

INVESTMENT OPPORTUNITIES IN THE ETHIOPIAN PRIVATIZATION PROGRAMME

**PRIVATIZATION AND PUBLIC ENTERPRISES
SUPERVISING AGENCY
(PPESA)**

Establishment

- ❖ The Ethiopian government, in line with its commitment to the development of the private sector, has so far taken broad based economic reform programmes.
- ❖ One of the reform measures is a privatization programme.
- ❖ The institution which is established and empowered to execute the programme is the Privatization and Public Enterprises Supervising Agency (PPESA).

- ❖ The Agency is answerable to the Ministry of Industry, and there is a privatization Board that makes final privatization decision.
- ❖ The Board members are appointed senior government officials and one representation from the Ethiopian Trade Union confederation. The appointment is made by the prime Minister's office.

Vision of PPESA

- ❖ The vision of the Agency is, through the privatization program, to enable the private sector to play a leading role in the management and ownership of enterprises, and enable the public enterprises to be competitive in the domestic as well as international markets.

Mission of PPESA

- ❖ The mission of the Agency is, by installing a transparent and efficient system, to implement successfully the privatization programme, and side by side to assist, and enable public enterprises in their venture to adopt improved management systems and technology and thereby attain a higher level of competitive performance.

Main Objectives of PPESA

- ❖ **To enhance the development of the private sector by transferring public enterprises to the private sector through privatization.**
- ❖ **To implement the privatization programme in accordance with the legislation and in a transparent and efficient manner;**

- ❖ To support public enterprises in attaining higher level of capacity utilization and the employment of better management systems and technology, and thereby to improve their performance.
- ❖ To Cause the establishment of new enterprises in sectors where private investors may not participate for various reasons and which will be bottlenecks for the overall economic development;

Legal framework

- ❖ The Agency is a civil service organization which is established under the Ministry of Industry by proclamations No. 412/2004. This legislation enable the Agency to both supervise & privetise state owned enterprises.
- ❖ The organization of the Agency in this manner helped to simplify decision making processes and thereby helped all activities to start and finish within the same Agency.

Policies and procedures

- ❖ The privatization programme has detailed policies, plan, procedures and guidelines that are approved by the Council of Ministers, the Ministry of Industry and the Privatization board respectively.
- ❖ The procedures ensure transparency, integrity , accountability and are periodically reviewed to keep abreast of the changing environment and developments.

Engagement Modalities

- ❖ The modalities include complete divestiture & partnerships. The partnerships include joint investment, management contract and leasing. Increasingly full divestiture is given top priority followed by joint venturing for strategic interests & projects.
- ❖ Investors that have participated in non-sale modalities have a pre-emptive right to buy. As long as there are no provisions which require the government to retain its share for unspecified period of time, investors will have first refusal right in case of sale of government shares.

Equity participation

Options applied based on modality of privatization adopted for each State Owned Enterprise:

- ❖ The investor purchases an existing company through competitive bidding process.
- ❖ Expression of interest for joint venture is required. On detailed scrutiny if agreed the investor submits new investment (rehabilitation/ expansion) plan. This is usually done through invitations to potential & strategic investors.

Privatization Procedures

When a company is to be privatized through competitive bidding, the Agency invites would be investors by public announcement methods including radio, television, newspapers and other relevant media. The bidders are required to buy bid documents. Tender documents shall contain, among others, the following major points:

- ❖ enterprise profile
- ❖ Indicative price & payment terms
- ❖ Sample contracts
- ❖ enterprise income statement & balance sheet
- ❖ List of major fixed assets

The bidders are required to submit:

- ❖ their company profile/citizenship
- ❖ offer price
- ❖ Business plan
- ❖ bid bond

The Agency notifies the winner and hand over the company after the following steps:

- ❖ Evaluation of bidder's proposal (financial as well as business plan) by a committee
- ❖ Management & Board approval
- ❖ Notification of award
- ❖ Full or down payment
- ❖ Signing of sales Agreement
- ❖ Assignment of handover personnel from both sides
- ❖ Handover

For expression of interest the following conditions should be met by potential partners:

- ❖ Submit expression of interest identifying the enterprise and the type of partnership envisaged
- ❖ Submit a detailed business plan (investment, export market, technology transfer, etc)
- ❖ Negotiate on terms and conditions; in case agreement is reached, the following step(s) finalize the deal.
 - Board approval, conclusion of deal
 - Formation of joint company in case of Joint Venture

Privatization policy on valuation

The Agency's approach to valuation takes into consideration the performance of the enterprises.

A. For profitable businesses

- ❖ The valuation method applied to profitable enterprises is the business valuation; namely the Discounted Cash Flow Method.

B. For loss making businesses

- ❖ For asset valuation method (depreciated replacement cost) is applied.
- ❖ In most cases, asset valuation is done for both case for comparative decision purpose.

Mode of payment

A. Full Payment

❖ Concerning evaluation of financial offers, preference is given to full payment where:

- 30 % – Before signing contract
- 70 % – Five days before completion of handover

B. Deferred payment

Deferred payment is discounted to represent the present value of offers. It is available for both nationals & foreigners.

For domestic investors

For nationals & based on track record, the following deferred payment scheme is applied:

- ❖ 35% upfront-before signature of contract.
- ❖ The remaining 65% shall be paid evenly within a maximum of five years.
- ❖ The prevailing average bank's deposit interest rate shall be applied on the unpaid balance.