Chare, Abraham Demissie (2020) Factors affecting private investment in Ethiopia's industry sector: the case of sugar factories. Masters dissertation, University of Cumbria.

NAME	**ABRAHAM DEMISSIE CHARE**
DEGREE	**MBA-INTERNATIONAL BUSINESS**
SUPERVISOR	**PROF. NICK CROFT**
TITLE	**FACTORS AFFECTING PRIVATE INVESTMENT IN ETHIOPIA'S INDUSTRY SECTOR: THE CASE OF SUGAR FACTORIES**
DATE	**APRIL 2020**
STUDENT No.	**1553726**

DISSERTATION SUBMITTED IN PARTIAL FULFILMENT

OF THE REQUIREMENTS OF THE

MASTER OF BUSINESS ADMINISTRATION-INTERNATIONAL BUSINESS

OF THE

UNIVERSITY OF CUMBRIA

STUDENT NAME	ABRAHAM DEMISSIE CHARE
DEGREE	MBA-INTERNATIONAL BUSINESS
SUPERVISOR	PROF. NICK CROFT
TITLE	FACTORS AFFECTING PRIVATE INVESTMENT IN ETHIOPIA'S INDUSTRY SECTOR: THE CASE OF SUGAR FACTORIES
DATE	27th APRIL 2020
KEYWORDS	PRIVATIZATION
	PRIVATE-INVESTOR
	SUGAR-SECTOR

ABSTRACT

Sugar factories are one of the giant economy drivers the government in Ethiopia solely owns and manages. Due to the high product demand and key roles the sugar sector plays in the economy, the government refused to privatize these factories irrespective of the internal and external forces that urge the economic sector liberalization. In recent years, however, the government has launched an initiative to privatize some large scale state-owned enterprises including the sugar factories either fully or partially. Despite some private investors have shown interest to take part in the investment of the sugar sector, the initiative has not yet materialized for the reasons no reputable researches have revealed. This study aims to examine the factors affecting the private sector involvement in Ethiopia's sugar sector privatization process. The study is analytical and uses a mixed research design. Data are collected using a structured questionnaire and Focus Group Discussion. The questionnaire that comprises 30 items is delivered to 84 participants. 78 participants properly filled in and returned the questionnaire while

6 are not. The impact of factors represented in each item is measured by the 5 point scale from “Very High” to “Very Low.” Meanwhile, two rounds of discussions are held with focus groups. 13 individuals selected from multiple sectors participated in the discussion. A mixed-method is used for data analysis. The analysis of quantitative data, which employ the SPSS to work out the statistical measures, and an analytical description of qualitative data are mixed to validate the findings through triangulation. The study reveals a number of major issues that have been determining the success of sugar sector privatization initiative. Concerning legal arrangement, tax regime, restrictive policy on banking, policy of price and economic centralism along with lack of policy are found to affect the process. From the political stream, government instability, emerging conflicts, and fear of potential resistance as well as opposition from the public have an impact on the privatization process. While sugar sector inefficiency, poor infrastructure and currency instability and have impact from the socio-economic aspect, determinant market related factors include logistic cost, poor financial status of the enterprises, lack of FOREX and vulnerability to the threat of price volatility in the market environment. While launching the initiative to privatize the enterprise government has solely owned for decades is taken as a strength, lack of commitment to create an enabling legal and institutional environment are identified as major pitfalls of the sugar sector privatization process in Ethiopia. Thus, it would be soon to confidently conclude the initiative would succeed in the absence of the pre-requisites for any successful privatization initiative as learned from the literature review. Putting aside less determinant factors, favourable legal arrangement that mitigates the impact of major factors this study reveals, and that provide reliable protection for the private sector to freely play in the market is suggested. Meanwhile, adequate consultation with concerned parties to alleviate potential resistance is proposed to develop the private sector confidence in the process and public acceptance.

ACKNOWLEDGMENTS

First of all, I would like to thank my dissertation advisor, Prof. Nick Croft, for his unrestricted support and scholarly comments in the course of this study.

Next, I am highly indebted to all participants of the study for their cooperation in providing genuine information. I am also indebted to thank the ESC management for its support in the course of this study.

My heartfelt thanks also goes to my spouse, Mrs. Tigist Desalegn, and my children- Yodahe Abraham, Kurubel Abraham, and Benyas Abraham- for their diligent support and devotion without which I would not succeed in this study and my life in general.

DECLARATIONS

I declare that the material contained in this project is the end result of my own work and that due acknowledgement has been given in the references to **ALL** sources be they printed, electronic or personal.

And that:

The word count of this dissertation is **16,499**.

SIGNED **ABRAHAM DEMISSIE CHARE**

DATE **27th of April 2020**

TABLE OF CONTENTS

Contents **Pages**

LIST OF FIGURES AND TABLES

ACRONYMS AND ABBREVIATIONS

CEO	Chief Executive Officer
CSA	Central Statistical Agency
ECS	Ethiopian Civil Service
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
ESC	Ethiopian Sugar Corporation
ESISC	Ethiopian Sugar Industry Support Centre
FDRE	Federal Democratic Republic of Ethiopia
GAIN	Global Agricultural Information Network
GTP	Growth and Transformation Plan
Ha	Hectare
MoFEC	Ministry of Finance and Economic Cooperation
P	Participants (like in P1, P2,P3, etc.)
PP	Prosperity Party
Sq. Km.	Square kilometre

CHAPTER ONE

INTRODUCTION

1.1. General Introduction

The Ethiopian sugar sector is one of the state-owned industries. The industry has been playing crucial roles in the Ethiopian economy through import substitution, sugar supply for the local market, and job creation. The eight operational sugar factories and five development projects have so far employed more than 62,000 people directly on a permanent and temporary basis. In the country in which unemployment is high, 1.79% in 2018 for instance, this number cannot be undermined, and, perhaps, significantly high when compared to other sectors (National Planning Commission, 2018). Irrespective of this, sugar sector development is the most capital intensive. In its ambitious GTP of filling the growing sugar demand and then earning foreign currency through export, the Ethiopian government has been financing the renovation as well as new development sugar projects since 2010. With fierce finance short come due to high deficit (about 2.5% of GDP in 2018/19) (International Monetary Fund, 2019; CSA, 2019), the government learned transferring ownership of the sugar sector is the first choice to get rid of the financial burden.

Privatization is the process and program of divesting government ownership in state-owned-enterprises to the private sector (Usman and Joseph, 2016). It may take different forms, such as direct sale, usually via tender or direct negotiation, public offer, joint venture, and lease, among others (Fun, 2010). Privatization is by nature a highly politicized activity (Feigenbaum and Henig, 1994). So the process and methods vary from country to country. Moreover, the process is not as smooth as one might imagine, because, depending on the socio-economic and political situation of a country, multifaceted factors determine the whole process.

Although privatization is a post-colonization economic reform movement globally, Ethiopia is a late starter in Africa (Estrin and Pelletier, 2018). As Estrin and Pelletier (2018) added, the francophone West African countries were first to start the privatization program in the late 1970s, but the "late starters" including Ethiopia did not begin to privatize until the early to mid-1990s.

Until 1991, when Ethiopia was under the socialist Dergue regime's command economy, major industries were reserved for the state and only about 159 enterprises were nationalized (Selvam, 2007). The Dergue fell and replaced by the Ethiopian Peoples Republic Democratic Front (EPRDF) led government in 1991. In the economic reform plan of the new government, therefore, privatization of the state-owned enterprises became an agenda.

Privatization was urged by external pressure from the international financial institutions (Nellis, 2008), and internally by the large debt leading to a high budget deficit as well as poor growth prospects of the enterprises (Selvam, 2007). Moreover, it was part of the initiative to facilitate the economic transformation into market-oriented (EPRDF, 2018) and to reverse the socio-economic crisis (Selvam, 2007). As explicitly stated in the privation proclamation, privatization had triplet objectives: "To generate revenue required for financing development activities undertaken by the government; to change the role and participation of the government in the economy to enable it to exert more effort on activities requiring its attention; to promote the country's economic development through encouraging the expansion of the private sector" (Proclamation No.146/1998, p.1).

Available literatures vary in presenting the number of state-owned Enterprises privatized since 1994, but Girum estimated 360 to 400 (2018). Moreover, the program focused on limited industries such as textiles and apparel, food, beverages and tobacco, tanning, leather, and footwear and chemical products (Wodajo and Senbet, 2017, p. 14).

With the principal paradigm of the developmental state, the Ethiopian government has sustained and set up its own companies as a means to provide dynamism to the national economy. As a result, several enterprises are created in sectors such as transpiration, communication, banking and insurance, manufacturing, etc. The sugar sector is the one that remained under state ownership.

Re-established in 2010, the Ethiopian Sugar Corporation owns 13 sugar manufacturing mills along with the sugarcane estates across the country (Regulation No. 916/2015). Frustrated by the external debt burden and the need to improve the sector's performance, however, the Ethiopian government launched the sugar sector privatization initiative in 2015. This made the sector the first among the "large" state-owned enterprises to set for privatization. However, the initiative was pending to date.

The purpose of this dissertation was to examine the factors that have been affecting the initiative of sugar factories privatization in Ethiopia. The dissertation answered the question, "what factors are affecting the sugar sector privatization in Ethiopia?" The dissertation employed a descriptive-analytical approach. A mixed research design that combined quantitative and qualitative data was employed in this dissertation.

This dissertation was organized into 6 chapters. Following this general overview, the background of the study with the problem statement and research objectives were presented in chapter 1. Chapter 2 consisted of a literature review to study the origin of privatization and the common factors affecting the success of privatization as suggested by various academic works.

In chapter 3, the research methodology was presented in detail. The data obtained through questionnaires and discussions were analysed in chapter 4. In chapter 5, the findings of the data analysis were discussed. Finally, conclusion, recommendations, and limitations of the dissertation were presented in chapter 6.

1.2. Background of the Dissertation

With a population of more than 110 million people, Ethiopia is the second most populous country in the Horn of Africa. Though Ethiopia's economy has been stated to be "the fastest" compared to the performance of African countries in the region, however, a low per capita income of about $783 pushes the country down to one of the poorest nations in the world (National Planning Commission, 2018).

Nevertheless, the country has a vision to reach the lower-middle-income status by 2025 with positive economic changes taking place in recent times (National Planning Commission, 2018).

The vision is not merely eloquent but supported by well-articulated plans and strategies. Two versions of the Growth and Transformation Plan (GTP) which the country has been implementing since 2010/11 are the most powerful instruments to achieve the goals of such a well-recognized plan. In the earlier version of the GTP, named as GTP I, which runs to 2014/15, notable accomplishments have been enumerated in the social and economic spectrum. For instance, the country's economy experienced "strong, broad-based growth averaging 9.9% a year from 2010/08 to 2014/15, compared to a regional average" (World Bank, 2019). Confirming to this, the Ministry of Finance (2019) added that the Gross Domestic Product in Ethiopia reached 9.41 percent in mid-2019 with the annual growth rate averaged 6.24 percent from 1998 to 2018 in the course of implementing the second phase of GTP II (2015/16 to 2019/20). Thus, Ethiopia's stretched growth and transformation plan has therefore played essential roles in national development.

Towards this development, different economic sectors contributed to a varying degree. The construction and service sectors had the lion's share while agriculture and manufacturing made a lower contribution (Ethiopian Economics Association, 2019). Affirming that GDP growth was driven by services (8.8% growth) and industry (12.2%), the National Planning Commission (2018) adds the growth was facilitated by the government's stable spending on public infrastructure and the sectors it owns, among others.

Perhaps, the Ethiopian government has been investing much resource in multi-industrial sectors. The sugar sector is the one government has started in the first GTP (Ethiopian Sugar Corporation, 2018). In the years since 2011, 10 new sugar development projects were commenced while the operating sugar factories were innovated to grow their production capacity. Generally, the Ethiopian government has been operating the entire sugar sector the privatization initiative was launched recently. In this dissertation, the process of sugar sector privatization and the impact of legal, political, socio-economic, and market-related factors were assessed.

1.3. Problem Statement

Ethiopia’s economic growth is frequently mentioned as driven by the investment of government itself in infrastructure, which in turn is facilitated by its pro-poor economic policy. The policy in turn is emanated from the developmental democratic paradigm of EPRDF, the current singular party ruling Ethiopia since 1991, and it favours ‘selective’ state interference in the national economic activities (EPRDF, 2018). Leaving debates on such politically pronounced justifications and rationale of owning big public enterprises, concerned parties and citizens in Ethiopia have been urging the government to transfer those state-owned enterprises like telecom, banks and factories to the private investment. Though the debates lasted for decades and there has been pressure from the international community to liberalize the economy, the government insisted on owning these selected sectors while privatizing other government-owned properties including hotels, farms, factories and some other manufacturing industries (Dawar and Ndlovu, 2018).

For the first time in Ethiopia, the EPRDF-led government showed interest to privatize the sugar sector in 2015. In the sugar sector, the government has been not only been the sole owner and investor but also supplier, manufacturer, marketer who set selling price of the product, and product distributor (Ethiopian Economics Association, 2019). The sugar privatization initiative news was therefore taken as a new milestone.

Following the news, the Ministry of Finance and Economic Cooperation (MoFEC), now renamed as the Ministry of Finance- MoF, announced an international call to sell the share of sugar factories in the country (Birhanu, 2019). Perhaps, FDRE Investment Commission, an organization in charge of managing investment deals (Ethiopian Investment Regulation, 2013), has been in closed discussions with potential private investors to sell out the sugar sector though the deal did not succeed as expected (Ethiopian Sugar Corporation, 2018). Hence, the call for expression of interest was announced. Following the call announcement, several companies from different countries showed their interest to invest in the Ethiopian sugar sector (Ethiopian Sugar Corporation, 2018). Even though the Ethiopian Investment Commission could license hundreds of private investors interested in multiple industries and manufacturing sectors, the sugar sector could not attract the private investors' interest for reasons not well investigated. The doubt in realizing the foreign direct investment may continue according to (newsbusinessethiopia, 2019) by indicating that the Ethiopia's privatization urgency sparks debate.

Having gone through turbulent political instability and ethnic conflicts, Ethiopia saw a remarkable political change in mid-2018 with the coming into power of a new Prime Minister. In his first inaugural speech, the current Ethiopian premier announced the transfer of public enterprises to private hands as part of changes in social, economic and political sectors. The privatization of the sugar sector has become an agenda once again. The private investors who showed interest during the earlier privatization calls were requested to submit their proposal. Despite some investor groups have been paying frequent visits to sugar project areas and collecting information about the sector, none responded officially to the call until this research completed. With past experiences the researcher had gained working as a deputy CEO in Ethiopian Sugar Corporation, and the growing interest to succeed in the current privatization initiative, therefore, the researcher was interested in addressing the problem.

1.4. Objectives of the Dissertation

1.4.1. General Objective:

- To examine the factors affecting the private sector involvement in Ethiopia's sugar sector privatization process.

1.4.2. Specific Objectives:

i. To identify major factors relating to legal, political, socio-economic and market that hinder the private investors' involvement in the sugar sector privatization initiative;

ii. To determine the strengths and defects of the sugar enterprises privatization initiative;

iii. To speculate the future of privatization in the sugar sector based on available evidences; and,

iv. To point out the major issues the government needs to address immediately.

CHAPTER TWO

LITERATURE REVIEW

2.1. Ethiopia: Country Background

Ethiopia, officially known as the Federal Democratic Republic of Ethiopia, is located in the north-eastern region of Africa. Ethiopia is the ninth largest and second most populated country in the continent following Nigeria. According to the latest available data, the current population of Ethiopia is 112,952,776 (Worldometers, 2019).

Source: http://www.mapsofworld.com

Figure 2.1: Physical map of the Federal Democratic Republic of Ethiopia

Ethiopia extends from 30º - 15º north of the equator and 33º - 48º east of the Greenwich Meridian with a total area of 1.14 Million Sq. Km. Ethiopia is a landlocked country bordered by Sudan, Kenya, South Sudan, Somalia Djibouti, and Eritrea.

The governance set up in Ethiopia is based on a constitution that established the Federal Democratic Republic of Ethiopia in 1995 (FDRE, 1995). The constitution indicates that the federal state comprises nine autonomous states and two city administrations. The FDRE is structured along the lines of a bicameral parliament, with the council of People‘s Representatives being the highest authority of the federal government. Regional states have considerable authority and responsibility which they exercise through councils at their respective administrative tiers from region to zone, and kebele (FDRE, 1995).

Ethiopia has no scarcity with resources, whether, human, water, and land. Concerning sugar production, for instance, the viability studies ESISC conducted in different times showed that there are additional seven suitable sites for sugar cane plantation besides 303,500 ha land already identified to be suitable in 7 sites at the main river basins in Ethiopia (Ethiopian Investment Agency, 2012). Moreover, there is more than 10,000 ha land identified to be apt for cane plantation in the rainy season. Existing evidences show that there is a persistently high rate of poverty, relatively low labour market participation and consistent underemployment particularly concentrated among prime-age workers (15- 30 years) (Jerusalem, 2016). This would make Ethiopia a very attractive location for private investors to invest in the production and processing of sugar cane. Hence, Ethiopia, with a population of over 112.9 million, has plentiful, hard-working, inexpensive and easily trainable labour force any investment might require.

2.2. Economic Sector in Ethiopia

Although Ethiopia is the oldest non-colonized state in Africa, the social, economic and political policies have not been indigenous. In recent times, however, it is evident that Ethiopia has made remarkable pace along its developmental pathway with its political paradigm the government calls “developmental” (Tesfaye, 2018). The two-digit sustained average economic growth over the past decade has made the country one of the fastest-growing economies in the world through the development was led by the public sectors (IFC, 2019). In the country's economic development strategy, sectors such as telecom, utility, and the air/sea transport are allowed to operate only as strict public monopolies (World Bank, 2018).

Based on the lessons Ethiopia learned through the implementation of development plans in past times in general and the prominent GTP I, the country has embarked on a journey of becoming a low middle-income economy by 2025. In the stride to attain this goal, the Ethiopian government is advised to deepening structural change in its economic sector, which has been led by low labour-intensive sectors, to sustain the fast growth observed in the past consecutive years. The Second version GTP (2015/16-2019/20) envisages an emergence in the form of desirable outcomes of structural transformation, i.e. focus on industrialization. Perhaps, this is assumed to be a response for a radical shift from agriculture-led development to industry-led transformation (National Planning Commission, 2018). While GTP II is about to conclude this year, agriculture has remained the dominant contributor to economic growth, followed by industry and services sectors (Tesfaye, 2018).

Noting that the outcomes of earlier policies and events affect the pace and process of reform in any sector, Larson and Borrell (2001) underline the political economy, trade structures, and production characteristics of sugar in Ethiopia are different enough from those found in most agricultural markets to warrant special consideration. Larson and Borrell (2001) added the main differences, as the degree to which international markets are dominated by policy interventions and the effects of preferential trade arrangements, is the inherent tension between mills and growers created by sugar's joint-production characteristics, and the effect of inconvenient relationship between growers and mills on community incomes, assets, and profitability.

Irrespective of the impacts such policies had on the development of the economic sector, the Ethiopia government had been arguing that its intervention has contributed to the steady economy recorded in past years. Moreover, the state propagates the fact that state owned such public enterprises like telecom, banks and factories not only enabled to control the market so citizens can get such services at low prices but also generated finance which the government budget to expand infrastructure (Tadesse, 2018). The think thanks and scholars on the other hand criticize such interventions have been an obstacle for private sector development in the country besides affecting foreign investment flow, which in turn can ignite development with little effort (Getayawkal, 2016; International Finance Corporation, 2019). This debate lasted for more than two decades before the government recently launched its initiative to privatize these enterprises.

2.3. Overview of the Ethiopian Sugar Sector

The history of coming into existence and the administrative structure of the sugar industry in Ethiopia go hand in hand with major political changes that happened in the country. It was in the Emperor's regime that the history of the sugar industry emerged in 1951. By then that H.V.A, the Netherland's Company, entered into the sector as a foreign shareholder. Given 5,000 ha land for its sugarcane cultivation, the factory started production of 1,400 quintal of sugar in 1954. The second sugar factory in Ethiopia, which enhanced the production capacity to 750,000 quintals per annum, opened in Shoa in 1962 and entered into production in 1969 by the same Netherland Company.

Following political change in Ethiopia, i.e. replacement of the Emperor by the Dergue regime in 1974, the ownership structure of the sugar industry changed. In this year, the government snatched the share of foreign companies in the operating sugar factories while establishing the third factory in Metehara. Administration of the factories along with two Candy Factories in Addis Ababa and Asmara transferred to the government.

The third turning point in Ethiopia's political change that affected the sugar industry happened in 1991 when the Dergue regime fell. One of the economic sector arrangements the Ethiopian People's Revolutionary Democratic Front led government took in the first year of its power was dissolving the centralized administration legislation the Ethiopian Sugar Corporation was entitled to administer all sugar and sweet factories and reestablishment of each as a distinct public enterprise (Kamski, 2016). In the same year, 1998, the third sugarcane crushing mill came into existence by finance obtained through loans from the African Development Bank and Development Fund, Governments of Australia and Spain as well as domestic banks of the nation.

Unlike other mills, as Kamski (2016) stated, this mill, namely Fincha Sugar Factory, was executed an annual production capacity twice more than the total capacity of the mills on the operation. Moreover, the construction of ethanol plant was part of this project. However, commencement of the mill's production took too long due to inefficiency in project management and the weakness of domestic contractors involved in the bid to construct the mill. Hence the construction of Fincha Sugar Factory that marked a crisis in Ethiopia's sugar industry which in turn put the government's intervention would likely be less successful (Larson and Borrell, 2001).

Having recognized the challenges that would bottleneck the government's effort to develop sugar industry in a way the factories support economic development through job creation and fill currency gap, the government also initiated the establishment of a centre that assists the sugar industry through finance and insurance by the partnership of the World Bank, insurance companies and the three sugar mills themselves six years later (Ethiopian Sugar Corporation, 2018). According to GAIN (2018) report, this centre was the only organ in the sugar industry in which non-government parties took part from 1991 to now. Apart from this, the value chain of sugar in Ethiopia has been state-controlled. Besides production, the government controls the national price of sugar and manage its distribution and sale through a national quota system (GAIN, 2018). Accordingly, the retail price of sugar is fixed by the Ministry of Trade. National quota allocations are made to different groups of end users (Ministry of Trade, 2017).

Currently the Industry is led by Ethiopian Sugar Corporation (ESC) established by Regulation No. 916/2015. As this time was when the government started implementing its Growth and Transformation Plan (GTP), ESC had got a lot to do to increase the number of sugar factories as well as the amount of sugar production and co-products to meet the growing sugar demand in the country in line to its mandate of producing sugar and its by-products for both domestic consumption and international market, among others, and thereby get foreign currency by exporting sugar (Ethiopian Sugar Corporation, 2018). The corporation was also given authority to manage and control sugar imports, exports and local distribution.

Inline to its mission of creating modern technology and capable human resource to develop the nation's potential to the sector, produce sugar, sugar by-products and co-products and take remarkable foreign market share and support the nation's economy beyond satisfying domestic demand, ESC visions to "stand as one among ten leading countries of the world in the sugar industry in 2023 based on a sustainable growth" (Ethiopian Sugar Corporation, 2019). Currently, ESC manages 13 sugar factories: eight operational and five development projects. Generally, the sugar sector in Ethiopia has about half a century age, passed through changes in the structure of the sector that manage the sector and showed steady changes in the expansion of products. Yet the sector is stumbled in meeting its overstated mission and vision and so it calls for deep reform based on detailed research.

2.4. The Concept and Forms/Methods of Privatization

2.4.1. The Concept of Privatization

The term privatization is defined in different ways. In public management spectrum, for instance, any organizational and operational measures government take to bring efficiency are identified as a privatization measure (ILO, 2001). In such contexts activities such as the public pays charges for the service a public enterprise provides, private companies are financed by the government for providing certain services for the public, public corporations established by law operate as private enterprises under the market doctrine, and liberalization of some industries by removing government regulation is conceived as an example of privatization (Fun, 2010). However, all these forms indicate state transfers its control to the private, but still ownership remains at the hand of the state.

Nevertheless, privatization in its narrow context implies the transferring government assets to the hands of private sectors fully or partially (Estrin and Pelletier, 2018). According to Usman and Joseph (2016), privatization is the process and program of divesting government ownership in state-owned enterprises to the private sector and the investing public. Moreover, Kayizzi-Mugerwa argues privatization involves “changes in income flows between groups” (Kayizzi-Mugerwa, 2002) besides the transfer of ownership. Generally, privatization in this dissertation is used to refer to the transfer of ownership of the sugar factories with or without any share of the government.

2.4.2. Forms/ Methods of Privatization

Privatization may take different forms. Some of the forms include “negotiated sale to certain private firms, management buy-out, and public offering through Initial Public Offering-IPO” (Fun, 2010, p. 9).

Privatization is not a uniform process, not least because of its politicized nature. Comparisons among countries are also made difficult by the differences in methods used to privatize. Among the methods used to privatize companies have been direct sale, usually via tender or direct negotiation, public offer (via the stock exchange), joint venture, lease, for example of hotels in national parks, sale of assets, and liquidation. Moreover, governments have tended to bunch up their sales, for example selling hotels, banks or textile companies at about the same time.

Direct sale has been the most common method used, 100 percent in the case of Mozambique, although stock exchanges well developed only in Kenya and Ghana, for instance. Common in countries like Kenya, it can also be argued that since liquidated companies are written off the books, this might be an easy way for bureaucrats to get hold of the assets cheaply, without rousing political interest.

Fun (2010) on the other hand presented the following policy alternatives governments may take when planning a privatization program:

1. Remaining status quo – an enterprise would remain as a public entity wholly owned by the government but would be operated by commercialized management;

2. Merger of another related enterprise – to merge two wholly government-owned corporations into a single organization;

3. Securitization – a form of raising capital from the market without transfer of government ownership of assets;

4. Full privatization – full transfer of government ownership to the private sector through negotiated sale to selected private firms and management buyout; and,

5. Partial privatization – partial transfer of government ownership to the private sector through the public offering or franchising only part of the railway operation.

The decision of choosing from the given alternatives depends on the goal of the privatization program. For instance, the first three policy alternatives could not fulfil the government's goal of enhancing the operational efficiency of the sector by introducing more market competition. By remaining status quo or merging with other sectors, however, the state-owned sector will still wholly-owned by the government. It would also create a state monopoly which will thus contradict the market doctrine. Securitization is only applicable to the case for generating more income but not for improving operational efficiency. Therefore, the most viable means to achieve the goal of introducing more market competition for boosting operational efficiency would be full/ partial privatization.

Partial privatization policy instrument is preferable for various reasons. Having the government as a shareholder in ownership enhances the public confidence as it might protect their interest concerning meeting the demand and controlling price. Moreover, partial privatization through an Initial Public Offering (IPO) is better than franchising part of an enterprise operation. This is because partial privatization allows wider public participation and stimulates the development of the financial market, but franchising, as (Fun, 2010) noted, is likely to arouse opposition and lead to co-ordination problems

2.5. Why Privatization of Sugar Industry

As discussed above, the sugar industry is one of the most difficult sectors to invest in, because several factors determine its efficiency in productivity. The need to fulfil this expensive commodity challenges nations in various ways. With this in mind, it has often been debated among the public about who should own the sugar industry.

As far as the data is available, the global trend shows the sugar industry in many nations that dominate the current production and distribution market had been owned by the states of nations themselves. Tracing back to 1960s to 80s, Borrell and Duncan (1992) discussed how the governments of the US, Brazil, Japan, Australia, and Thailand used to control the production and market of sugar, and asserted that the world sugar price would have perhaps been too expensive unless there had been an intervention.

Later in the 1990s, however, the effort of freeing domestic sugar markets came into realization in the US and America. One of the largest and most efficient sugar producers in the world, Brazil, for instance took the measure of reducing and then eliminating the export tax on sugar and deregulating the market in 1996 (Bordonal, et. al., 2018). In Australia, reforms that attracted new investments took place in 1997 (Elobeid and Beghin, 2004). The scenario is almost the same in different countries.

Concerning the reasons behind the urge to reform in the ownership structure of sugar factories is, however, the economic reform agenda- either consequence of changing regimes or the burden of financial crisis which forced the nations to recruit lenders policy (Kamski, 2016). In other words, rearrangement of policies, both social and economic, of the predecessor is often considered as a means to lobby the citizens of many countries to trust the newcomer though failure to successfully execute the new policy change cannot be completely free from the influence of traditions and practices. In favour of this, for instance, Larson and Borrel (2001) government intervention in the sugar industry has been rooted in the trade arrangements nations had established with trade unions in different times and innate fear of the authorities suspecting conflict of interests may arise between suppliers and producers or distributors.

Generally, government intervention in any form in the sugar sector has never been efficient in many countries. Thus the sector began freeing from government intervention gradually when failure of public enterprises to perform well is noticed or it is a must for the government to get aid from major aid organizations during the financial crisis. Such kind of indirect influence is more common in developing countries. Yet the major share of the industry's investment has remained at the hand of the state in various developing nations until in recent times (World Bank, 1995). This implies, sugar sector privatization is a complex issue with the high interest of multiple sectors.

2.6. Factors Determining the Success of Privatization Programs

Privatization has been a common practice globally since the early 1980s. States across the globe sold off enterprises of different kinds and sizes to private ownership. In this time, researchers have come with success and failure stories of privatization in different nations.

Based on international experiences, Carson (1999) listed out numerous conditions success of privatizations depends on, such as a promising economy with adequate national savings, a healthy banking system, a viable capital market, and not in a time of high inflation; political commitment to withstand the resistance from interest groups and bureaucrats; high level of public acceptance; transactional factors like financial expertise, adequate standard of financial reporting, permissible collective agreements with labour union and a capacity to create legislation to facilitate privatization; and an adequate regulatory framework.

In their analysis of competitive sectors' privation, Kikeri and Nellis (2004) brought to light the following factors as determinants of privatization success: strong political commitment combined with wider public understanding and support for the process; creation of competitive markets-removal of entry and exit barriers, financial sector reforms that create commercially oriented banking systems, effective regulatory framework-to reinforce the benefits of private ownership; transparency in the privatization process and measures to mitigate the social and environmental impact.

The success of privatization also depends on a nation's economic situation. Concerning this, Capriles (n.d) emphasized on a good economic environment for the successful accomplishment of a privatization plan. In other words, an open and free economy, open markets, no subsidies, and liberalization in all sectors of the economy are of critical importance. Moreover, Capriles (n.d) found out good financial climate, a stable currency, appropriate laws for investments, tax incentives, and in general, an environment of economic growth as critical factors for affecting the program.

In the research aimed at identifying the factors affecting the success of privatization in the Hong Kong context, Fun (2010) summarized success factors into three: strong political leadership, promising financial environment, and well-established regulatory framework (p. 21). Perhaps privatization is a politically-driven initiative. Hence, it is often initiated and concluded by the political leadership. Transfer of ownership does not guarantee the private sector if the operating environment is not enabling. Similarly, the regulatory environment, which is mainly developed and enforced by the state, is indispensable to facilitate the duties and responsibilities of all players in a sector.

Besides strong political leadership, promising financial environment, and effective regulatory mechanism in the pioneering Britain, Fun (2010) also added creation of effective product market, prioritizing the privatization exercises, putting the state-owned poor performers onto the priority list for privatization, defusing opposition, and the right policy choice to contribute for success in the exemplary privatization program of Mrs. Margaret Thatcher in 1970s (p.26-29). Having identified the needs of the possible opposition, Thatcher tried to satisfy them in every privatization exercise. As a policy choice, stakeholders were encouraged to invest in privatized enterprises. For this purpose, the government set the share price at about 10 to 20 % lower to the stakeholders. Thus, the British government had carried out a successful privatization program to date.

In explaining the success of Taiwan's privatization, Fun (2010) came with four new success factors: the creation of a sufficient and clear legal basis for the government to conduct privatization; the well-scheduled privatization program; holding of residual shares; and protection of employees' rights and benefits. These factors can develop the confidence of the public on the state while minimizes potential opposition from the interest groups.

To put it into a nutshell, privatization is a process that engages various parties and thus affected by multiple factors depending on the context and type of subject to privatize. Although some of the available literatures present success factors of privatization independently, others integrate the factors to form some categories like social, economic, political, legal, and so on. Noting both approaches are feasible, it is emphasized in this research to assess how individual factors tend to affect the sugar sector privatization in Ethiopia.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Study Setting

The research was conducted in the Federal Democratic Republic of Ethiopia, one of the countries in the African continent. The case of the Sugar Sector was the primary focus of the dissertation. Ethiopian Sugar Corporation, a federal government entity in charge of administering the sector, was the heart of this dissertation.

3.2. Research Design

This research aimed to assess the factors affecting the process of sugar factories privatization initiative in Ethiopia. Both numeric and non-numeric data were gathered to achieve this aim. Hence, a mixed research design, which combines both qualitative and quantitative data, was used. This design was preferred because, as Creswell (2009, p.203) noted, it enables us to gain a comprehensive view of all aspects of an issue through combining the “strengths of both qualitative and quantitative designs in a single study”. Moreover, the research was a description of the state of affairs as it existed at the time of study (Kothari, 2004, p.2). The researcher preferred this design to get a deep insight into all parties involved in the privatization of sugar factories.

3.3. Target and Study Population

This dissertation targeted primarily on the private investors who once showed interest to buy the Ethiopian sugar sector. In addition to this, key stakeholders of the sugar sector including the Ethiopian Investment Commission, members of the Ethiopian parliament, particularly the members of Revenue, Budget and State-Owned Enterprises standing committee, ESC, and MoF took part in the study. These key stakeholders were given defined roles and responsibilities in Ethiopian

Sugar Corporation establishment regulation (Regulation No. 916/2015, sections 3 and 4) and other working documents.

3.4. Sampling and Sample Size

Since this dissertation targeted on a specific unit of population, a non-probability sampling method was used to select participants of this study. According to Mohsin (2016), non-probability sampling is used when it is impossible to conduct probability sampling or when one has a very small population to work with. Thus, a purposive sampling method was employed to select participants from primary data sources. In this way, first, participants were selected from 28 investor groups (20 from international and 8 from Ethiopian origin) which were interested in and registered to enter into privatization deal in the sugar sector. The groups comprised various numbers of members ranging from 4 to 7; however, 3 were purposively selected from each group. Thus, 84 questionnaires were distributed.

Similarly, participants of the Focus Group Discussion were selected purposively, and based on availability, from the following sectors:

- Ethiopian Investment Commission- (#2);
- House of Peoples Representatives- (#2);
- ESC- (#3);
- Sugar Enterprises/Factories- (#3);
- Public Enterprises Holdings and Administration Agency- (#1); and,
- Other interest groups- a participant from each of the Association of Private Consultants (Economic), and influential opposing political parties. Thus, thirteen individuals took part in the Focus Group Discussion.

On the other hand, data were collected from secondary sources directly relevant to this study such as Minutes of Parliament Proceedings, and Performance

Reports of the Ethiopian Sugar Corporation (2016/17-2018/19) to construct items and triangulate data.

3.5. Tools of Data Collection and Measurement

Data were collected by using a close-ended, 5 point Likert type questionnaire and Focus Group Discussion. The questionnaire contained 30 independent items, based on a scale from “Very High” to “Very Low,” that sought participants’ opinion about the potential issues which affect the sugar sector privatization process. The items were derived from the analysis of related literature and developed by the researcher. The factors were checked for determining the sugar sector privatization process in Ethiopia. The items were prepared in such a way that participants can express their responses on a Likert Scale. According to Cohen, Manion, and Morrison (2007), Likert scales enable to identify feelings and opinions. Thus, the private investors’ opinion and thoughts about the impact of selected factors on the privatization of the giant enterprises was measured. Meanwhile, FGD was carried out based on semi-structured questions which were assumed to generate ideas about the factors determining the sugar sector privatization initiative.

3.6. Method of Data Collection and Management

The researcher began data collection by obtaining relevant official documents from the sources mentioned above. The data collection was delimited to the thematic areas pre-determined based on the objectives of this dissertation.

The whole data this research required was collected from certain people who had good knowledge about the topic at hand. Hence, following document analysis for the literature review, participants from private investor groups filled in the questionnaire. Recognizing the shortcomings of the Likert method and to triangulate the data (Kothari, 2004), discussions were held with key stakeholders from government and non-government sectors to gain deep insight into the process and factors affecting the overall privatization process. According to

Creswell and Miller (2000), Focus Group Discussion is a useful instrument to gain a 'large amount of information' and particular opinions or attitudes (Hines, 2000; Barrows, 2000) in a short time.

Two group discussions, each lasting for 30 minutes, were held on January 9 and 16, 2020 consecutively. The discussion group comprised of 13 participants. The discussions were moderated by the researcher and Amharic, an official language in Ethiopia, was used as a medium.

3.7. Method of Data Analysis

In line with the approach this research followed to collect both quantitative and qualitative data, a mixed-method was used for data analysis (Creswell and Plano-Clark, 2007). The categories used in the Likert type questionnaire were Very High, High, Moderate, Low, and Very Low. Then, the values from 1 to 5 were assigned for these scales in the respective order. SPSS (version 21) was employed to work out percentages for each statement (as Best and Kahn, 2006, p.351 suggested). Inline to Best and Kahn (2006, p.331), however, the two outside categories: "Very High" and "High" on one hand and "Low" and "Very Low" on the other hand were combined to determine which factors in the main categories needed attention as these had been affecting the privatization process. Moreover, the median and mode were used as measures of central tendency.

In the course of searching for further insight of the stakeholders about the factors affecting the process and triangulating the responses, qualitative data were collected through Focus Group Discussion. Categorizing, coding and grouping of the qualitative data took place concurrently during data collection. 4 categories, namely legal/institutional, political, socio-economic and market, emerged at this stage. Each type of data was first analyzed separately, and then mixed during discussion of the findings.

3.8. Validity and Reliability

The validity and reliability of the data collection tools and results were addressed appropriately. At the questionnaire construction level, questionnaires with 39 items were administered for 19 individuals from private investor groups. Following the procedure of item development (Kothari 2004, p. 102) reliability was tested. Thus, 30 items which had a high discriminatory power remained.

At the analysis stage, the researcher triangulated the result with the findings of earlier studies to ensure validity. In this process the accuracy of the data was confirmed through thorough checking. With regards to reliability, the researcher worked out to check the result was confirmed in other studies in which the subject was analyzed. To avoid the researcher's bias, the responses of participants were directly quoted from the discussion, and further discussed separately. Finally, limitations of the dissertation were reflected so that further studies can get into the subject deeper to enhance the validity of the findings.

3.9. Ethical Considerations

All possible ethical issues were given consideration in the course of this dissertation. Since the data sources were high-level government officials and individuals from international corporations, the anonymity of their identity was kept during data analysis. Yet they were informed that their participation would be based on their free will, and so each of them signed a consent form.

CHAPTER FOUR

DATA ANALYSIS

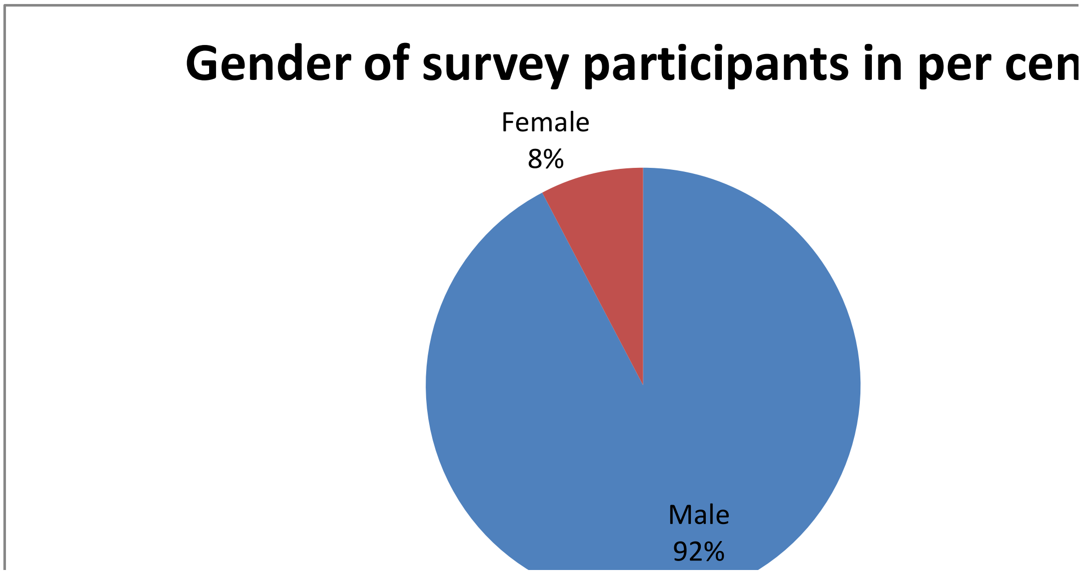
This dissertation aimed to examine the factors affecting an investor's decision to invest in Ethiopia's sugar sector under the current privatization scheme. Data were collected in two methods: questionnaire and Focus Group Discussion (FGD). The questionnaire comprised items identified based on a review of past researches. The items were grouped under legal, political, socio-economic and market themes. The questionnaire was filled in by members of the investor team members that showed interest in owning the sugar enterprises. Excluding those individuals who participated in the pilot study, a total number of 84 (60 from international, and 24 from local investors) delivered the questionnaire. However, 6 questionnaires were not returned. First, demographic data of the participants were presented. Then responses of the participants for the items about the impact of the given items were analyzed.

With regard to FGD, participants were selected from all stakeholder units. Due to the working nature of participants, the discussion was carried out in two rounds. Each discussion lasted 30 minutes. The data obtained through each method were presented in two sub-sections. Questionnaire data were presented in section 4.1. Discussion data were presented in section 4.2.

4.1. Questionnaire Data Presentation

4.1.1. Summary of Participants' Demography

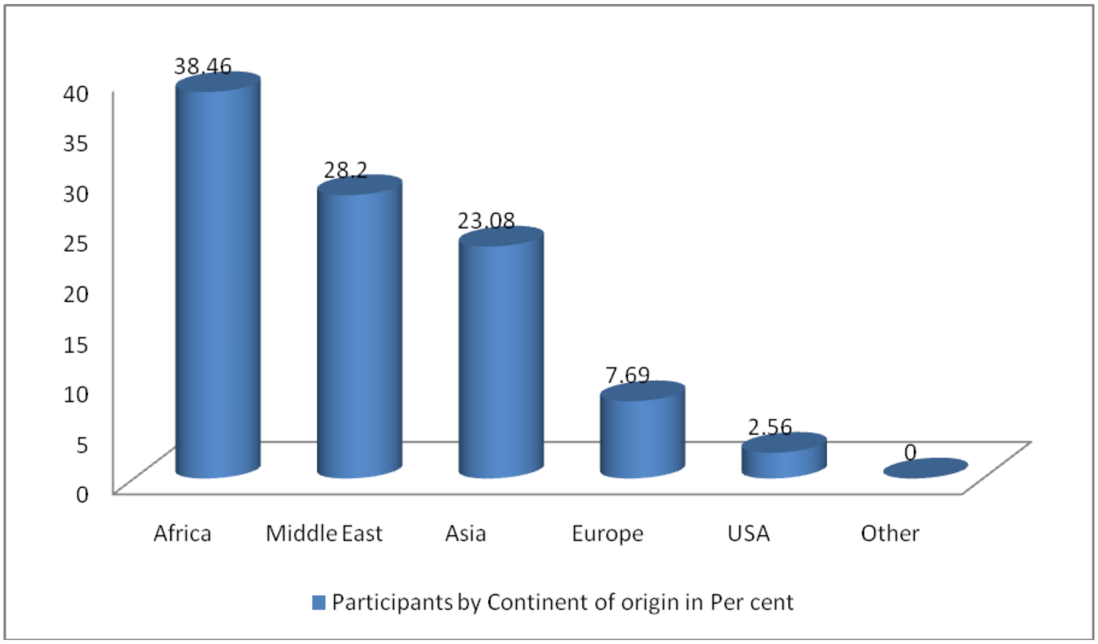
Among 84 questionnaires distributed, 78 returned (92.9%). Gender, country of origin, and experience in the sugar sector investment were presented below.



Source: Survey data, 2020

Figure 4.1: Gender of participants

Figure 4.1 showed that the majority of the respondents (92.31%) were male whereas only 7.69 percent of the respondents were female. Some researchers showed gender has an impact on decisions. Most importantly gender creates a difference in taking the risk margin (Agarwal et. al., 2009). Moreover, women usually invest in a long period of time because on average women live longer than men (Montford and Goldsmith, 2016). Thus, gender was likely to affect the private investor's decision in the Ethiopian sugar sector privatization process.

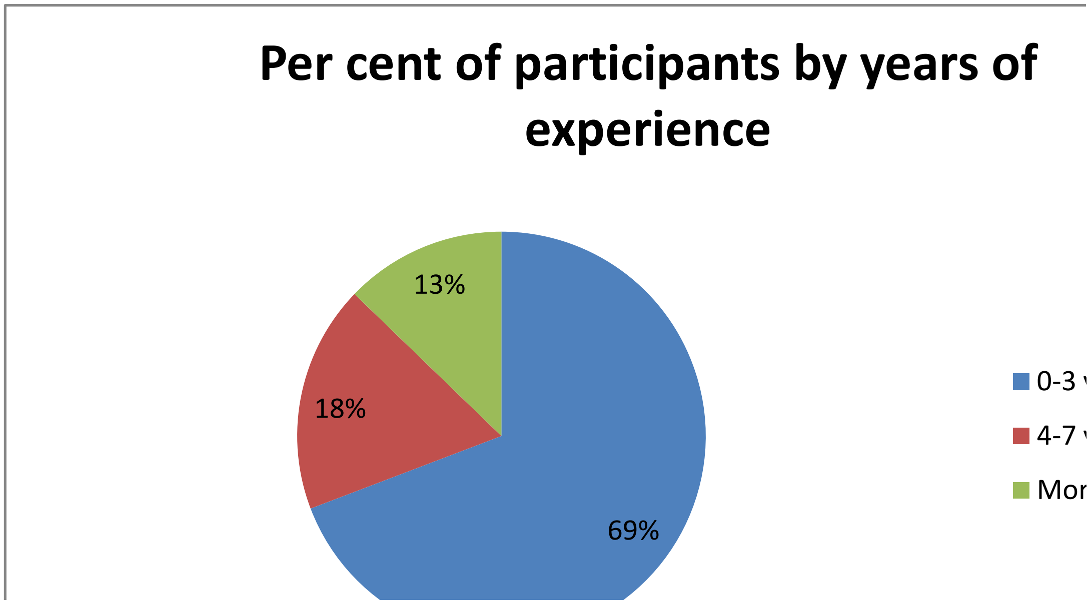


Source: Survey data, 2020

Figure 4.2: Country of origin of investor groups

Figure 4.2 showed most of the investors who showed interest in the sugar sector privatization in Ethiopia were from Africa (38.46%), followed by the Middle East (28.2%), Asia (23.08%). Europe and the U.S generated 7.69% and (2.56%) of the interested investors consecutively.

When the interested investors were from the countries Ethiopia had a strong economic relationship, there was a high tendency to negotiate about transferring the loan and interest issues the sugar mills had when the mills were sold to private investors.



Source: Survey data, 2020

Figure 4.3: Participants experience in the sugar sector investment

As Figure 4.3 depicted, 54 (69.2%) of the participants had 0-3 years' experience in sugar sector investment. Those who had 4-7 years' experience account 14 (18.0%), and the rest 10 (12.8%) had more than 7 years' experience in related sector investment. A study by Mumtaz, et. al. (2018) showed a positive relationship between experience and investment. Rakow and Newell (2010) also revealed investors who had experience could make a better decision for investment. When the investors were novices to the sector, they could be afraid of risks as they had limited (or no) experience in how to deal with the challenges in the sector.

4.1.2. Responses of participants about the impact of specific factors

In this sub-section, responses of the survey participants for the items derived from legal/institutional, political, and socio-economic and market/financial related factors were analyzed.

4.1.2.1. Factors Relating to Institutional and Legal Structure

Institutional and legal factors comprised of 9 items. For each item, the participants were required to mark the degree of impact they thought each had. The responses were summarized in the tables below.

Table 4.1 (a): Responses of participants for items of economic centralism, privatization approach and policy

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
1	Policy of economic centralism	Very High	21	26.9		
		High	26	33.3		
		Moderate	15	19.2		
		Low	9	11.5		
		Very Low	7	9		
		Total	78	100	2.0	2
2	Lack of clear privatization approach	Very High	35	44.9		
		High	19	24.4		
		Moderate	13	16.7		
		Low	8	10.3		
		Very Low	3	3.8		
		Total	78	100	2.0	1
3	Lack of privatization policy	Very High	22	28.2		
		High	20	25.6		
		Moderate	14	17.9		
		Low	8	10.3		
		Very Low	14	17.9		
		Total	78	100	2.0	1

Source: Survey Result, 2020

Table 4.1(a) depicted responses of participants about the impact of economic centralism, privatization approach, and policy. The first item required to what extent the participants agree “policy of economic centralism” affected their engagement. Among 78 participants, 21 (26.9%) replied very high; 26 (33.3%) replied high; and 15 (19.2%) replied moderate. On the contrary, 7 (9%) replied very low while 99 (11.5) relied very low. On the contrary to this, few, i.e. 3.8% and 10.3% respectively replied very low and low respectively.

Item 3 under the legal and institutional factors was about the impact of a lack of privatization policy within the specific sector under study. While 78 participants provided reply, 22 (28.2%) and 20 (25.6%) replied very high and high respectively. While those replied moderate were 14 (17.9%), 14 (17.9%) and 8 (10.3%) respectively replied very low and low in this order.

Table 4.1(b): Responses of participants for items of tax rate, investment incentives, and operational challenges

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
4	High tax rate	Very High	43	55.1		
		High	29	37.2		
		Moderate	6	7.7		
		Total	78	100	1.0	1
5	Lack of investment incentives	Very High	5	6.4		
		High	2	2.6		
		Moderate	9	11.5		
		Low	36	46.2		
		Very Low	26	33.3		
		Total	78	100	4.0	4
6	Operational challenges due to restrictions on banking	Very High	50	64.1		
		High	13	16.7		
		Moderate	15	19.2		
		Total	78	100	1.0	1

Source: Survey data, 2020

For the impact of the tax rate item in item 4, almost all (92.3%) replied the impact is above moderate while 7.7% replied moderate (Table 4.1(b)). In item 5, the item of “lack of investment incentives” received 5(6.4) very high; 2(2.6%) high; 9(11.5%) moderate; 36(46.2%) low and 26(33.3%) very low. For the item of operational challenges including restrictions on the banking sector, the majority (64.1%) replied very high; 13(16.7) high; and 15 (19.2%) moderate.

Table 4.1(c): Responses for items about pricing policy, and regulatory institution

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
7	Below the market pricing policy	Very High	28	35.9		
		High	49	62.8		
		Moderate	1	1.3		
		Total	78	100	2.0	2
8	Lack of independent regulatory body	Very High	2	2.6		
		High	19	24.4		
		Moderate	12	15.4		
		Low	25	32.1		
		Very Low	20	25.6		
		Total	78	100	4.0	4

Source: Survey data, 2020

For item 7 about the existing pricing policy in sugar sector, 28 (35.9%) replied very high; 49 (62.8%) high; and only 1 (1.3%) replied moderate. On the contrary to this, the item of independent regulatory body received 2(2.6%) very high; 19 (24.4%) high; 12 (15.4%) moderate; 25 (32.4) low; and 20 (25.6%) very low.

Table 4.1(d): Responses of participants about the impact of entry and exit barriers

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
9	High entry barriers	Very High	18	23.1		
		High	23	29.5		
		Moderate	21	26.9		
		Low	11	14.1		
		Very Low	5	6.4		
		Total	78	100	2.0	2
10	High exit barriers	Very High	5	6.4		
		High	5	6.4		
		Moderate	21	26.9		
		Low	36	46.2		
		Very Low	11	14.1		
		Total	78	100	4.0	4

Source: Survey data, 2020

As presented in Table 4.1(d) above, the last 2 items from legal/institutional factors were about the entry and exit factors. For the high entry item in number 9, among 78 participants, 18 (23.1) replied very high; 23 (29.5%) replied high; 21 (26.9%) replied moderate; 11 (14.1%) replied low; and 5 (6.4%) replied very low. With regard to high exit barriers, an equal number of 5 (6.4%) participants replied very high and high. While 21 (26.9%) replied moderate, 36 (46.2%) and 11 (14.1%) respectively replied low and very low.

Finally, the median and mode values of each item in this category While "Very High" was the response with the most frequencies (4 items), "High" appeared as the most frequent response for 3 items (1, 7 and 9). The response "Low" appeared for 3 items (5, 8 and 10). With regards to median, 2 (Very High) was the positional average of 5 items (1, 2, 3, 7 and 9). While 4 was the median of 3 items (5, 8 and 10), 1 became a median for 2 items (4 and 6).

4.1.2.2. Political Factors

Political factors comprised 6 items. For each item, the participants marked the degree of impact in scale from "Very High" to "Very Low". The responses were summarized in the tables below.

Table 4.2(a): Reponses of participants about the economic orientation and political instability

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
1	Economic orientation of the government	Very High	11	14.1		
		High	23	29.5		
		Moderate	16	20.5		
		Low	9	11.5		
		Very Low	19	24.4		
		Total	78	100	3.0	2
2	Political instability	Very High	42	53.8		
		High	22	28.2		
		Moderate	12	15.4		
		Low	2	2.6		
		Total	78	100	1.0	1

Source: Survey data, 2020

Table 4.2(a) constituted the responses of participants about 4 items relating to the political factors affecting the sugar sector privatization process. 78 participants replied to each item. For item 1 about the government's economic orientation, 11 (14.1%) relied very high; 23 (29.5%) replied high; 16 (205%) replied moderate; 9 (11.5%) replied low; and 19 (24.4%) replied low. Item 2 was about political instability. Among 78 participants, 42 (53.8%) replied it had a very high impact while 22 (28.2%) replied high. While 12 (15.4%) replied moderate, only 2 (2.6%) replied low.

Table 4.2(b): Reponses of participants about the resistance from elites and interest groups

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
3	Resistance from governing elites	Very High	5	6.4		
		High	10	12.8		
		Moderate	22	28.2		
		Low	19	24.4		
		Very Low	22	28.2		
		Total	78	100	4.0	3*
4	Opposition from interest groups	Very High	20	25.6		
		High	23	29.5		
		Moderate	25	32.1		
		Low	7	9		
		Very Low	3	3.8		
		Total	78	100	2.0	3

* Multiple modes exist. The smallest value is shown

Source: Survey data, 2020

For item 3 (resistance from governing elites), 5 (6.4%) replied very high; 10 (128%) very low; 22 (28.2%) moderate; 19 (24.4%) low and 22 (28.2%) very low. Fore opposition from the interest groups (item 4), 20 (25.6%) replied very high; 23 (295%) high; 25 (32.1%) moderate; 7 (9%) low and 3 (3.8%) replied very low.

Table 4.2(c): Reponses of participants for impact of political factors /Continued/

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
5	Growing conflict	Very High	38	48.7		
		High	28	35.9		
		Moderate	2	2.6		
		Low	10	12.8		
		Total	78	100	2.0	1
6	Fear of public acceptance	Very High	10	12.8		
		High	16	20.5		
		Moderate	32	41		
		Low	14	17.9		
		Very Low	6	7.7		
		Total	78	100	3.0	3

Source: Survey data, 2020

As presented in Table 4.2(c) above, for item 5 (impact of growing conflicts), 38 (48.7%) replied very high; 28 (35.9%) replied high; 2 (2.6%) moderate; and 10 (12.8%) replied low. Finally, for item 6 (fear of public acceptance), 10 (12.8%) replied very high; 16 (20.5%) high; 32 (41%) moderate; 6 (7.7%) low and 6 (7.7%) very low.

In terms of mode and median, the data presented on the above tables depicted 3 (moderate) was the mode for items under the political factors; it was the mode of items 3, 4 and 6. The next response was 1 (Very High) which appeared in items 2 and 4. 2 (Very High) appeared only once in 1. With regards to the median, both 2 (Very High) and 3 (Moderate) appeared twice as the mid-point in the ranks. The median of items 11 and 16 was 3 (Moderate) while it was 2 (Very High) for items 14 and 15. 4(Low) was the median of one item; i.e. item 13.

4.1.2.3. Socio-economic Factors

Under socio-economic factors, 5 items were covered. For each item, the participants were required to mark the degree of impact as 1= Very High; 2= High; 3= Moderate; 4= Low; and 5= Very Low. Frequency, percent, mean and standard deviation for each item was worked out. The responses were summarized in the tables presented below.

Table 4.3(a): Participants responses about the impact of production cost, infrastructure, and currency

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
1	High production cost	Very High	2	2.6		
		High	4	5.1		
		Moderate	22	28.2		
		Low	19	24.4		
		Very Low	31	39.7		
		Total	78	100	4.0	5
2	Poor infrastructure development	Very High	25	32.1		
		High	15	19.2		
		Moderate	16	20.5		
		Low	12	15.4		
		Very low	10	12.8		
		Total	78	100	2.0	1
3	Unstable currency	Very High	17	21.8		
		High	12	15.4		
		Moderate	23	29.5		
		Low	15	19.2		
		Very low	11	14.1		
		Total	78	100.0	3.0	3

Source: Survey data, 2020

For the item of high production cost in item 1, 2 (2.6%) replied Very High; 4 (5.1%) replied High; 22 (28.2%) replied moderate; 19 (24.4%) replied low and 31 (39.7%) replied very low. For impact of “poor infrastructure development” in item 2, 25 (32.1%) replied very high; 15 (19.2%) replied high; 16 (20.5%) replied moderate; 12 (15.4%) replied low and 10 (12.8%) replied very high.

Item 3 is about unstable currency. For the impact of this factor, 17 (21.8%) replied very high; 12 (15.4%) replied high; 23 (29.5%) replied moderate; 15 (19.2%) replied low and 11 (14.1%) replied very low.

Table 4.3(b):- Participants responses about the impact of economic growth and sector inefficiency

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
4	Inconsistent economic growth	Very High	2	2.6		
		High	7	9		
		Moderate	38	48.7		
		Low	20	25.6		
		Very Low	11	14.1		
		Total	78	100	3.0	3
5	Inefficiency of the sector	Very High	39	50		
		High	28	35.9		
		Moderate	6	7.7		
		Low	4	5.1		
		Very Low	1	1.3		
		Total	78	100	1.5	1

Source: Survey data, 2020

As Table 4.3(b) depicted, for the impact of inconsistent economic growth in item 4, 2 (2.6%) replied very high; 7 (9%) replied high; 38 (48.7%) replied moderate; 20 (25.6%) replied low and 11 (14.1%) replied very low. Item 5 was about the inefficiency of the sugar sector. Among 78 participants, 39 (50%) replied very high; 28 (35.9%) high; 6 (7.7%) moderate; 4 (5.1%) low; and only 1 (1.3%) replied very low.

Finally, the mode and median of items 17-21in the socio-economic category were analyzed. 1 (Very High) and 3(Moderate) were the modes of 4 items. 1 was the mode of items 18 and 21 while 3 stood for items 19 and 20. The mode of item 17 was (Very Low). The trend of the median for the items in this category implied 3 (Moderate) was the median for items 19 and 20; 2 (Very High) for item 18; 4(Low) for item 17 and 5 (Very Low) for item 21.

4.1.2.4. Market and Financial Factors

Finally, market factors comprised 9 items. In a similar vein to the other factors, the participants marked the degree of impact they thought each item had from “Very High” to “Very Low” in 5 point scales. The responses were summarized on the following consecutive tables.

Table 4.4(a): Responses of participants about the factories’ financial position and domestic demand

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
1	Weak financial position of factories	Very High	29	37.2		
		High	24	30.8		
		Moderate	18	23.1		
		Low	6	7.7		
		Very Low	1	1.3		
		Total	78	100	2.0	1
2	Static domestic demand	Very High	8	10.3		
		High	4	5.1		
		Moderate	21	26.9		
		Low	19	24.4		
		Very Low	26	33.3		
		Total	78	100	4.0	5

Source: Survey data, 2020

Table 4.4(a) above illustrated the responses of participants for 2 of the 9 items in the category of market-related factors. All participants replied to these items. Item 1 was about the impact of the weak financial position of the sugar factories on the privatization process. For this item, 29 (37.2%) replied very high; 24 (30.8%) replied high; 18 (23.1%) replied moderate; 6 (7.7%) replied low; and only 1 (1.3%) replied very low. For item 2 (static domestic demand), 8 (10.3%) replied very high; 4 (5.1%) high); 21 (26.9%) replied moderate; 19 (24.4%) replied low; and 26 (33.3%) replied very low.

Table 4.4(b): Responses of participants about lack of product demand and market access

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
3	Lack of demand out of home	Very High	11	14.1		
		High	2	2.6		
		Moderate	33	42.3		
		Low	20	25.6		
		Very Low	12	15.4		
		Total	78	100	3.0	3
4	Lack of access to (regional and international) market	Very High	11	14.1		
		High	20	25.6		
		Moderate	20	25.6		
		Low	11	14.1		
		Very Low	16	20.5		
		Total	78	100	3.0	2**

* Multiple modes exist. The smallest value is shown

Source: Survey data, 2020

Item 3 was about the impact of product demand out of the home country (Table 4.4(b)). For this item, 11 (14.1%) replied very high; 2 (26%) replied high; 33 (42.3%) replied moderate; 20 (25.6%) replied low; and 12 (15.4%) replied very low. Similarly, 11 (14.1%) replied very high; equally 20 (25.6%) high and moderate; 11 (14.1%) low; and 16 (20.5%) replied very low for item 4 (lack of access to regional and international market).

Table 4.4(c): Responses of participants about the impact of cost, and FOREX environment

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
5	High cost of raw materials and inputs	Very High	6	7.7		
		High	21	26.9		
		Moderate	18	23.1		
		Low	23	29.5		
		Very Low	10	12.8		
		Total	78	100	3.0	4
6	High logistic cost	Very High	32	41		
		High	26	33.3		
		Moderate	16	20.5		
		Low	4	5.1		
		Total	78	100	2.0	1
7	Unattractive FOREX environment	Very High	19	24.4		
		High	28	35.9		
		Moderate	31	39.7		
		Total	78	100	2.0	3

Source: Survey data, 2020

For item 5 (high cost of raw materials and inputs), 6 (7.7%) replied very high; 21 (26.9%) replied high; 18 (23.1%) replied moderate; 23 (29.5%) replied low; and 10 (12.%) replied very low (Table 4.4(b)). For item 6 about high logistic cost, 32 (41%) replied very high); 26 (33.3%) replied high; 16 (20.5%) replied moderate; and 4 (5.1%) replied low. Item 7 was about FOREX environment. 19 (24.4%)

participants replied its impact was very high; 28 (35.9%) replied high; and 31 (39.7%) replied moderate.

For item 8 (illegal import), 1 (1.3%) replied very high; 5 (6.4%) replied high, and an equal number of participants (25.6%) replied moderate and low (Table 4.4(c)). For this item, 32 (41%) replied the impact of illegal import is very low. Finally, for the impact of vulnerability of the sector to foreign competition, 16 (20.5%) replied very high; 18 (23.1%) high; 27 (34.6%) replied moderate; 4 (5.1%) low; and 13 (16.7%) replied very low.

Table 4.4(d): Responses of participants about the impact of illegal import and competition

Item No	Items	Level of Impact	Frequency	Percent	Median	Mode
8	Illegal import	Very High	1	1.3		
		High	5	6.4		
		Moderate	20	25.6		
		Low	20	25.6		
		Very Low	32	41		
		Total	78	100	2.0	3
9	Vulnerability to foreign competition	Very High	16	20.5		
		High	18	23.1		
		Medium	27	34.6		
		Low	4	5.1		
		Very Low	13	16.7		
		Total	78	100	3.0	3

Source: Survey data, 2020

Generally, among the 9 items in this category, the mode was 1(very High) for item 22 and 27; 2 (High) for item 25; 3 (Moderate) for items 24, 28, 29 and 30; 4 (Low) for item 26; and 5 (Very Low) for item 23. 3 was the mode of most items in this category. As it appeared, 2.0 was the median of items 22, 27, 28, and 29; 3.0 was the median of items 24, 25, 26, and 30; and 4.0 was the median of item 23.

4.2. Focus Group Discussion Data Presentation

In this section, data obtained through discussion with participants selected from key stakeholders and Ethiopian Sugar Corporation was presented. The discussion was conducted in two rounds. First, a detailed discussion was made to identify the factors hindering the success of the sugar enterprise privatization initiative. Second, the effectiveness of the initiative from the very beginning to date was dealt with. In each round, 13 participants from multiple sectors participated. The researcher moderated the discussions. The responses of the participants were presented below.

4.2.1. Key Factors Determining the Success of Privatization Process

Participants (represented by p and marked by numbers to keep their names anonymous) reacted to this question in different ways based on their professional and career background as well as experience and interest. The first question was, "What key factors have been determining the success of the sugar sector privatization initiative?"

P1 underlined the efforts the government did to attract foreign investors to Ethiopia. Listing the available incentive schemes for national and foreign investors, the participant argued there was no political barrier for investors' entry. P1 added that the privatization initiative was about the transfer of ownership and thus government initiated the process. This was the main political support. Yet delay in fulfilling preconditions like availing a credible policy that defines the privatization modality and role of the public, government, and private investors during and after ownership transfer. "We did not know which mills were to be sold out; how local and international investors would be treated during the deal; what supports government would be rendering at entry or exit level, for instance."

P7 argued to the claim that incentives were among the measures government can take to encourage investors, but the unattractive environment on which the business has been operating and the absence of legal frameworks had more impact on the investors' decision. P2 argued with the same stand as P7 did:

> *Ethiopian sugar factories are built in rural areas of ethnicity-based regional states, far away from the capital Addis Ababa. These areas have been centres for political instability in recent times. It is known that Ethiopia has been in a State of Emergency for a year and even now some regional states are under the command of the national defence force. This is the first and foremost factor that affects private investors' decisions. Moreover, while investment is a long time plan, transportation from the production centre as well as to ports to get to market out of Ethiopia is an issue.*

P4 restated the impact of the political environment in reference to the political elite lack of commitment. Explaining this statement, P4 added:

> *… Political elites in Ethiopia have a high interest in holding the sugar sector for its benefit. Shadowed by the promise to improve the livelihood of local the community by creating jobs … the elites do their politically profitable business. The intensive budget of financing sugar projects can build infrastructure in remote areas…… But it is only through these projects that the government can garb land, obtain loans, spend money ….. Hence, the government is not trustworthy and the private sector knows this.*

"Perhaps investors are aware of the politicians' interest" said P12. "I think this is common globally, investors realize they cannot free from political factors. Rather they look thoroughly how friendly the bureaucracy is to their business."

In Ethiopia, political factors referred not only to instability and conflict here and there; reluctance of government to reflect its commitment in the form of regulation and structures were also the manifestations as P3 noted. Here below was P3's reflection:

The political elites will never approve any policy or legal framework that conflicts with their interest. They never confirm to the establishment of any institution if it would challenge their paradigm. This makes entry difficult. Hence, I would rather refer to the legal frameworks in Ethiopia to reflect on political hindrances. I am not feeling comfortable with the proposal of calling private investors before creating a friendly law with regards to remittance, or before releasing the telecom and banking sector from state control?! The legal frameworks that regulate the economic sector in Ethiopia are not attractive to investors and thus government deliberately did this so as not to lose its control on all mega enterprises including the sugar factories,

"I will get back to the legal constraints P3 tipped," began P7.

The political environment is reflected in the relationship a nation builds with other nations in the same region or outside. With regards to business, nation to nation relationship is about the market for a product or service out of the country of origin. When a nation is friendly with its neighbour or others, businesses can easily penetrate the market.

"In terms of legal regimes, sure political factors are enshrined in all laws and policies that govern business, market, roles and responsibilities of agencies managing a sector, policies governments draft and directions they set for socio-economic development," stated P7. Here were P7's points:

…it is the bad political, financial, and market environment, which is also reflected in its economic policy, that hampered private sector development. Without the stock market, no foreign financial bank and currency problem in Ethiopia, call for private investment in capital intensive sugar sector is 'ridiculous'. Thus, private investors cannot, and will never; in action respond to the current privatization can unless the economic reform is assisted by legal and institutional reform.

P3 came with contradicting ideas about economic policy. The participant argued for the importance of economic centralism noting the country's developing economy and the importance of protection to the enterprises that can drive the national economy as follows:

> *Lack of national private sector capacity to overtake the enterprises and the impact selling these enterprises to the foreigners might have on the national economy has been the concern. Delay in reform of other policies and legal instruments are also part and parcel of this basic stand. ….. Now it is the right time ever to open the door to the private sector to sell out the enterprises. We [representatives of Ethiopian people] believe Ethiopians afford buying the enterprises as foreigners can do. ….. in line with this, other policies and regulations are also under review….. I'd rather point out a lack of policy direction on the sugar sector development now and in the future…*

P5 forwarded this point specifically on the policy matter:

> *Sugar policy is needed to encourage sustainable production for domestic (short term) and foreign (medium-term) markets. This is through encouraging private investment in the sector to improve efficiency and to fill the gap between demand and supply. This requires putting in place credible policies and regulations that represent and balance the interest of the public and private sectors. In line with is production, trade and pricing policies are highly needed.*

"A bad coincidence is the political instability and ethnic conflict emerged when the government is initiating reform in multiple sectors. This situation is a threat to the private sector to involve in the investment of large scale like buying of sugar factories." P3

"Could have the sugar factories been sold out unless the political instability emerged in recent times? Is it only a coincidence?" asked P12. "Government's initiative to privatize the firms including sugar factories is a critical decision" began P5. P5 continued as "All old and new sugar projects are not attractive enough for investors… old mills require capital to revitalize them in such a way they can produce to their full capacity; new projects are new and not at the level of operation. This will certainly make their value lower. The feasibility of some projects is also questionable.”

P6 further explained market-related factors during the discussion. Competitiveness of the sugar firms, supply issues, and financial position of the proposed sugar factories were in the participant’s statement:

> *Investors often work out when they will get a return on their investment. Selling price, taxation rules, production capacity, development, labour, and logistic cost, among others are key issues they might consider. …. current selling price and tax rate are frustrating. Cheap local labour is a reflection of the skill gap. Trained staff is available in the international market but this will in turn increase production cost. Any investor who owns the projects has to pay the loan besides the finance required to renovate them. This is a double cost and financial burden.*

P2 argued the financial stand of the sugar factories was not encouraging but this was not the case for investors. As P2 stated, the “low financial stand of the sugar factories is a critical issue mainly for the owner. The value of factories is estimated taking into consideration all the loan burden, depreciation, production capacity, and selling price of the product. Yet the issue can be a central theme for legal framework development. The way how this issue is treated in new laws will remain a concern of negotiation for the state and investors.”

P7 listed down major concerns in the privatization of the sugar firms.

> *….. The longer the privatization decision delayed, the more serious issues of loan burden, and social and environmental concerns became. The sector hoped to bring hard currency through sugar export stuck due to a lack of currency even to complete the*

projects… The shortage of currency and restrictions on foreign banks has certainly been a barrier to private investment.

Participants of this group discussion had divergent views about the social and environmental issues which can affect the privatization process. All participants shared infrastructure, social, and environmental concerns interested investors might find serious.

….. behind the ethnic conflict and unrest in some regions, there is a growing opposition of large scale investment projects in some areas. When the community is dissatisfied with any act of the government, the reaction is accompanied by destroying the investment or killing the personnel. Any firm owned by a foreigner or a staff who came out of that specific group becomes a target of the destruction. (P9)

"Environmental and social challenges also relate to the high cost to respond or negative response from interest group. Besides, mitigation of such challenges will be of high importance when the private investors overtake the sector" P9 argued.

As P10 marked, "… appropriate feasibility study and mitigation measures are not available to convince the private sector. Since the feasibility of the projects is as equally important as the friendliness of the legal and market environment, the current privatization initiative outperforms in all …"

For P10, the location of the sugar projects was a challenge to realize the privatization plan.

The fact that the sugar mills are built far away from the cities is stronger also a serious issue. Besides the impact of distance factor on logistic cost in the supply chain, location disadvantages a threat for life and property of the investors….. some killed, some robbed, some hijacked…. With the current road and telecom infrastructure accessibility, the private sector, either individually or in all, cannot feel confident to enter into investments in remote areas.

P4 argued the problem would not last, but P12 and P8 at the same time argued against the points. “The current government puts power decentralization and empowering local government at the centre; so, disputes can be easily settled….. As the current reform has tackled the misconducts and power abuses in government structure, people are developing trust in government…. Hence, conflicts will no longer emerge as they were before” (P4).

“The past predicts the future,” P8 stated, and states his argument as follows:

> *Ethnic based threats and insurgencies have been part of the rule of EPRDF, which is reformed as Prosperity Party- PP recently. It is now a socially constructed reality that only the local people have the right to utilize its resources besides administering itself. People are questioning the fairness of resource distribution in launching projects. The growing demand for better payment is a cost and conflict factor.*

“I think it is not yet the right time to say we failed…. because privatization is a process….” P3 opened a new argument line. “Ethiopia is a developmental democratic nation... Government has no interest in owning any enterprise except the interest of filling the market shortage … until the private sector can emerge in a way it can compete to drive the national economy…..”

“It is ok but….” interrupts P12, and adds “what are the success indicators?” P5 restated P3’s statement and added new points:

> *… Giant public enterprises have grown to the current size through the investment and effective management of the current government. Privatization is also initiated by the government itself. The plan succeeds when the private sector shows interest and bids for ownership. Yet, the government has to take further measures in creating an enabling ground for private players to respond to the privatization call with confidence and trust …*

P11 underlined tax as a major factor. "Sugar sector like other manufacturing industries is experiencing major taxes. Excise tax and Surtax are the most serious ones. Excise tax is 33% for sugar. Surtax is an additional tax, levied at a rate of 10% calculated on other forms of taxes. Tax has a substantial impact on the profitability of a sugar operation."

All participants confirmed the impact of the current tax regime in Ethiopia on the sugar sector's attractiveness for the private sector. P8 added that the fact government sets selling price and high tax could be more vivid when the private sector overtook and developed the sugar mills to the capacity they can produce a surplus to export. In most other markets it has been the market itself that determined the selling price and tax was paid from the profit made by the investor on the sale of sugar lower; not as a duty. This would definitely affect the profit margin and so "no investment is likely".

As P12 emphasized on government intervention on price setting:

> *The government controls the entire value chain of sugar in Ethiopia. Big estates are owned by the government. Price is also set by the government through the Ministry of Trade Hence; government intervention of this kind is frankly a determinant factor for the private sector investment.*

Confirming the comments on setting the price as an issue, P6 added "…as part of the economic centralism policy the government follows, and its refusal to liberalize the major including banks and telecom, government interference in product price setting is a policy-based discouraging for the private sector. Unless government refrains from such interference, even a local private sector will not respond to the privatization call in practice" P7 and P9 appreciated this point.

P11 raised inefficiency of the local workforce and unfavourable conditions for foreign expatriates as a serious issue. "While labour force is cheaply available, negligence and time mismanagement are serious problems." "… interested investors have been keen on this," P4 explained. "Their assessment focuses on whether expatriates are allowed to work in Ethiopia, and whether remittance is allowed." As P4 elaborated more, "As learned from other sectors foreign investors' involved, low salary for less-skilled employees who need consecutive training was a cause for dispute. As this is a cost factor, the private sector takes it as serious." "In all cases, the working culture and human resource productivity is also an important factor especially for private investors for it determines the profitability of the sector," P7 adds.

4.2.2. Strengths, Defects and Prospects

Since the dissertation aimed at identifying major factors that have been affecting the sugar sector privatization, adequate time was allocated until the participants argue sufficiently. This was followed by questions about the strengths and defects of the privatization initiative along with speculations about the likelihood of its success.

"Though it delayed, planning to privatize the sector is a good decision" P12 echoed. "Investment incentives for the private sector, repetitive calls for expression of interest, brainstorming consultations to draft legal frameworks, open discussions held abroad with investor groups in various countries, and invitations to negotiations with outsourcing the deals with lenders to waive interest and extend payment period, ongoing Social Responsibility measures, and audit of mills' financial status, although neither is fully complete." P3, P9 and P11 in common outlined as major strengths.

P6 reiterated the following:

> *… in the recent initiative, the government officially disclosed its plan to sell out relatively larger firms. The call for Expression of Interest was placed on internationally accessible platforms including the Ethiopian Embassies to reach all potential markets. Adequate time was given for interested investors to pay a visit to assess the status of sugar projects and develop tender documents.*

With regards to the short comes, P9 commented on the shortcomings:

The investors have no legal ground that ensures the government is really committed to selling out the mills. They are not provided adequate industry data so they can take further action. For instance, new projects are at different levels of completion, and loan burden. This cannot be easily disclosed early. In the current plan, all projects are open and the investors have to investigate by themselves to arrive at decision.

P11, however, expressed doubts about the importance of selectiveness. “If the government invites investors to choose from selected firms, they will be suspicious of the system and lose trust. The public is aware of how important sugar is and how it will affect when the sector is totally sold out. Thus, consultations and policy responses about the fate of employees as well as the government’s role in regulating the market would be responded”.

“What matters most for the private investors is the financial efficiency of the sector. Most sugar factories have not yet begun making profit, end some new projects still under development. Hence, the sector will generally be under-valued and waste public money. Thus, failure to make the sale in phases- attractive ones first, for instance, is a major defect” P10 argued.

“Perhaps phasing will generate finance to complete less attractive mills and thus get the best value” P6 argued, and added timing defects: “The privatization call messages primary goal is to fill its financial gap only. Time is needed to ensure political stability, make legal and arrangements, and then begin with stable industries like telecom so adequate finance can be generated to boost the national economy. Stakeholders can also learn from this and successfully privatize other sectors…”

Both P1 and P3 endorsed timing defect. P3 added potential dispute from lenders on payment arrangement as a visible shortcoming. Unless the investors from loan source countries could buy out the sector, there would be disagreements. Hence, negotiation would be a more preferable than an open bid to succeed. The participants did not argue against this point.

Based on the points participants from different sectors raised, speculations were made about the prospects of sugar sector privatization. “Success depends on the government’s commitment to fulfil the preconditions” said P1. “It is all about legal arrangement that responds to the suspects from interested investors and key stakeholders” P1 added.

P4 echoed with confidence that the brainstorming consultations with stakeholders and ongoing policy drafts marked the initiative would succeed soon. P5 and P6 reflected similar perception. However, only P11 argued “foreign investors will be attracted more by other sectors like telecom due to the sugar sector’s financial inefficiency while the local private sector cannot afford to buy this capital-intensive sector. The national economic and political situation can also affect the investors’ decision.” P2 argued, “…the future is gloomy because the situation on the ground is not enabling.” Other participants too agreed to this opinion.

CHAPTER FIVE

RESULT AND DISCUSSION

In this chapter the data obtained through both questionnaires and Focus Group Discussion were discussed. The result was presented in sub-sections constructed in line with the research objectives and themes that emerged during data coding. The result of the data analyzed separately in the preceding chapter was then mixed and discussed in this unit. Related literature was consulted to consolidate the discussion and to validate the findings.

5.1. Factors Affecting the Sugar sector Privatization

The four key themes the emerged during data analysis in an earlier chapter was discussed in this sub-section.

5.1.1. Legal and Institutional Factors

Among the 10 items in the legal and institutional factors' category, high tax rate (92.3%), operational challenges due to restrictions on banking (80.8%), and pricing policy (98.7%) were found to have very high impact on the sugar sector privatization process in Ethiopia. These items fell above the median (2.0). On the other half of the median, lack of clear privatization approach (69.2%), policy of economic centralism (60.3%), high entry barrier (52.6%), and lack of privatization policy for the sugar sector (53.8%) were identified to have a high impact on the success of sugar sector privatization process.

The responses of FGD participants and inferences of the literature review confirmed these findings. As noted in review literature (Ethiopian Investment Commission, 2015), sugar development levy and excise tax on sugar were two major taxes/levies currently impacting the profitability of the Sugar Industry. Levy was imposed on sugar products and effectively paid for by the end consumer. The excise tax on the cost of production of sugar operations charged 33% of the direct production cost, and payable on sales of sugar both to the domestic and export markets.

The issue of pricing policy was also supported during the discussion. The sugar selling price was set by the government itself and the 'official' price was 20% lower than the next lowest price in the region (Ethiopian Sugar Corporation, 2018). For private investors, however, this price would never result in an insufficient return.

Ethiopia has not yet allowed for foreign commercial banks to operate in the country (Getayawkal, 2016), and the local banks were under the state control. While there were foreign currencies in Ethiopia, lack of stock exchange and capital market, and international banking were challenges for investors either to get currency or to take its profit to the home country. Similarly, it was challenging for foreign employees to remit their wages to home. For the specific sugar sector privatization, the discussion participants confirmed the development of policies and guidelines was "underway," but privatization initiative embarked in before few years. While splitting the sectors domestic and international investors can invest in Ethiopia, the economic policy in Ethiopia had no vivid statement on whether a local private investor could engage in a joint-venture undertaking with a foreign investor or not (Investment Code, No. 15/1992). Solomon (2013:25) stated this as a "polite way of discouraging foreign private capital investment in Ethiopia."

Moreover, as the Ethiopian sugar sector privatization call had no pre-established policy ground, evidence was not available on what model and scheme would the government follow. Expecting the suggestion from the interested investors themselves left the potential investors uncertain even if the government would no doubt be pleased with whatever proposal they might come with. Moreover, as the sugar projects differ in the level of performance, capacity, financial wellbeing, etc. generic call for sale brought no result, because researches revealed that private investors can less likely enter into a deal to buy poorly performing, overstaffed or larger ones (Boehmer, Nash and Netter, 2003). Thus lack of clear policy was a factor affecting the sugar sector privatization process. Nevertheless, lack of independent regulatory body (57.7%), high exit barrier (60.3%), and lack of investment incentives (79.5%) were ranked to have very low impact in the survey. Moreover, the discussion did not bring evidences on the impact of these issues.

5.1.2. Political Factors

Political instability (82.0%), growing conflict (84.6%), opposition from interest groups (55.1%), and economic orientation of the government (43.6%) were identified as the most determinant factors. All of these items fell above the median in which 3 (Moderate) was the mode. While fear of public acceptance (41.0%) had a moderate impact, resistance from the governing elites (consolidated sum for Very Low = 52.6%) was the least impacting factor.

Ethiopian government gave protection for private property as guaranteed by constitution (FDRE, 1995) and investment code (Investment Proclamation of 2012 as amended in 2014) besides being a member of the institution which issues guarantee against non-commercial risks to enterprises that invest in signatory countries (Investment Regulation, 2013), the FGD participants refused to rely on such policies amid the country's political instability in the recent years. Noting the State of Emergency was in effect in some parts of the country, political instability was taken as a major risk factor for not only the business but also the life of individuals. With regard to political risk and government stability, Bortolotti and Pinotti (2003) argued that privatization has been more likely in more stable regimes. This was because less stable governments were not willing to accept the political risk involved in a large privatization. When the government was stable, it would be easier for the ruling party to gain consent for privatization policy decisions and the executive enjoys greater stability.
Unlike Clarke and Cull (2002) findings showing power imbalance between decision-makers at either the legislative or executive levels, opposition from political parties was less likely to impact investor's decision. Moreover, less stable governments may lack the ability to effectively enforce property and contractual rights which in turn are necessary to implement privatization (Clague et. al., 1996).

However, the impact of “opposition from interest groups” and “fear of public acceptance” were found to get insignificant support from the FGD data. As noted during the discussion, the current government in Ethiopia has been dominated by a single party. Moreover, the public, particularly the local public, could oppose depending on the new policy direction if it would affect their interest. Thus, opposition would be unlikely in such cases. On the other hand, the investors fear that the government could not successfully make or enforce laws of private investment, property protection when it remained weak. Thus, political stability can determine its ability to carry out its declared programs, and so taken as a serious factor.

5.1.3. Socio-economic Factors

Among the items in the socio-economic category, the inefficiency of the sugar sector (with the consolidated sum of very high and high=85.9%), poor infrastructure development (51.3%), and unstable currency (37.2%) were factors the analysis revealed as major determinants. The median and mode of the items in this category were 3 (moderate). These findings confirmed to the findings of researches by Gupta, Ham and Svejnar (2008), and Dinc and Gupta (2011), which revealed the success of privatization materializes when governments sequence privatizations strategically, often leading the most profitable firms to be privatized first, and firms with a lower wage bill are likely to be privatized early. In the case of the Ethiopian sugar sector, however, the sugar enterprises had been performing less efficiently compared to other state-owned firms and this was a reason government wanted to sell out the enterprises. Therefore, the current financial stand of the sugar factories was one of the factors which discouraged private sector investment. In line with this, Caprio and Klingebiel (2000) showed that many state-owned enterprises exhibit poor financial performance, possibly because they were used to make politically-motivated loans. Thus privatization is likely when the sector is loss-making and it is less efficient (Clarke and Cull, 2002). In terms of high infrastructure demand in localities, participants of discussion confirmed it had been among the major determinant factors.

On the other hand, the inconsistency of national economic growth (48.7%) was identified to affect the process at a moderate level; however, high production cost (64.1% ranked its impact as very low) was not supported as impacting factors in the FGD. This result confirmed to Ethiopian Sugar Corporation (2018) that it revealed Ethiopia was a low-cost producer due to the very high productivity of cane per unit area and cheaper labour force.

5.1.4. Market Factors

High logistic cost (74.4%), weak financial position of factories (67.9%), unattractive FOREX environment (60.3%), and vulnerability to foreign competition (43.6%) were identified as the topmost serious market-related factors affecting the sugar sector privatization based on the consolidated sum of the scale. It was confirmed by FGD that the sugar factories were scattered in different parts of the country and so not only transportation to limited port outlets but also to the national central market was causing high cost. Moreover, the fact that the sugar factories were under the burden of loan and interest, and high demand for subsidy from government implied the sector was less attractive to investors.

As learned from the literature review 10 of the 13 sugar projects offered for sale were under different levels of development, because these projects were being financed by the loan gained from different countries (Birhanu, 2019). Since the interested investor had to value the project at the current stage of development, and then negotiate on not only the sale price but also how the loan would be paid before entering into any form of privatization deal, the process would require a longer time than the government expected. As noted during the Discussion, this made the deal ‘hectic,’ and thus the sector became unattractive.

Causes for FOREX shortage embraced high reliance on imports and inflation which government instrumented to generate liquidity (Tadesse, 2018). The investors and expatriate employees cannot easily find currency to remit. This made the FOREX environment unattractive. Further, the sector’s vulnerability to foreign competition was the factor that affected the process of privatization. These responses were also supported by FGD and literature (Tadesse, 2018). Lack of access to (regional and international) markets (39.7%) was identified to have a moderate impact. This is because of limited port outlets on one hand and logistic cost as confirmed in the above section on the other hand.

Finally, the other factors – the high cost of raw materials and inputs (42.3%), illegal import (51.3%), lack of demand out of home (41.0%), and static domestic demand (57.7%)- were found to have very low impact. Each of these items fell exactly below the median. As noted during the discussion, state-owned farms were yielding adequate sugarcane through currency shortage used to cause delays in the purchase of imported chemicals. Sugar product demand had been high both in the domestic and regional markets (Ethiopian Sugar Corporation, 2018). Moreover, unofficial sugar import was mainly encouraged by the shortage of the product in the national market, and a high tax on import (Ethiopian Economics Association 2019; Ethiopian Sugar Corporation, 2018). Thus, both literature and discussion confirmed the result of survey data analysis.

5.2. Strengths, Defects and Prospects

5.2.1. Strengths and Defects

The data collected through surveys and discussions with key industry stakeholders revealed the strengths and defects of the current privatization initiative. Since it was for the first time in Ethiopia government planned to privatize one of the giant enterprises it owned, the decision was appreciated. The initiative was also preceded by incentives for private investors. Among the ongoing tasks, brainstorming consultations to draft legal frameworks, discussions with investors at potential source counties, and deals with lenders to waive interest and extend payment period, were strengths identified. However, the key defects of the process comprised delay in legal arrangements (i.e. call for privatization before creating enabling legal, financial and market environment); lack of adequate industry data; lack of mitigation strategies to combat potential opposition from the stakeholders (employees and the public); failure to phase the process depending on the efficiency of enterprises; fear of risk due to privatization call amid political instability (timing defects); and lack of clear measures to settle a potential dispute about loan payment when the ownership transfers.

5.2.2. The Prospects of Sugar Sector Privatization

Eventually, the participants of this study revealed divergent views on whether the sugar sector privatization would succeed. Considering the impact of significant factors on the privatization process and evident weaknesses of the initiative as discussed above, the prospects of sugar enterprises privatization were found to be uncertain. Irrespective of the time length privatization of the sugar enterprise had been an agenda, the government has not taken adequate measures to materialize the initiative. Delay in approving draft legal frameworks sufficiently marked government lacked commitment. Thus, it would be too early to confidently conclude the initiative would succeed in the absence of the pre-requisites for any successful privatization initiative as learned from the literature review.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

In this chapter, conclusion and recommendations were presented.

6.1. Conclusion

This dissertation aimed primarily at identifying the major factors affecting the sugar sector privatization process in Ethiopia. In line with this, the study found out the determinant factors relating to the legal and institutional arrangements governing the sugar sector, political situation, socio-economic and market environment in Ethiopia, and financial status of the sugar sector itself. Among the legal and institutional factors, high tax rate, operational challenges due to restrictions on the banking sector, pricing policy were found to have very high impact. Moreover, lack of a clear privatization approach and indicative policy for sugar sector development, the policy of economic centralism, high entry barrier, and lack of privatization policy of this specific sector had an impact on the success of sugar sector privatization process.

In relation to political factors, political instability, growing conflict, opposition from interest groups, fear of public acceptance, and economic orientation of the government were identified as the most significant factors determining the sugar sector privatization process. While fear of public acceptance was marked to have a moderate impact on the privatization process, the impact of resistance from the governing elites was found to have a very low impact among the political factors.

Among the socio-economic factors, the inefficiency of the sugar sector, poor infrastructure development, and unstable currency were identified to have a very high impact on the sugar sector privatization process. Besides, high production cost was identified as a factor with very low impact.

From market and financial aspects, high logistic cost, the weak financial position of the sugar enterprises, unattractive FOREX environment, vulnerability to the foreign competition, and lack of access to market had a significant impact on the sugar sector privatization process. Among the factors checked for impacting the privatization process, however, the high cost of inputs, illegal import, and static domestic demand were identified to have the least impact.

While the Ethiopia government decided to privatize one of the giant enterprises under its ownership, and willing to provide incentives for the private investors, the current study affirmed the privatization initiative had strengths such as initial consultations to avail legal frameworks, dialogue with potential investors, deals with financiers, and process transparency. Yet, delay in creating an enabling legal, financial, and market along with other socio-economic and political factors put the prospects of sugar sector privatization under question. Lack of adequate industry data, loops in devising strategies to combat potential opposition from interest groups, absence of roadmap about how issues of ownership would transfer, either fully or partially, can be handled made the process ambiguous. Consequently, the success of the years' long sugar sector privatization initiative yet remained amid uncertainty. Thus, it is soon to confidently conclude the initiative would succeed unless future researches prove the Ethiopian government took into account the issues identified in this dissertation and puts into effect the suggestions outlined in the recommendations section below.

6.2. Recommendations

- ✓ Ethiopian Sugar Corporation should make privatization by phase so that the sector can gain financial benefit and use the proceeds of initial privatizations to reinvestment in the sector to make other projects saleable.
- ✓ Policymakers should decrease the tax rate to encourage both the private sector investment and legal trade.
- ✓ The current sugar selling price government sets is discouraging for the private investor planning to produce surplus and export to the world market. Policymakers should develop an appropriate measure that protects the industry competitiveness in the world market without affecting the domestic consumers. So, the price should be left to be decided by the market itself.

- ✓ In changing unfavourable regulation frameworks, an attractive and transparent regulatory regime needs to be in place before private investors will take part in the privatization exercise. Future arrangements should take into account the following issues:
  - The level of debt and loan- potential investors to take over. Among the available options of reducing the debt the enterprise's sales price and consolidating the debt outside of the privatization and sell the enterprises debt-free for the full value, the researcher suggests the second alternative.
  - As an enabling privatization scheme, and help the public develop confidence in the process while minimizing potential resistance, the Ethiopian Sugar Sector should retain a major share of the equity with future possibilities to sell it out gradually.
  - Because investment in the sugar sectors has risks due to the volatile world prices, investment protection in the form of import duty or variable tariff that alters depending on the level of world prices should be in place to enhance the private sector certainty. Moreover, the Ethiopian Sugar Sector has to coordinate the concerned stakeholders to ensure political stability and security to guarantee life and property protection in project areas.
- ✓ The FDRE Ministry of Finance should develop and enforce a separate sugar policy so as to encourage sustainable production for domestic and foreign markets when the private sector owns the sector.
- ✓ To avoid fear of public acceptance and resistance from the interest group, policy consultation should take as equally important as the policy arrangements. The Ethiopian Sugar Sector management has to coordinate the consultations with the Investment Commission and Ministry of Finance and other national stakeholders, have to negotiate with the potential private investors from countries that source loan. The results of such consultations should be provided for the private investors to minimize their fear.
- ✓ Finally, an attractive strategy should be developed to avail foreign currency for investors. With this regard, the House of Peoples Representatives, in which some

of the ESC board members are a member, should initiate and enforce implementation of a special guideline on how private investors and expatriate employees can get foreign currency.

6.3. Limitation and Future Research

The current work has a few limitations. As the dissertation focuses only on the sugar sector, the results cannot be generalized to the other sectors which the Ethiopian government is planning to privatize. The study framework covers a few issues relating to the four main factors; however, there may be more factors that can affect the privatization process.

In this dissertation, key participants were private investors and key stakeholders from government and private agencies at the federal level in the country. Involving employees of the sugar projects and local administrations might in the future result in better results. Therefore, future researchers can include more issues and include participants from all interest groups.

REFERENCES

Agarwal, S., Driscoll, J. C., Gabaix, X. and Laibson, D. (2009) 'The Age of Reason: Financial Decisions over the Life Cycle and Implications for Regulation', Brookings Papers on Economic Activity, 4(2), pp. 51-117. Available at: https://www.brookings.edu/wp-content/uploads/2016/07/2009b_bpea_agarwal.pdf. Accessed on 22 November 2019).

Amrouk, E.M., Rakotoarisoa, M.A., and Chang, K. (2013) *Structural Changes in the Sugar Market and Implications for Sugarcane Smallholders in Developing Countries: Country Case Studies for Ethiopia and the United Republic of Tanzania.* Available at: http://www.fao.org/3/ar714e/ar714e.pdf. (Accessed on 28 October 2019).

Barrows, C. W. (2000) 'An Exploratory Study of Food and Beverage Training in Private Clubs', *International Journal of Contemporary Hospitality Management*, 12(3), pp. 190-197.

Birhanu, F. (2019) 'Government Initiates Modalities to Privatize Sugar Projects' *The Reporter Newspaper. Available at:* https://www.thereporterethiopia.com/article/govt-initiates-modalities-privatize-sugar-projects. (Accessed on 10 January 2020).

Boehmer, E., Nash, R.C., and Netter, J.M. (2003) *Bank Privatization in Developing and Developed Countries: Cross-Sectional Evidence on the Impact of Economic and Political Factors.* Winston: Salem, NC.

Bordonal, et. al. (2018) *Sustainability of Sugarcane Production in Brazil: A review.* Available at: https://link.springer.com/article/10.1007/s13593-018-0490-x. (Accessed on 26 October 2019).

Borrell, B. and Duncan, R.C. (1992) *A Survey of the Cost of World Sugar Policies, The World Bank Research Observer.* Available at https://www.researchgate.net/publication/5218031_A_Survey_of_the_Costs_of_World_Sugar_Policies. (Accessed on 29 December 2019).

Bortolotti, B., and Pinotti, P. (2003) *The Political Economy of Privatization*, *Working Paper, FEEM.* Available at: https://www.econstor.eu/bitstream/10419/118079/1/NDL2003-045.pdf. (Accessed on 5 December 2019).

Capriles, G. (n.d) *Privatization in the Global Economy: Financial and Accounting Linkages for Selected Cases.* Available at: http://lanic.utexas.edu/project/sela/privatization/iestudios/capriles.htm. (Accessed on 18 December 2019).

Caprio, G., and Klingebiel, D. (2000) *Bank Insolvencies: Cross-country Experience, Working Paper, World Bank.* Available at: http://documents.worldbank.org/curated/en/761051468739458460/Bank-insolvencies-cross-country-experience. (Accessed on 21 November 2019).

Carson, S.A. (1999) *Justifying Global Privatization: Economics, Public Policy and Education.* Available at: https://pdfs.semanticscholar.org/61ad/ae478a4fc2db7801bec01da31a30f5bb5ed6.pdf. (Accessed on 22 December 2019).

Clague, C., Keefer, P., Knack, S., and Olson, M. (1996) 'Property and Contract Rights in Autocracies and Democracies', *Journal of Economic Growth,* 1(3), pp.243-276. Available at: https://econpapers.repec.org/article/kapjecgro/v_3a1_3ay_3a1996_3ai_3a2_3ap_3a243-76.htm. (Accessed on 02 November 2019).

Clarke, G., and Cull, R. (2002) 'Political and Economic Determinants of the Likelihood of Privatizing Argentine Public Banks', *Journal of Law and Economics,* 4(5), pp.165-197. Available at: https://www.journals.uchicago.edu/doi/10.1086/324653. Accessed on 15 January 2020).

Cohen, I., Manion, L., and Morrison, K. (2007) *Research Methods in Education*. 6th edn. New York: Routledge.

Council of Ministers (2003) 'Regulation on Investment Incentives and Investment Areas, Regulation No.84/2003', *Federal Negarit Gazette of The Federal Democratic Republic of Ethiopia*, 9th year, No. 34. Addis Ababa: Berhanina Selam Printing Press.

Council of Ministers (2012) 'Regulation on Investment Incentives and Investment Areas Reserved for Domestic Investors, Regulation No. 270/2012', *Federal Negarit Gazette of The Federal Democratic Republic of Ethiopia*, 19th Year No. 4. Addis Ababa: Berhanina Selam Printing Press.

Council of Ministers (2015) '*A Proclamation to Provide for the Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia*, Regulation No. 916/2015', *Federal Negarit Gazette of the Federal Democratic Republic of Ethiopia,* 22nd Year No.12, Addis Ababa: Berhanina Selam Printing Press.

Creswell, J. W., and Plano-Clark, V. L. (2007) *Designing and Conducting Mixed Methods Research*. Thousand Oaks, CA: Sage Publishers Ltd.

Creswell, J.D. (1997) *Research Design: Qualitative and Quantitative Approaches.* London: Sage Publications.

Creswell, J.D. (2009) *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches.* Los Angeles, CA: Sage Publishers Ltd.

Creswell, J.W., and Miller, D. 2000, '*Determining Validity in Qualitative Inquiry,' Theory into Practice*, 39(3), pp. 124-130. Available at: https://www.tandfonline.com/doi/abs/10.1207/s15430421tip3903_2?journalCode=htip20. (Accessed on 11 October 2019).

CSA (2019) *National Statistical Abstract 2018/19*. Addis Ababa: Bole Printing Press.

Dawar, K., and Ndlovu, N. (2018) ‘A Comparative Assessment of Competition in Africa: Identifying Drivers of Reform in Botswana, Ethiopia, and Nigeria,’ *Journal of Antitrust Enforcement*, 6(1), pp. 150– 172. Available at: https://doi.org/10.1093/jaenfo/jnx019. (Accessed on 02 January 2020).

Dinc, S., and Gupta, N. (2011) ‘*The Decision to Privatise: Finance and Politics.’* The Journal of Finance, LXVI (1), pp.241–69. Available at: https://www.researchgate.net/publication/227630033_The_Decision_to_Privatize_Finance_and_Politics. (Accessed on 03 October 2019).

Elobeid, A., and Beghin, J. (2004) ‘Policy Reforms in World Sugar Markets: What Would Happen?’ *Lowa Ag Review*, 10(2), pp. 105-124. Available at https://www.card.iastate.edu/iowa_ag_review/spring_04/article2.aspx. (Accessed on 28 November 2019).

EPRDF (2018) ‘Development of Democracy in Ethiopia: Achievements, Challenges, and Prospects,’ *The Herald*, 28(1), pp. 36-61. Addis Ababa: Berhanina Selam Printing Press.

Estrin, S., and Pelletier, A. (2018) ‘Privatization in Developing Countries: What are the Lessons of Recent Experience?’ IZA Discussion Paper No. 10297. Available at: https://ssrn.com/abstract=2861082. (Accessed on 22 December 2019).

Ethiopian Economics Association (2019) Annual Survey Report on the Ethiopian Economy. Addis Ababa: Bole Printing Press.

Ethiopian Investment Agency (2012) *Investment Opportunity Profile for Sugar Cane Plantation and Processing in Ethiopia.* Available at: http://ethemb.se/wp-content/uploads/2013/07/Sugar-Cane-Plantation-and-Processing-in-Ethiopia.pdf. (Accessed on 29 November 2019).

Ethiopian Investment Commission (2015) Investment Trends and Growing Challenges: Ways Forward. Bole Printing Press: Addis Ababa.

Ethiopian Sugar Corporation (2018) *Successes and Failures of the Sugar Sector Investment in Ethiopia: Comparative Analysis of the East African Nations*. A Mid-Year Report Presented to Parliament. Addis Ababa: ESI.

Ethiopian Sugar Corporation (2019) *Ethiopian Sugar Industry Profile.* Available at: https://www.slideshare.net/meresaf/ethiopian-sugar-industry-profile-166554323. (*A*ccessed on 2 January 2020).

FDRE (1995) ‘Constitution of the Federal Democratic Republic of Ethiopia’, *Federal Negarit Gazeta of The Federal Democratic Republic of Ethiopia*, 1st Year No.1. Addis Ababa: Berhanina Selam Printing Press.

Fun, T.S. (2010) Factors Affecting the Success of Privatization in Hong Kong, M. P. A. Dissertation, The University of Hong Kong. Available at: http://hub.hku.hk/handle/10722/144082. (Accessed on 07 November 2019).

GAIN (2018) ‘Sugar Production Increases - But Shortages Remain.’ Report Number ET1814. Available at: https://gain.fas.usda.gov/RecentGAINPublications/. (Accessed on 19 November 2019).

Getayawkal, A. (2016) *Project Implementation Challenges and Conceivable Means of Resolution in the Lower Omo Valley, Kuraz.* Addis Ababa: Addis Ababa University Press.

Girum, A.S. (2018) *Privatization in Ethiopia: Status and Challenges*, Master of Arts Degree Dissertation. Addis Ababa: St. Marry University.

Gupta, N., Ham, J. C., and Svejnar, J. (2008) ‘Priorities and Sequencing in Privatization: Evidence from CzechFirmPanelData’, *European Economic Review,* 5(2), pp. 183–208. Available at: https://econpapers.repec.org/article/eeeeecrev/v_3a52_3ay_3a2008_3ai_3a2_3ap_3a183-208.htm. (Accessed on 16 December 2019).

Hines, T. (2000) ‘An Evaluation of Two Qualitative Methods (Focus Group Interviews and Cognitive Maps) for Conducting Research into Entrepreneurial Decision Making.’ Qualitative Market Research: An

International Journal, 3(1), pp. 7-16. Available at: http//:www.emerald.com/insight/content/doi/10.1108/13522750010310406/full/html. (Accessed on 17 November 2019).

ILO (2001) *The Impact of Decentralization and Privatization on Municipal Services.* Available at: https://www.ilo.org/public/english/standards/relm/gb/docs/gb283/pdf/jmmsr.pdf. (Accessed on 01 January 2020).

International Finance Corporation (2019) *Country Private Sector Diagnostic, Creating Markets in Ethiopia, Sustaining Progress Towards Industrialization.* Available at: ifc.org. (Accessed on 22 November 2019).

International Monetary Fund (2019) *The Federal democratic Republic of Ethiopia Country Report No. 20/29, Article IV.* Available at: https://www.imf.org/~/media/Files/Publications/CR/2020/English/1ETHEA2020001.ashx&ved=2ahUKEwiu9s2hl4HpAhXdZxUIHawfC98QFjALegQICRAB&usg=AOvVaw0ccYNqE3Einz_4yA2APJZG. (Accessed on 05 January 2020).

Jerusalem, Y. Y. (2016) *Higher Education and Labour Market In Ethiopia: A Tracer Study of Graduate Employment in Engineering from Addis Ababa and Bahir Dar Universities*, A Dissertation Submitted for The Degree of Doctor of Philosophy in International and Comparative Education. Addis Ababa: Bole Printing Press.

Kamski, B. (2016) ‘The Kuraz Sugar Development Project (KSDP) in Ethiopia: between ‘Sweet Visions’ and Mounting Challenges’, *Journal of Eastern African Studies*, 10(3). pp. 125-155. Available at: https://www.tandfonline.com/doi/full/10.1080/17531055.2016.1267602?tab=permissions&scroll=top. (Accessed on 23 November 2019).

Kayizzi-Mugerwa, S. (2002) ‘Explaining Zambia’s Elusive Growth: Credibility Gap, External Shocks or Reluctant Donors?’, in M. Lundahl (ed.) *From Crisis to Growth in Africa. London:* Routledge, pp. 134-210.

Kikeri, S., and Nellis, J. (2004) 'An Assessment of Privatization,' *The World Bank Research Observer*, 19 (1), pp. 87–118. Available at https://elibrary.worldbank.org/doi/abs/10.1093/wbro/lkh014. (Accessed on 1 January 2020).

Kothari, C.R. (2004) *Research Methodology: Methods and Techniques.* 2nd edn. New Delhi: New Age International Publishers.

Larson, F.D., and Borrell, B. (2001) 'Sugar Policy and Reform," *World Bank Policy Research Working Paper,' No. 2602*, The World Bank. Available at http://documents.worldbank.org/curated/en/633861468765633369/Sugar-policy-and-reform. (Accessed on 28 November 2019).

Ministry of Finance (2019) 'Finance and Development,' *Development Issue*, 11(2), pp.23-41. Addis Ababa: MoF.

Ministry of Finance and Economic Development (2015) *Financing Mega Projects in Ethiopia: Lessons Adopted.* Addis Ababa: Addis Ababa University Press.

Mohsin, A. (2016) *A Manual for Selecting Sampling Techniques in Research.* Available at https://mpra.ub.uni-muenchen.de/70218/1/. (Accessed on 12 January 2020).

Montford, W., and Goldsmith, R. E. (2016) 'How Gender and Financial Self-Efficacy Influence Investment Risk Taking,' *International Journal of Consumer Studies,* 40(1), pp. 101-06. Available at https://onlinelibrary.wiley.com/doi/epdf/10.1111/ijcs.12219. (Accessed on 12 January 2020).

Mumtaz, A., Saeed, T. and Ramzan, M. (2018) 'Factors Affecting Investment Decision-Making in Pakistan Stock Exchange,' *International Journal of Financial Engineering,* 5 (4), pp. 185-199. Available at: https://www.worldscientific.com/doi/10.1142/S2424786318500330. (Accessed on 08 December 2019).

National Planning Commission (2016) *Growth and Transformation Plan II (GTP II) (2015/16- 2019/20)*. Addis Ababa: NPC.

National Planning Commission (2018) *Poverty Analysis Study.* Addis Ababa: Addis Ababa University Press.

Nellis, J. (2008) 'Privatization in Africa. What Has Happened? What Is to Be Done?' in Roland, G. *Privatization: Successes and Failures*. New York: Columbia University Press, pp. 109–135.

Newsbusinessethiopia (2019) Ethiopia's Privatization Urgency Sparks Debate. Available at: https://newbusinessethiopia.com/investment/ethiopias-privatization-urgency-sparks-debate/. (Accessed on 01 January 2020).

Norman, G. (2010) 'Likert scales, levels of measurement and the "laws" of statistics', *Adv Health Sci Educ Theory Pract,* 5(5), pp.625-32. Available at https://www.ncbi.nlm.nih.gov/pubmed/20146096. (Accessed on 10 January 2020).

Rakow, T., and Newell, R. (2010) 'Degrees Of Uncertainty: An Overview and Framework for Future Research on Experience-Based Choice,' *The Journal Of Behavioural Decision Making*, 2(3), pp. 1-14. Available at: https://doi.org/10.1002/bdm. (Accessed on 3 November 2019).

Selvam, J., Meenakashi, S. and Iyappan, T. (2005) 'Privatization and Capital Accumulation: Empirical Evidences from Ethiopia,' *African Journal of Economic Policy,* 12(1). Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=984381.

Solomon, W. (2013) *A Glimpse of Privatization and the Private Sector*. Addis Ababa: Ethiopian Economic Association Publication.

Tadesse, W. (2018) 'Project Management and Organizational Capacity: ECS in Particular,' *Science and Development,* 6 (11), pp. 25-39. Addis Ababa: Ethiopian Civil Service University.

Tesfaye, K. (2018) *Economic Growth and Employment Patterns in Dominant Sectors: Opportunities, Challenges and Prospects.* Addis Ababa: Ethiopian Civil Service University Publisher.

Usman, O., and Joseph, O.O. (2016) *Does Privatization Increase Firm Performance in Nigeria?: An Empirical Investigation, MPRA Paper No. 69743*. Available at: https://mpra.ub.uni-muenchen.de/69743. (Accessed on 26 December 2019).

Wodajo, T., and Senbet, D. (2017) 'Does Privatization Improve Productivity? Empirical Evidence from Ethiopia,' *International Journal of African Development*, 2(1). Available at: https://scholarworks.wmich.edu/cgi/viewcontent.cgi?referer. (Accessed on 03 January 2020).

World Bank (1995) *Private Sector Development in Low-Income Countries.* Washington, D.C: Routlede Publishers Ltd.

World Bank (2018) *Ethiopia Economic Update: Reform Imperatives for Ethiopia's Services Sector.* Available at: https://www.worldbank.org/en/country/ethiopia/publication/ethiopia-economic-update-reform-imperatives-for-ethiopias-services-sector. (Accessed on 22 October 2019).

World Bank (2019) *Ethiopia Overview.* Available at: https://www.worldbank.org/en/country/ethiopia/overview. (Accessed on 18 November 2019).

Worldometers (2019) *Ethiopia Population*. Available at: https://www.worldometers.info/world-population/ethiopia-population/. (Accessed on 21 October 2019).

Regulations and Codes

- Commercial Registration and Business Licensing Proclamation of 2010 (as amended)
- Ethiopian Investment Regulation, 2013
- Ethiopian Sugar Corporation Establishment Regulation No. 916/2015.
- Ethiopian Investment code 270/2012
- Investment Proclamation of 2012 as amended in 2014
- Privatization Proclamation No. 146/1998).

APPENDICES

Appendices

Appendix I: Private Investors Questionnaire

Part I: General Information

Please circle the letter that identifies you.

1. Gender

   A. Male B. Female C. Do not mention

2. Country of origin:

   A. U.S.A B. South America C. Asia D. Middle East

   E. Africa F. Other (Please specify) ___________

3. Experience in the sugar sector investment (in years):

   A. 0-3 Years B. 4-7 Years C. More than 7 years

Part II: Factors Affecting the Sugar Sector Privatization Process

The following table consists items that measure your opinion about the impact of factors affecting the Ethiopian sugar sector privatization. The degree of impact each factor has will be determined on the basis of your responses. As the issue first impresses you, please check (**X** or √) the option that best applies: VH= Very High; H= High; M= Moderate; L= Low; and, VL= Very Low.

S.No	How high or low have each of the following factors impacted the sugar factories privatization initiative in Ethiopia?	Scale				
		Very High	High	Moderate	Low	Very Low
1	Policy of economic centralism					
2	Lack of clear privatization approach					
3	Lack of privatization policy					

Factors…/Continued from page 1/

S.No	How high or low have each of the following factors impacted the sugar factories privatization initiative in Ethiopia?	Scale				
		Very High	High	Moderate	Low	Very Low
4	High tax rate					
5	Lack of investment incentives					
6	Operational challenges due to restrictions on banking					
7	Below the market pricing policy					
8	Lack of independent regulatory body					
9	High entry barriers					
10	High exit barriers					
11	Economic orientation of the government					
12	Political instability					
13	Resistance from governing elites					
14	Opposition from interest groups					
15	Growing conflict					
16	Fear of public acceptance					
17	High production cost					
18	Poor infrastructure development					
19	Unstable currency					
20	Inconsistent economic growth					
21	Inefficiency of the sector					
22	Weak financial position of factories					
23	Static domestic demand					

Factors …./ Continued from page 2/

S.No	How high or low have each of the following factors impacted the sugar factories privatization initiative in Ethiopia?	Scale				
		Very High	High	Moderate	Low	Very Low
24	Lack of demand out of home					
25	Limited access to (regional and international) market					
26	High cost of raw materials and inputs					
27	High logistic cost					
28	Unattractive FOREX environment					
29	Illegal import					
30	Vulnerability to foreign competition					

Part V: Final Remarks

1. What other factors do you think will make investment in sugar sector non-feasible? ____
____
____

2. What strengths and/or defects do you see in the initiative of sugar sector privatization in Ethiopia? ______________________________
____
____

3. What is your future plan about investing in this sector in Ethiopia?
____
____

******* The End *******

Appendix II: Guiding Questions for Focus Group Discussion

1. What key factors are determining the success of privatization initiative?
    1.1. Institutional/legal arrangements?
    1.2. Relating to the political situation?
    1.3. Socio-economic factors?
    1.4. Product market and financial?
2. How effectively is the sugar enterprises privatization initiative planned and executed?
3. What main issues will remain affecting the success of the privatization plan, and thus need swift response?
4. Additional points with regards to the factors affecting the success of Ethiopian sugar sector privatization?

Appendix III: Participant Consent Form

Purpose and Procedure: This questionnaire designed to collect data for the dissertation to fulfil the requirements of MBA- International Business.

The information gathered is solely for the academic use, and all respondents will be kept confidential and anonymous. It would be appreciated if you would take a few minutes of your time to complete this survey. If you have any questions or concerns, please contact me at +251 974 85 89 61 or email: charesamago1980@gmail.com. Thank you!

Voluntary Nature of the Study/Confidentiality: Participation in this study is entirely voluntary and you may refuse to complete the study at any point during the survey. Your personal information or name will not be revealed or shared.

Contacts and Questions: You may ask questions regarding this study at any time. If you have further questions or would like to know the results of the study, please leave your email address below. Email:
____

Statement of Consent: I state that:

- I have read the above information
- Any questions and concerns, regarding survey, have been addressed.
- I give consent to participate in this study
- I understand that this study will not involve any greater risk than those ordinarily occurring in daily life.

Name of Participant: ________________________________

Signature of Participant: _____________________________

Date: _________________

Appendix IV: Consolidated sum of survey responses

S. No	Item	Responses	Very High	High	Moderate	Low	Very Low
1	Policy of economic centralism	frequency	47		15		16
		%	60.3		19.2		20.5
2	Lack of clear privatization approach	frequency	54		13		11
		%	69.2		16.7		14.1
3	Lack of privatization policy	frequency	42		14		22
		%	53.8		17.9		28.2
4	High tax rate	frequency	72		6		6
		%	92.3		7.7		7.7
5	Lack of investment incentives	frequency	7		9		62
		%	9.0		11.5		79.5
6	Operational challenges due to restrictions on banking	frequency	63		15		15
		%	80.8		19.2		19.2
7	Below the market pricing policy	frequency	77		1		1
		%	98.7		1.3		1.3
8	Lack of independent regulatory body	frequency	21		12		45
		%	26.9		15.4		57.7
9	High entry barriers	frequency	41		21		16
		%	52.6		26.9		20.5
10	High exit barriers	frequency	10		21		47
		%	12.8		26.9		60.3
11	Economic orientation of the government	frequency	34		16		28
		%	43.6		20.5		35.9
12	Political instability	frequency	64		12		2
		%	82.1		15.4		2.6

Consolidated sum of survey responses /Continued from page 87/

S. No	Item	Responses	Very High	High	Moderate	Low	Very Low
13	Resistance from governing elites	Frequency	15		22		41
		%	19.2		28.2		52.6
14	Opposition from interest groups	Frequency	43		25		10
		%	55.1		32.1		12.8
15	Growing conflict	Frequency	66		2		10
		%	84.6		2.6		12.8
16	Fear of public acceptance	Frequency	26		32		20
		%	33.3		41.0		25.6
17	High production cost	Frequency	6		22		50
		%	7.7		28.2		64.1
18	Poor infrastructure development	Frequency	40		16		22
		%	51.3		20.5		28.2
19	Unstable currency	Frequency	29		23		26
		%	37.2		29.5		33.3
20	Inconsistent economic growth	Frequency	9		38		31
		%	11.5		48.7		39.7
21	Inefficiency of the sector	Frequency	67		6		5
		%	85.9		7.7		6.4
22	Weak financial position of factories	Frequency	53		18		7
		%	67.9		23.1		9.0
23	Static domestic demand	Frequency	12		21		45
		%	15.4		26.9		57.7
24	Lack of demand out of home	Frequency	13		33		32
		%	16.7		42.3		41.0

Consolidated sum of survey responses /Continued from page 88/

S. No	Item	Responses	Very High	High	Moderate	Low	Very Low
25	Lack of access to (regional and international) market	frequency	31		20		27
		%	39.7		25.6		34.6
26	High cost of raw materials and inputs	frequency	27		18		33
		%	34.6		23.1		42.3
27	High logistic cost	frequency	58		16		4
		%	74.4		20.5		5.1
28	Unattractive FOREX environment	frequency	47		31		0
		%	60.3		39.7		0
29	Illegal import	frequency	6		32		40
		%	7.7		41.0		51.3
30	Vulnerability to foreign competition	frequency	34		27		17
		%	43.6		34.6		21.8