 25 and less 50	34	38.6
C	More than 50 and 75	26	29.5
D	More than 75	10	11.4
	Total	88	100.00

Source: own survey

Out of the total respondents who answered there is an increase in price and 18 (20.5%) said less than 25% and 34(38.34%) said the increment is more than 25 and less than 50 percent but ,26 (29.5%) said the increment is more than 50 and less than 75 percent and others 10(11.4%0 said the increment is more than 75%. Additionally the price data was collected from 4 selected companies and presented as follows.

Table 15: Price of products at the time of privatization and on 31/08/2010

	Name of company	Price of products in Birr		
		At the time of privatization	31/08/2010	%
A	Alkyd Resin	18.22/kg	28.59/kg	56.9
B	Addis Modo Edible oil	25.0/Litre	27.0Litter	8.0
C	Ambo Mineral Water	1.50/bottle	2.50/bottle	66.7
D	Saint George Brewery (BGI Ethiopia)	2.15/bottle	4.55/bottle	111.6

Source: Own questionnaire

The price increment level of Saint George Brewery is the highest 111.6%. The company was privatized before 12 years and there may be many reasons that contributed to cost increase in addition to inflations and other factors. But the increase in price of St. George beer product is significantly high. The price of products of Ambo Mineral Water and Alkyd Resin are increased by 66.7 and 56.9 respectively. The increase in prices of the two companies is also significant. The price change in the product of Addis Modjo edible oil is very minimum 8.0%. .

The price increase in the products of these companies can not only be attributed to market factors because the price increase patterns during pre-privatization were believed to be slow and minimum. But prices were increased many times and very often in the companies observed five companies.

Respondents were also asked whether their companies have made improvements in product growth or service or product quality improvements. A total of 104 people responded to this question and 93 (89.4%) said yes, that there are improvements in

production growth, product quality and service after privatization and the rest 11(10.5%) replied there is no improvement in their enterprise.

In addition to this data were collected from the selected companies regarding their performance in out put.

Table 16: The performance data of selected enterprises per year

	Name of company	Performance /Out put			difference	%
		unit	at transfer time	31/08/2010		
A	Alkyd Resin	kg	1,719,099	1,952,660	+233561	+13.6
B	Addis Modjo Edible Oil	kg	1,600,000	3,000,000	+1,400,000	+87.5
C	Misrak Floor & Bakery	qu.	46,909	41,678	-5231	-11.2
D	Ambo Mineral Water	bottle/month	3,980,969	3,961,342	-19627	-0.5
E	St.George Brewery(BGI)	H.L	220,000	1,200,000	+980,000	445

Source: own survey

Except Misrak Floor and Bakery all enterprises made improvements. **Saint George** has made tremendous improvements in production out put, product quality and services. The production or out put has increased by 445%. It became the largest brewery in product volume and market share in Ethiopia. The company has gained dominant position in beer market in the country.

In relation with the improvement in production volume and efficiencies made the price of the product should show less increment because the efficiencies gained by the large volume product out put by new technological production machines and processes could help to decrease production costs. But the price increase in product of Saint George Brewery is 111.6% that is significant increment.

Alkyd Resin has made improvements in its production and production processes. The company increased its output by 233,561 kilograms per year which is 13.6% increment. On the other hand the price of the alkyd, Resin’s product was increased by 56.9%. This is a significant increment in two years time.

Ambo Mineral Water was undertaking expansion, product diversification and other improvement actions since the transfer of ownership. All the project works have been completed and the benefits of new facilities are expected to be gained starting from October 2010 Regardless of these efforts the price of Ambo Mineral Water was increased by 66.7% in one year and half time. This is also a significant increment.

On the other hand **Addis Modjo Edible Oil** has increased its production out put from 1,600,000 Kilo grams to 3,000,000 (87.5%) increment in two years time. But the price increment in its product is only 8%. This is low level of price increment. The company has increased its production volume and efficiencies to maintain the price increment at low level.

To sum up the price increment of products in most of the observed enterprises is significant. The prices were increased many times often after privatization and negative impact of price increase on customers earning and purchasing capacity is significant.

4.8 The social impact or implication in income of employees

Due to various changes in working environment after privatization the income of employees may be changed. Employees may be demoted, transferred to other job positions, benefits such as allowances, bonuses, yearly increments may not be given until some times that the enterprises improve their performances and become satisfactorily profitable. This affects the income level of employees and their life.

Randomly selected employees of 6 enterprises were asked whether they believe there is a reduction in their income or salary due to privatization, 92 employees responded to this questionnaire and 57 (62.0%) replied their income is decreased and 35 (38%) replied their income is not decreased. This shows that most of the employees believe that they are earning less income after privatization. The data of monthly salary of employees in 5 observed enterprises before and after the privatization process was compared.

Table 17: Gross monthly salary of employees at transfer time and on 31/08/2010

	Name of Company	gross monthly salary of employees		difference	%
		at transfer time	on 31/08/10		
A	Abay Technique	135,036.72	198,573.00	+63536.48	+47%
B	Alkyd Resin	163,006.86	159,071.00	-63536.86	-2.4
C	Addis Modjo Edible Oil	157,250.00	267,892.00	+110,642.00	+170.4
D	Ambo Mineral Water	685514.00	658169.21	-27344.79	-4.0
E	Misrak Floor & Bakery	199,142.00	192,291.00	-6,851.00	-3.4
F	St. George Brewery	396170	17746812	+1350642.00	+341.00

Source: own survey

The monthly salary of employees in 3 of the 6 enterprises has been highly increased. The monthly salary of St. George Brewery is the most highly increased +341%. The remaining 3 companies have shown a decrease in their monthly salary. This indicates that the monthly salary of employees is increased in some enterprises and decreased in others. The effect is found to be mixed.

4.9 Change in working conditions

In general, it is expected that working conditions will be changed after privatization because of the new investment opportunities that are invested to improve the existing facilities and processes. The changes in the working conditions will affect the employees in one way or the other. Therefore, identifying the working conditions that negatively affect employees will be important to mitigate such implications and create conducive working environment in order to enhance the productivity and profitability of enterprises.

Employees were asked whether they feel there are negatively changed working conditions, or not and 104 employees responded. Out of 104 respondents 59 (56.73%) replied that there are negatively changed working condition and 45 (43.27%) replied that there are no negatively changed working conditions. In addition, the respondents were asked what kinds of negative changes they observed and the following results were obtained.

Table 18: The observations of negative changes in working conditions.

	Which of the negative changes did you observe in working conditions	Results	
		Yes	No
A	Long working time (more than 8 hours)	36	7
B	Heavy work loads	21	6
C	Unsafe working conditions (No occupational health and safety protection equipment and measures	36	5
D	Annual, holiday, and weekend leaves not given according to collective agreement or labor law	31	19

Source: own survey

From table above, it can be seen that most of the respondents replied there are negative changes such as long working time mostly without over time payment, heavy workloads or burdens, unsafe working conditions (no occupational health care and safety

equipment and measures) and working without getting annual, holiday, and weekend leaves according to the guidelines set in collective agreements or labor law of the country.

Since employees are the most valuable resources of any enterprise, proper handling and care should be taken to keep them healthy and productive. From the discussion with basic and federation leaders there were many reports that revealed due attention is not given to create conducive and safe working environment in many enterprises. According to the reports given to Textiles Industry Federation from 39 basic unions, a total of 974 workers had major injuries and 2 were dead in two years time. It was also pointed that there is no inspection and monitoring body from the government to supervise these conditions. The questionnaire results and discussion with the unions and industry federation union leaders revealed that there are significant negative implications in the working environments after privatization. Many discussants pointed that the focus of many private owners is task and results oriented and creating conducive and safe environment for employees is not given importance and priority instead it is a neglected agenda.

Therefore, the concerned government bodies and other should work together to change these conditions. Strong inspection and supervising body should be organized in government structure. Awareness creation and training should be given to company management, union leaders and employees to create the desired conducive working environment.

4.10 Respect of basic rights

The other area of interest was the respect of employees' basic rights. Employees were asked whether they believe employees rights were violated or not. Among the 99 respondents, 53 (53.54%) responded that there were violation of rights and 46 (46.46%) responded that their basic rights are respected. This is an indication that some employees have become victims of violation rights by their new employers. 53 employees among those responded there is basic rights violation further responded what forms of violations they observed.

Table 19: forms of violations of basic rights

	Kinds of Violations	Result			
		Yes	%	No	%
A	Job insecurity	43	81.1	10	18.9
B	Demotion or unfair transfer	39	73.6	14	26.4
C	Harsh punishment	27	69.8	16	30.2
D	Illegal dismissal	22	39.2	11	20.8
E	Others	23	62.3	20	37.2

Source: own survey

Out of 53 respondents, the majority 43 (81.1%) responded that there is Job insecurity. They are in fear that their job can be lost at any time. They claimed that jobs are being lost due to many reasons and there is no any guarantee to maintain their job. This indicates that employees have lost confidence in their job and highly frustrated. This will highly affect the performance of enterprises. The employees who have no confidence in their job will not be motivated to achieve company goals in product output, quality and services. Additionally 39 (73.6%) of the respondents responded that there is demotion or unfair transfer from one job position to the other. Many of the respondents also responded that there are basic rights violations such as illegal dismissal (79.2%), harsh punishment (69.8%) and other violations (62.3%) observed in their enterprises. Other forms of violations of basic rights can be denial of participation of workers' representatives in worker affairs, severance pay, pension rights etc.

From the results given in the table and discussion held with union leaders, there are numerous basic rights violations. The degree of occurrence varies from one element to the other and from one enterprise to the other. Most of the discussants complained that the Labor Law has many loopholes that expose employees to many forms of basic rights violation acts.

4.11 The relationship between management and employees and union leaders.

Another important aspect that respondents were asked to reply was the relationship of management and employees and union leaders. Employees were asked to answer whether there is a change or not in relationship between management and employees or management and labor union leaders. From 100 employees that responded to this question, 82 (82%) replied that there is a change, but 18 (18%) replied that there is no

change. In addition, the respondents were asked whether the relationship after privatization is changed in negative or positive terms. Out of 100 respondents, the majority 54 (54%) answered the change resulted negative relationship implications and the rest 46 (46%) replied the change resulted positive relationship. This indicates that relationship between the management and the employees and labor union is not smooth in many privatized enterprises. Furthermore, the respondents were asked to what degree the relationship is changed and the degree of occurrence of conflicts and disputes.

Table 20: The degree of relationship change

A	What is the degree of relationship change between employees and management	Result	%
	Very bad	21	24.40
	Bad	30	34.90
	Good	18	20.90
	Very good	17	19.80
	Total	86	100.00
B	What is the degree of relationship change between management and union leaders	Result	%
	Very bad	17	17.9
	Bad	31	32.6
	Good	27	28.4
	Very good	20	21.1
	Total	95	100.00

C	Is the amount of conflicts and disputes and court cases increased	Result	%
	No change	33	44
	Increased	30	40
	Highly increased	12	16
	Very highly increased	0	0
	Total	75	100

Obviously it can be realized from the results above that the majority of respondents responded that the relationship between management and employees and union leaders is negatively changed to significant level. Out of the total respondents, 21 (24.4%) responded that the relationship between management and employees is in a very bad conditions and 30 (34.90%) responded the relationship between management and employees is in a bad conditions. In contrary, 18 (19.8%) of the respondents responded the relationship is at good level and others 17(19.8%) responded the relationship is at a very good condition.

The respondents further responded to the questionnaire to what degree the relationship between the management and union leaders changed. 17(17.9%) of the respondents responded that the relationship is at a very bad level, and 31(32.6%) responded the relationship is at a bad level. By contrast, 27(28.4%) of the respondents responded the relationship is at a good level, and 20(21.1%) responded that the relationship of management and union leaders is at a very good level.

Additionally, respondents were asked about the degree of occurrence/ the amount of conflicts, disputes and court cases. As it is shown in the table, 33(44%) of the respondents answered that there is no change in the amount of conflict, disputes and court cases. 30 (40%) of the respondents answered that the amount is increased, and 12 (16%) responded the amount is highly increased. Therefore, it can easily be seen that there is an increase in the amount of conflicts, disputes and court cases in general.

The discussion that was conducted with union leaders and Industry Federations executives also revealed that there is much unwelcomed environment in many enterprises. There is no good culture of bringing issues to mutual and open discussion. Both parties lack readiness and openness to resolve conflicts and disputes through consensus building and conciliation. The new private ownership needs fast response, better commitment and better performance from employees. The employees are expected to adapt to the new working conditions. But it was pointed that many employees are not quickly adapting themselves to the new conditions. The old work behaviors, attitudes and cultures of employees should be changed and replaced by the new work behaviors and standards set by the management of private ownership. If this

condition is not fulfilled by employees it entails conflicts and disputes and negative impact in relationship.

On the other hand, it was explained by many respondents & discussants that the new management is reluctant to respect the collective agreement and Labor Law in many instances by claiming that the old collective agreement is in favor of employees. The benefits and requirements included in the collective agreement are not provided and respected by new management. Due to these reasons the relationship between the management and employees and the union leaders is negatively changed or affected. The relationship of these parties is found at bad level in most of the observed enterprises. From the data collected it is known that most of the respondents from recently privatized companies 65.4% responded that the relationship is negatively changed and found at a bad level. But 93.8% respondents from St. George Brewery (BGI Ethiopia) which has been privatized in 1998, responded that the relationship is positively changed and at a good level.

This indicates that the relationship improves when employees become more familiar to new working conditions and when better benefits, and salaries are given to employees and new collective agreements and guidelines are established and accepted by both parties. St. George Brewery has established new and better working conditions and providing better salaries and benefits and the relationship of management and employees and union leaders is at a good level now. But at the first years of privatization, there was bad relationship because of high rate of retrenchment. According to the discussion with executives of BGI Ethiopia, from the total of 509 employees 351 were affected by retrenchment, demotion and transfer measures and 160 were directly retrenched. But, conditions are greatly improved in many aspects and there is a very good relationship and working environment now.

4.12 The social impact of privatization on benefits

Another area of interest to assess the implications of privatization was the impact on benefits such as salaries, bonuses, allowances, education and training. Respondents were asked if they have benefited from privatization or not. A total of 100 respondents responded to the questionnaire and 40 (40%) responded they have benefited and others

60 (60%) responded that they have not benefited from privatization. Respondents were also asked in what ways did they obtain benefits and the following data were obtained.

Table 21: The different that ways employees obtained benefits

In what way did you obtain benefits	Result	%
A Better Salary	27	27
B Better benefits (bonuses ,allowances)	11	11
C Education	21	21
D Training	12	12

Source: own survey

As it can be seen from the results above many of the respondents replied that they have not benefited from privatization and the minority replied that they are benefited. When we see in what way and how many were benefited, only 27(27%) of 100 respondents replied they have benefited by obtaining better salary, 21(21%) responded they benefited by education, 12 (12%) by training and 11(11%) by getting benefits (bonuses, allowances). And hence, it can be concluded that the majority of employees have not benefited by obtaining better salary, bonuses, allowances, education and training after privatization. Only few have benefited in some ways. All employees of St. George responded that they benefited because the company has made many improvements and paying better salaries and other benefits. Furthermore, the gross salary of observed enterprises at time of transfer and at the end of August 2010 was compared.

Table22: Monthly Salary of employees at transfer and on 31/08/2010

name of Company	monthly gross salary of employees		difference	%
	at transfer	31/08/2010		
Abay Technique	135,036.72	198,573.20	+63,536.40	+47
Alkyd Resin	163,006.86	159,671.00	-3,335.86	-2.0
Misrak Floor and Bakery	199,142.00	192,291.00	-6,851.00	-3.4
Addis Mojo Edible Oil	..157,250.00	267,892.00	+110,642.00	+70.40
St. George Brewery	396,170.00	1,746.812.00	+1,350,642.00	+341

Source: Own survey

Among the six observed enterprises 3 of them had a decrease in monthly gross salary and 3 of them had an increase in monthly salary. The increase of monthly salary in Abay Technique and Addis Modjo Edible Oil enterprises is higher 47% and 70.4% respectively. The employees of these two companies have benefited by getting better salaries.

The percentage salary increment of St. George Brewery (BGI Ethiopia) is the highest +341% and the employees of this company are the most benefited by getting better salary. The enterprise has gone many improvements and growth processes in the last 12 years and has achieved the highest volume level of Beer in Ethiopia. The company has also made many labor improvements and the employees are getting many benefits especially high salaries. The total monthly salary of other three enterprises is decreased from pre-privatization time to post privatization. This indicates that employees of these enterprises have not benefited by getting better salaries.

In general, the impact of privatization on employees' salaries and other benefits is mixed. Some of the companies which have undergone fast improvements processes and which have implemented restructuring and maintained lesser man power provide better salaries and benefits. Those enterprises which do not make fast improvements in their processes and do not implement restructuring do not provide better salaries and benefits.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The Ethiopian privatization process which has been running for the last 15 years transferred more than 280 enterprises from state to private ownership. The data which were collected from various sources about the impacts due to process of privatization are analyzed, interpreted and the results are discussed. Summary of result findings, conclusion and recommendations are presented in the following sequence.

5.1 SUMMARY

The privatization process in any country needs to be transparent and all the stakeholders should be sufficiently informed. Even though more than half of the employees were informed according to data obtained about the privatization process of the country, significant number of employees lack information and they were not aware and prepared for the changes that come after privatization.

Employees were not given sufficient information about the privatization process through mass media (radio, TV, news papers) and in other means of communications such as workshops, discussions and meetings. Educating employees and other stake holders was not sufficiently done by using proper channels.

As a result, the attitude, work behaviors and cultures of employees are not changed among many employees after privatization in accordance with the objectives of new owners. Instead lack of confidence, interest in work and ineffectiveness are seen in many enterprises.

Most of the employees expected negative implication specially retrenchment after privatization. Due to this they are found to be in deep frustration. This indicated that employees have lost confidence in their job and this may result negative effect in the achievement of company goals.

The number of employees retrenched from the selected 6 companies due to privatization process is significant. The number of employees who have been affected by demotion, unfair transfer is not significant. But the number of employees who have been retired early retirement by voluntary basis is significant. Employees were retrenched out of the agreement that the new private owners made with PPESA to maintain them by the reasons of restructuring. The requirement set by PPESA to protect employees from retrenchment is not respected.

On the other hand some enterprises were transferred to investors who do not have sufficient capital resource. The operation conditions of such enterprises were not improved and could become profitable and could not maintain the employees on their job and give them their salaries regularly.

The production output, quality and service of three enterprises (Saint George Brewery, Addis Modjo Edible Oil, and Alkyd Resin) were increased and the other three enterprises (Misrak Floor and Bakery, Ambo Mineral Water and Abay Technique) were not increased.

The price change of privatized enterprises products was significant but the degree of increment varies from one enterprise to another. The price increment level of Saint George Brewery is the highest 111.6%. The price of products of Ambo Mineral Water and Alkyd Resin are increased by 66.7 and 56.9 respectively. The increase in prices of the two companies is also significant. The price change in the product of Addis Modjo edible oil is very minimum 8.0%.

The change in income of employees in some privatized companies was improved and not in some of the enterprises. The monthly salary of employees in 3 of the 6 enterprises has been highly increased. The monthly salary of St. George Brewery is the most highly increased +341%. The remaining 3 companies have shown a decrease in their monthly salary.

The income of employees in enterprises which have made fast improvements was increased due to salary increments. In enterprise which did not take fast improvement actions the income of employees did not improve or decreased due to lack of benefits and no increment in salary.

The working conditions of most of the privatized enterprises are negatively changed. There are many negative working conditions which have to be changed sooner. But some of the working conditions in few enterprises are conducive because the enterprises have made significant improvements.

The basic rights of employees were not found to be respected in most enterprises. Job insecurity, demotion, unfair transfer, harsh punishment and illegal dismissals are some forms of violation acts in privatized enterprises. The degree of occurrence of such acts varies from one element to other and one enterprise to other.

The relationship between management and employees and union leaders was negatively changed in most of the privatized enterprises, but good relationship was seen in some other enterprises. There was insignificant increase in number of conflicts, disputes and court cases in most of the privatized enterprises.

The relationship improves when employees become more familiar to new working conditions and when better benefits, and salaries are given to employees and new collective agreements and guidelines are established and accepted by both parties. When enterprises make improvements and provide better benefits the relationship improves.

Significant number of employees have not benefited from privatization. Companies which have undergone fast improvements processes and which have implemented restructuring and maintained lesser man power provide better salaries and benefits. However, those enterprises which do not make fast improvements in their processes and do not implement organizational restructuring, do not provide better salaries and benefits. Few have benefited from privatization by obtaining better salary, better benefits, education and training.

The post privatization environment of the enterprises needs continuous assessment, follow up, evaluation and monitoring by government and other stakeholders but no satisfactory work was done in follow up, evaluation and monitoring the status of privatized companies during post privatization period.

5.2 CONCLUSIONS

The privatization process was not sufficiently transparent and significant number of employees lacked the necessary information, awareness, training and assistance. Many employees were not informed about the privatization process and not assisted to get prepared to accept the changes that will come with the process. Due to this, most of the employees could not change their old attitudes, work behaviors and cultures and had lost confidence, sense of security, and found to be frustrated.

The number of employees retrenched from privatized enterprises is significant. But sufficient work has not been done to train and to support them in order to help them to be reemployed or to support them through safety net schemes in order to help them create their own sources of income. The working conditions of most of the privatized enterprises were deteriorated, the basic rights of employees were not respected in many ways and violations of rights were manifested. The relationship between management and employees and basic union leaders was in

bad conditions and conflicts, disputes and court cases were increased due to privatization. On the other hand, the privatization has shown positive implications in product out, quality and service provisions in some enterprises. The product out, quality or services in some privatized enterprise have increased or significantly improved.

In places where fast improvement actions were taken in organizational restructuring, human resource development and other areas, the income of employees was increased due to salary increments and other benefits. In places where improvement actions were delayed most of the employees obtained less income and benefit.

The price change of products and services of privatized enterprises was significant, but its change cannot be attributed only to privatization. It is obvious that there are many other contributing factors such as, inflation, the rate of change of foreign currency, the increase of costs in inputs and others.

5.3 Recommendations

5.3.1 Transparency and awareness creation.

Transparency and awareness creation are important to instill confidence and popularization of the program. The modality of privatization chosen, criteria for bid evaluation, requirement for selecting potential investors, and transferring processes should be transparent and communicated to stake holders by using proper channels. The stakeholders should also be informed about merits and demerits of privatization.

5.3.2 Training, orientation and development

Training is essential to help and support employees to change their old attitudes, work behaviors and cultures and adapt to new working conditions. The employees should also be trained to shift from one job position to other. After the wake of market-led economy, the frequent changes in production techniques and the functional areas of management necessitated the management to keep the employees updated in line with the changing environment. It is also increasingly realized formal training is important not only for new recruits, but also for the existing employees. Therefore, training including orientation and development should be given.

5.3.3 Establishing support scheme.

The employees who are retrenched at age 45 having 20 years experience should get sufficient support to be retrained and obtain financial support to create their own businesses.

5.3.4 Strengthening follow up and monitoring bodies.

The post privatization period follow up and monitoring is important to assess the conditions of privatized enterprises and take immediate actions. Therefore strong body should be organized under PPESA and Ministry of Labor and Social Affairs and conduct continuous assessment and monitoring activities on privatized enterprises.

5.3.5 Fast Improvement Actions

Privatized enterprises should carry out fast improvement actions in order to change the existing working conditions and achieve improved out put, quality and

service goals and benefit employees by providing better working conditions, salaries and benefits.

5.3.6 Creating strong mediation and conciliation councils.

Improving the relationship of management and employees and union Leaders and the presence of smooth relationship is very essential for creation of peaceful working environment which helps for efficiency and profitability of enterprises. Therefore strong mediation and conciliation councils should be formed by concerned bodies such as basic labor union, industry federation unions, CETU, Employers, employers' federation, and government bodies.

5.3.7 Evaluating the effectiveness of Labor Laws

The proclamation of Labor Law 377/2004 and other improved amendments have to be assessed and evaluated for their effectiveness. Effective labor law which can accommodate existing situations should be developed & implemented.

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CONSENT PAPER

I, the underlined, declare that this thesis is my original work which has not been presented for any degree in any university that all materials used for the thesis have been duly acknowledged.

Name: Mulugeta Wolde Elile

Signature -----

Confirmed by study leader:

Name: Dr. Mulugeta Abebe

Signature -----

Place and date: University of South Africa (UNISA), Addis Ababa, September,
2010

Appendices

Discussion participants

No	Full name	Company (organization)	Title (Position)
1	Ato Wondaferash Assefa	PPESA	Public Relation Directorate, Director
2	Ato BERhanu Leulseged	PPESA	Senior Expert
3	Ato Abraham	PPESA	Expert
4	Ato Asnake	CETU	General Secretary
5	Ato Tamene Mekonnen	CETU	Industry Relations Head
6	Ato Berhane Hiwot Libanos	CETU	Expert
7.	Ato Gessese Aligaz	Federation of Hotels and Tourism	President
8.	Ato Tsehaye Akelom	Federation of National Chemicals, Energy and Mines	Finance and Administration Department Head
9.	Ato Zerihun Alemu	Federation of Transportation and Communication	General secretary
10.	Ato Ayelew Yimer	Federation of Textiles	Industry relations Head
11.	Ato Tariku Shachachew	Federation of Agriculture	General secretary
12.	Ato Etalemahu Adamu	Federation of Construction	Unions Organizing and Social Affairs Head
13.	Ato Gebre Libanos Solomon	Federation of Commerce,	President
14.	Ato Mulugeta Altaseb	Addis Modjo Edible Oil	HR manager
15.	Ato Engida work	Abay Technique and Trading	Finance and Administration Manager
16.	Ato Emiru	Abay Technic and Trading	Technique Manager.
17.	W/o Almaz	Alkyd Resin	Information Officer

18.	Ato Genet	Misrak Floor and Bakery	Human Resource Manager
19.	Ato Getachew	Misrak Floor and Bakery	Finance Manager
20.	Ato Dereje Kebede	Misrak Floor and Bakery	Finance Manager
21.	W/o Alem Tsehay	St. George Brewery	Personnel Division Head
22.	Ato Gezahegn Amete	St. George Brewery	Finance Manager
23.	W/t Genet Kasahun	Ambo Mineral water	Production Manager
24.	Ato Berhanu Wubshet	Ambo Mineral water	Personnel Officer
25.	Ato Kefyalew Bekele	Ambo Mineral Water	Union Leader.
26.	Ato Solomon Demisse	Ministry of Labor and Social Affairs	OHS Department Manager

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- c. more than 100 and less than 150
- d. more than 150

6.2. How do you estimate the number of employees retired early?

- a. Less than 50
- b. More than 50 and less than 100
- c. More than 100 and less than 150
- d. More than 150

6.3 How do you estimate the number of employees demoted or transferred unfairly to other job positions?

- a. less than 50
- b. more than 50 and less than 100
- c. more than 100 and less than 150
- d. more than 150

7. Do you believe that there is a reduction in income due to privatization?

Yes no

7.1 If yes, what do you think is reason?

- 7.1.1 salary is decreased yes
- 7.1.2 loss of yearly salary increment s
- no
- 7.1.3 loss of bonus yes \$ no
- 7.1.4 loss of benefits yes

no

8. Do you know whether the price of your company's product is increased or not after privatization? Yes no

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8.1 If yes, What is the percentage of increment?

- a. less than 25
- b. more than 25 less than and 50

- c. more than 50 and less 75
- d. more than 75

9. Do you believe that there is production growth or service improvement after privatization? yes no

10. Do you feel that the working conditions are negatively changed after privatization?
 yes no

11. If yes, which of the following negative changes do you observe ?
 yes no

11.1 Long working time (more than hours)
 yes no

11.2 Heavy Work burdens
 yes no

11.3 Deteriorated working conditions (No occupational safety, and Health Equipment and measures)
 yes no

11.4 Are annual leave, Holiday leave and weekend leave not given according to the labor law or collective agreement?
 yes no

12. Do you think there are any basic rights violation acts after privatization?
 Yes no

12.1 If yes, in what forms?

12.1.1 Job insecurity no

12.1.2 Demotion or unfair transfer yes no

12.1.3 Harsh punishment no

12.1.4 Unfair (illegal) dismissal yes

no

12.1.5 Others yes no

13. Do you think that there is a change in relationship between management

and employees and union leaders?

14. It yes, in positive or negative term? Underline your choice.

14.1 The relationship between employees and management.

Very bad bad good very good

14.2 The relationship between management and union leaders

Very bad bad good very good

14.3 The number of conflicts, disputes and court case?

No change increased highly increased

Very highly increased

15. Have you benefited from privatization?

Yes No

15.1 If yes, in what ways?

15.1.1 Better Salary Yes No

15.1.2 Various benefits Yes No

(Bonuses, allowances) Yes No

15.1.3 Education Yes No

15.1.4 Training Yes No