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## **State owned business sector in Ethiopia: are they policy enterprises or else?**

**Mezgebu Abye Zewdu**

School of law, Mizan-Tepi University, Ethiopia, LL.B, University of Gondar, LL.M in Business and Corporate Law, Bahirdar University, Ethiopia

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### **Abstract**

In the world, countries have established and controlled different state owned enterprises /business sector to achieve certain objectives or goals such as reducing poverty and achieving economic development in general. Having this in mind, the main purpose of this paper is to analyze whether state owned enterprises are policy enterprises or else in Ethiopia. State owned enterprises may be policy enterprises or else depending upon different conditions on the aspect of Ethiopian Economic policy or legal/law aspects. But with regard to determining the policy or any other status of state owned enterprises in Ethiopia is not yet clearly determined. Now a day Ethiopia has adopted free market policy but the government has highly intervened in the economy and owned many state owned enterprises in different business sectors of Ethiopia. The government is the major player in the economic system of Ethiopia and this may endanger the private enterprises. Hence to determine whether state owned enterprises are policy enterprises or else, it must be checked in line with the free market policy and the government should act in accordance with the free market policy what the government adopted.

**Keywords:** ethiopia, state owned enterprise, policy, law, government

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### **Introduction**

Many countries create state-owned enterprises (SOEs) that focus on the extractive sector with hopes of building the country's capacity to participate in the lucrative field of resource extraction, to increase the government's revenue takes, to improve the government's ability to monitor what other companies are doing in the country <sup>[1]</sup> and to bring the economical development of the country. In case of Ethiopia, state owned enterprises/business sectors dominated major sectors of the economy. There are state dominated business sectors in Ethiopia such as Telecommunications, Banking, Insurance, air transport, shipping and sugar <sup>[2]</sup>. Even if Ethiopia has adopted a free market policy post 1991 but the government still highly intervened in the economy and controlled important business sectors. Before 1991, both the imperial period and the Derg regime have their own roles in the economy of Ethiopia. The imperial period had adopted market oriented economic policy and private investors were promoted but in the Derg regime, the market oriented policy of Ethiopia during imperial period had changed to command economic policy. Each respective policies of Ethiopia had different influences or aspects on business sectors.

Having this in mind, in this paper, we will see the concept and meaning of business sector/enterprise, the concept, meaning, role and objectives of state owned enterprises and analyzing whether these state owned enterprise are policy enterprises or not.

Finally conclusion and recommendation will be provided.

### **1. The concept and definition of Business sector/enterprise**

Defining the phrase business sector is not an easy task. Hence we do not have a unanimously accepted definition. In the perspective of economics, Business sector means the the part of the economy made up by companies" It is a subset of the domestic economy, excluding the economic activities of general government, of private households, and of non-profit organizations serving individuals <sup>[3]</sup>. In fact in relation to this concept, 'enterprise' is a business organization that is formed and which provides goods and services, creates jobs, contributes to national income, imports, exports and above all sustainable economic development <sup>[4]</sup>.

### **2. State owned enterprises/business sector: its meaning and concept**

There is no a unanimously accepted definition to state owned enterprise/business sector <sup>[5]</sup>. Rather it has been defined differently by different scholars. According to Muzaffar Razakov, he defined state owned enterprise or business sector as it is Legal entities founded by a government to undertake commercial or business activities on behalf of a government owner <sup>[6]</sup>. According to this definition state owned enterprises or business sectors are a legally established commercial or profit oriented enterprises that conduct business activities. Beyond this different researchers in the area of this field illustrated as there

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<sup>1</sup> NRGJ Reader (2015), State Participation and State-Owned Enterprises Roles, Benefits and Challenges,p.2

<sup>2</sup> Doing Business in Ethiopia: 2012 Country Commercial Guide for U.S. Companies, competition from State Owned Enterprises

<sup>3</sup> Business sectors,

<sup>4</sup> Gheroghe Savoie (PHD),Enterprise, Entrepreneur, and entrepreneurship, the main semantic chain in contemporary economics, p.65

<sup>5</sup> European Commission Directorate-General for Economic and Financial Affairs, State-Owned Enterprises in the EU: Lessons Learnt and Ways Forward in a Post-Crisis Context, Institutional Paper 031 | July 2016,p.6

<sup>6</sup> Muzaffar Razakov, Corporate Governance of State-Owned Enterprises in Uzbekistan, PHD, Dissertation,P.12

are many factors that vary the definition of state owned enterprise. According to them, the factors that make state owned enterprise to have different meanings are: The level of government that owns the enterprise (central/federal, state/regional or local), the way in which the enterprise was founded, the position in the public administration Hierarchy, the purpose of the SOE, the status of the SOE if it is in the process of being privatized, full, majority or minority ownership by the government<sup>[7]</sup> and other factors may be raised. According to these researchers the definition of state owned enterprises may vary from country to country in the presence of different factors in accordance with the context of the respective country. Upon these factors and on the basis of Organization for Economic Co-operation and Development (OECD), they have given the following definition as state owned enterprise (SOE) is an enterprise where the state has significant control through full, majority, or significant minority ownership. In this definition they include SOEs which are owned by the central or federal government, as well as SOEs owned by regional and local government<sup>[8]</sup>. The other definition which is given by M. Adil Khan, as he defined it, even if state owned enterprise has no a common acceptable definition, it can be defined as an organization established by the government under public or private law, as a legal personality which is autonomous or semi-autonomous, produces/provides goods and services on a full or partial self-financing basis, and in which the government or a public body/agency participates by way of having shares or representation in its decision-making structure<sup>[9]</sup>. Having said so, over the past 50 years governments around the world established large numbers of public enterprises to accomplish development objectives, among the most important of which were to provide services and infrastructure that could not easily be extended by conventional departments and agencies of the State or by a weak or fledgling private sector<sup>10</sup>. In most of these countries political intervention and strenuous government control inhibited public enterprises from fulfilling their intended missions. These missions of governments may be expressed in terms of policies and laws or otherwise<sup>[11]</sup>.

### 3. The role and objective of state owned business sector/enterprises

In traditional perspective, one of the major functions of the state was to ensure peace and security of the people by using its sovereign power. But in now a day the government did beyond this i.e. participating in the economic activity by establishing undertakings/enterprises<sup>[12]</sup>. In relation to this concept, Since the 1930s and particularly after World War II, numerous State Owned Enterprises (SOEs), also called Public Enterprises (PEs),

were created in both developed and developing countries to address market deficits & capital short-falls, promote economic development, reduce mass unemployment and/or ensure national control over the overall direction of the economy, especially in developing countries<sup>[13]</sup>. According to this SOEs are established to address problems that cannot be addressed by the market itself. The above listed roles of state owned enterprises are so general and public interest oriented and cannot be solved by the market. Because the market lacks capacity or shied away itself to invest by providing capital and technology to heavy industries and infrastructures for the purpose of producing essential goods at lower cost, to create employment opportunities to the people, to achieve the socio-economic growth and generally to contribute the economic development of the state<sup>[14]</sup> as whole. In addition to this other roles and objectives of state owned enterprise/business sector, they provide to the lively hood of many people and this is done due to the profit of state owned enterprises is shared with the people while the profit of private enterprises shared among shareholders. Due to this fact in principle the profit of state owned enterprises will be done for the benefit of the society such as giving social services like education, medical care, healthcare, and retirement protection<sup>[15]</sup>. Beyond this as much of literatures on public owned enterprises shows that the organization or structure of state owned enterprises inherently create difficulties in providing developmentally-oriented services and facilities in many countries whether or not they have strong private business or civil society sectors<sup>[16]</sup>. In addition to this, state owned enterprises encounter continuous risks such as political interference, cronyism and corruption from different bodies in their governance, operations<sup>[17]</sup> and finally this prohibited them not to achieve their objectives or goals. This implies that state owned enterprises may be dominated by corruptors, unethical workers, and they may change the fruits of the enterprise to their own personal use.

### 4. State owned business sector in Ethiopia: are they policy enterprises or else?

Before determining whether state owned enterprises/business sectors are policy enterprises or else, it is better to understand the concept of policy in general.

Any democratic government which is standing for the interest of the people cannot perform its responsibilities what it promises to do the people unless it performs its promises. The government also should take different measures to improve the living standard of its citizens<sup>[18]</sup>. According to Hansekoms, Rowland and Bain, this could be done "If the government has well-defined policies pertaining to each and every aspect of its intended

<sup>7</sup> PWC, *State-Owned Enterprises Catalysts for public value creation?*, P.8

<sup>8</sup> Ibid,p.8

<sup>9</sup> M. Adil Khan, Introduction: Reinventing Public Enterprises, Public Enterprises: Unresolved Challenges and New Opportunities Publication based on the Expert Group Meeting on Reinventing Public Enterprise and their Management 27-28 October 2005 New York,p.3

<sup>10</sup>Dennis A. Rondinelli, Can Public Enterprises Contribute To Development? A Critical Assessment and Alternatives for Management Improvement, p.3

<sup>11</sup> Ibid,p.3

<sup>12</sup> Tewodros Meheret, the Concept and Characteristics of Public Enterprises in Ethiopia: An Overview,p.333

<sup>13</sup> M. Adil Khan, Introduction: Reinventing Public Enterprises, Public Enterprises: Unresolved Challenges

and New Opportunities Publication based on the Expert Group Meeting on Reinventing Public Enterprise and their Management 27-28 October 2005 New York,p.3

<sup>14</sup> Ibid,p.3

<sup>15</sup> FAN Gang & Nicholas C. HOPE, the Role of State-Owned Enterprises in the Chinese Economy,p.2

<sup>16</sup> Dennis A. Rondinelli, Can Public Enterprises Contribute To Development? A Critical Assessment and Alternatives for Management Improvement, p.4

<sup>17</sup> Ibid

<sup>18</sup> University of Pretoria, South Africa, Public policy analysis, Chapter four,p.87

actions". In addition to this know the resources to be used and the role players for the policy making such as legislature, executive, cabinet <sup>[19]</sup> or other bodies which may be different from country to country.

But the word "policy" has no common acceptance definition due to there are many scholars or authors with different attitudes and depend on the context and meaning what it intends to convey <sup>[20]</sup>. This varieties of definition of policy leads the readers and these authors to miscommunication and confusion <sup>[21]</sup>. Among many definitions of policy, some of them are the following. The first one is "policy is a statement of intent to achieve certain goal(s) by a local, regional or national governments of a country" <sup>[22]</sup>. According to this definition policy is one of the mechanisms that help the government whether national or local to achieve its goals. The other definition of policy is a course or principle of action adopted or proposed by a government, party, business, or individual <sup>[23]</sup>. As we understand from this definition, it is possible to have policies at individual level or otherwise indicated in the definition to achieve their respective actions. There is another policy which is Public policy can be generally defined as a system of laws, regulatory measures, courses of action, and funding priorities concerning a given topic promulgated by a governmental entity or its representatives <sup>[24]</sup>.

When we come to Ethiopia, Ethiopia is not also an exception to this fact and she has her own experience of policy in the aspect of her economic activities in her different regimes. Ethiopia has seen three regimes over the last eight decades with their respective different economic policies. These policies have their own distinctive features, ownership structure and market orientation <sup>[25]</sup>. During the imperial period (pre 1974), its economic policy was market oriented and private enterprises were promoted to invest and lead the market in Ethiopia. During this time the government's role was participating in infrastructure and human resource development and had ownership on some selected enterprises or industries <sup>[26]</sup> and the involvement of the government to the market was not very strong. But in the Derg regime (1975-1991), its policy was command economy and the state led the market. Private enterprises were nationalized and became under the control of the government. In this period there was the dominance of state owned enterprises/business sector and the government under its policy instruments gave protection for domestic markets through high tariff and quantitative restrictions financing, subsidizing, and ensuring monopoly power for the state-owned enterprises <sup>[27]</sup>. The private enterprises were ignored and had no place in the market due to the policy what the government adopted at that time. Because command economic

policy does not allow the strong participation of private enterprises in the market rather the government is the major role player in the market. But latter in the regime of Ethiopian People's Revolutionary Democratic Front (EPRDF) (post-1992), after defeating the Derg regime, led the transitional government soon after it seized power announced that the country will follow a market-led economic policy. In line with this policy, the EPRDF took a serious reform on the policy of Derg regime. As it has been discussed above the economic policy of Derg was command economic policy and this policy has been changed into free market economic policy by EPRDF by the way of fostering competition, opening the economy to private sectors, by promoting the private sectors <sup>[28]</sup> backed up by the IMF and World Bank <sup>[29]</sup> to participate in the market as a major role player. Under this regime, the government has the role to conduct activities regarding infrastructure, human resource development <sup>[30]</sup> and controlled some selected enterprises such as Telecommunication, electricity, Airlines, shipping and transport <sup>[31]</sup>. Such important services are provided by state owned enterprises <sup>[32]</sup> not by private enterprises in Ethiopia. When we assess today's economic policy of Ethiopia, free market policy in line with state owned enterprises, it seems there is a contradiction. This is because free market policy presuppose the non-intervention of the government in the market/economy rather it lefts the market to the private sector. Hence upon this fact, it is possible to argue that the very nature of state owned enterprises and free market policy may not go together. But when we examined countries that followed a free market economic policy is not free intervening to the economic activity. i. e. we do not have absolute free market policy in the world and some argued that the government should intervene in the free market economy what the market fails to do so <sup>[33]</sup>. But when we see the current government of Ethiopia, even if the government has adopted a free market policy, the government has highly intervened in the market of main important economic sectors without setting market failure as a criteria to intervene in the economy and this may contradict with its general economic policy. But each enterprise may have their own independent policies such as the Commercial Bank of Ethiopia (CBE) which is one of state owned enterprise has its own policy like credit policy, loan policy and other related particular policies <sup>[34]</sup> to achieve its objective. When we say policy as we have discussed in the definition part of policy, policy even it can be formulated at individual level therefore it is possible to say that each state owned enterprises/business sectors may have their respective

<sup>19</sup> Ibid

<sup>20</sup> Ibid

<sup>21</sup> Egon.G. Guba, the effect of definition of policy on the nature and outcomes of policy analysis, p.1

<sup>22</sup> UNFCCC/CCNUCC, CDsM – Executive Board, Definitions of policy and program of activities, EB 27 Annotated Agenda Annex 1, p. 1

<sup>23</sup> Paratute Canada, public policy 101, what is policy, <http://www.paratutecanada.org> access at May 09, 2018.

<sup>24</sup> Ibid

<sup>25</sup> Mulus Gebreyesus, Industrial policy and development in Ethiopia: Evolution and present experimentation, p.4

<sup>26</sup> Ibid, p.5

<sup>27</sup> Ibid, p.6

<sup>28</sup> Ibid, p.6

<sup>29</sup> Muchie, M., & Bekele, E. (2009). Promoting micro, small and medium Enterprises (MSMEs) for sustainable Development, Innovation and International Political Economy Research (DIIPER) Aalborg University, p.12ss

<sup>30</sup> Ibid

<sup>31</sup> Triodos Facet BV, the Netherlands, Country Report Ethiopia Job Policy Review, Private Sector Development Country Studies, January 2013, Greenhouse in Ethiopia, N.Stam 2010, p.9

<sup>32</sup> Tewodros Mihret, p.1

<sup>33</sup> Tejvan Pettinger, should the government intervene in the economy? Economics, July 2018, p.1.

<sup>34</sup> Chaness Amarae, Assessment Of Credit Management Practice In Commercial Bank Of Ethiopia, (unpublished) January, 2016, p.26

policies which is enacted in line the objective of enterprise and the major economic policy of Ethiopia, free market.

When EPRDF came to power, it has adopted free market economic policy and this policy stated that the profitable state owned enterprises in the area of industry, agriculture, mining and energy sectors should remain under the state control and only unprofitable state enterprises are privatized<sup>[35]</sup>. This shows that state owned enterprises have policy implications even if in the free market as observed above.

Beyond this when we see the FDRE Constitution as per Art. 51(2), the federal government has the duty to formulate and implement the country's policies in respect of overall economic social and development matters<sup>[36]</sup>. As we understand from this provision, state owned enterprises as long as they have participated in the business sectors, the policies which are formulated by the government on economic aspects is implemented on them and they are not exception to this formulated policy of the government. Hence upon this provision, state owned enterprises have policy implications in this regard and these state owned enterprises have objectives to attain some public policy goals<sup>[37]</sup>. That is why the government works for the people and formulate policies for all economic activities in Ethiopia for seeking of bringing economic development in the country as whole and these enterprises are created by conscious policy of the government.

In addition to this, the economic objectives, according to Art.89 of the FDRE Constitution proclaims as the national policy and which authorizes the government to distribute wealth, resources and other things to the people. This objective has been achieved by the government through state owned enterprises<sup>38</sup>. Because this is the only alternative to the government to achieve such economic objectives/policies. Hence according to this provision we can understand that public enterprises are policy based enterprises which are established to achieve such objectives. Beyond the constitution, when we see the preamble of public enterprise proclamation No. 25/1992, it gives recognition for public enterprises to implement the economic policy of Ethiopia<sup>[39]</sup>. According to this proclamation state owned enterprises are established to achieve the policy objectives of Ethiopia and hence it is possible to say that they have been considered as policy enterprises. In fact Trade competition and Consumers protection Pro. No.813/2013 as its preamble indicates that commercial activities must be conducting in accordance with the free market policy of Ethiopia<sup>40</sup>. Here we can say that state owned enterprises might participate in the trade activities and they are expected to do their trading activities in line with the free market policy of Ethiopia and hence they have policy implications in this case.

Are state owned enterprises policy enterprises or else? With regard to the policy aspect, I have discussed it in the above. Points will be raised here in alternative of policy in our legal system in

state owned enterprises. State owned enterprises have a legal status<sup>[41]</sup> and they have been recognized under the FDRE Constitution as per Arts.51(9),96(3) and 97(7).According to these provisions of the constitution, state owned enterprises in addition to policy implication, they have also a legal status. Beyond this, the public enterprise proclamation No. 25/1992s, has determined that there has to be a legal framework for these enterprises and they have been regulated by the law<sup>42</sup>. On the basis of this proclamation, it is possible to say that state owned enterprises have a legal status.

In addition to this, each state owned enterprise has been established by Council of Ministers' regulations such as Commercial bank of Ethiopia is one of state owned enterprise and it has been established by council of ministers' regulation No.134/2007<sup>[43]</sup>. This regulation has given the legal status to Commercial Bank of Ethiopia and this Bank got legal personality and can own property, be sued and sue before the court. This is also true for other state owned enterprises.

### Concluding Remark

As it has been noted in this paper, different countries have established different state owned enterprises in their different economic sectors. These countries may establish state owned enterprises for different purposes such as for economic, and in the behind they may have political and social reasons. Countries established these state owned enterprises in accordance with their respective policy and legal aspects. In different historical backgrounds, countries experienced different economic policies such as command, mixed and free market economic policies. Hence in accordance with these policies, the extent of state owned enterprises ownership is different. This implies that the establishment state owned enterprises depends on the policy of different countries and hence they can be considered as policy enterprises.

Ethiopia is not also an exception to this fact and she has experienced different economic policies such as command during Derg regime and free market during 9EPRDF and the empire regime).During the Derg regime all enterprises were nationalized and private enterprise was not allowed but in the remaining two regimes. This implies that the nature of enterprises has been affected as the policy of the government has been changed. Hence they are policy enterprises as they affected by the policy. In fact it is not clearly indicated as they are policy enterprises. But this may contradict with the free market economic policy of Ethiopia. However it may be remedied as there is no perfect free market. But the extent of government intervention is high in Ethiopia. State owned enterprises also have legal status as such it has been indicated under public enterprise proclamation No.25/1992 and other regulation which are enacted for the purpose of establishing the state owned enterprises.

<sup>35</sup> Eshete Tadesse, the impact and policy implications of privatizations in Ethiopia

<sup>36</sup> The Constitution of Federal Democratic Republic of Ethiopia, Ethiopia Pro.No.1/1995 Federal Negarit Gazeta, Addis Ababa Ethiopia, see Art.51(2)

<sup>37</sup> Dagnachew Asrat & Addissie Shiferaw, Law of Public Enterprises and Cooperatives, teaching material, Prepared under the Sponsorship of the Justice and Legal System Research Institute (2009),p.25

<sup>38</sup> Ibid,p.38

<sup>39</sup> Federal public enterprise proclamation No.25/1992, Federal Negarit Gazeta,Addis Ababa,Ethiopia,see its preamble

<sup>40</sup> Trade competition and Consumers protection Proclamation No.813/2013, Federal Negarit Gazeta, 20th year, No.28, see its preamble.

<sup>41</sup> Supra note 34, see Arts. 51(9), 96(3),97(7)

<sup>42</sup> Supra note 37

<sup>43</sup> Commercial Bank of Ethiopia Establishment (Amendment) Council of Ministers Regulations, Regulation No.134/2007, 13th Year No.35 Addis Ababa 5th April, 2007

However, the current government of Ethiopia is highly involved in the economy and has many state owned enterprises in important economic sectors in against of its economic policy, free market. Hence it is difficult to say that these many state owned enterprises are established on the basis of free market policy and due to this the government should restrict itself in the involvement of economy. But the government is expected to act in accordance with the free economic policy unless the market is unable to do so. As it has been discussed the state owned enterprises whether they are policy enterprises or else should be clearly or with the concept of no doubt stated under the policy documents or in other relevant documents in line with its justification. This is because the government has a duty to adjust any economic transaction in line with the basic economic policy of the country as the long as the country has adopted such a policy (free market policy).

Therefore as it has been discussed so long, state owned enterprises are not only policy enterprises but also legal enterprises as they have been established and backed by the law.

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