Privatization and Social Spending in the Least Developed African Economies: A Study of Ethiopia

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This paper examines the linkage between privatisation and social spending in the least developed African economies with reference to Ethiopia. Many previous studies have proved that privatisation has had a direct and positive effect on social welfare. The study used data over 10 years, 1994/95–2003/04, and simple econometrics model to test whether or not there is any connectivity between privatisation and social spending. Four major overheads are selected for this study: education, health, road construction and social welfare. The empirical results show that the connectivity of privatisation in relation to these overheads is weak and fragile, owing to the small size of privatisation programme which was implemented in Ethiopia. War is also identified as an affecting factor on social spending. This study concludes that the objectives when they are set must be compatible with the programme. Inconsistent and lavish objectives may cause damage about the opinion of the particular policy when evaluated.

1. Introduction

Privatisation was implemented in Africa in the early 1980s. The causes behind the implementation of privatisation have been debated for long. Many believe that the liberalisation waves and budgetary constraints sparked privatisation as an economic solution. Private sector, which is named for its operational efficiency, is deemed to be a salvation for all kind of complex issues raised in this globalised world. Furthermore, it has been taken as an alternative measure to the existence of the weak state owned enterprises. However, the external pressures from the World Bank and other donor countries, particularly the Western protagonists of economic reforms and globalisation are also considered a strong force behind the privatisation of many African economies. Two decades having elapsed, the Africans appreciate no more debates on the causes of privatisation, but on raising a new situation expecting empirical contributions on the impact of African

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privatisation. Privatisation, which is the logical corollary step to free economy and enhancing competitiveness at macro and micro levels, has so far been lavishly evaluated in terms of the economic and political factors. Among those, most frequently cited studies are: Mkandawire and Soludo, 2003; Geeta and Syed Mohmood, 2003; Nellis, 2003; Sheel, 1999; Larrain, 1996; Muegerwa-Kayizzi, 2002 and New African, 1999. The abundance of these studies on economic and political aspects thanks to most of the macro economic policies of the government obviously aims at economic and political objectives, ignoring social objectives.

Many times, the impact of privatisation on social overheads has generally been ignored despite the fact that these overheads are considered as the pillars for a real economic development. Empirical evidences indicate that privatisation is also one of the major economic policies expected to bring changes not only in the economic and political scenario, but also in the social aspects of the country. In many developing countries, privatisation proceeds have been used for social sector development overheads (Thobani, 1994), and eventually have improved social welfare (Aharoni, 1991). In Africa, not only does privatisation enable the government to spend its collected proceeds on social overheads, there have also been evidences that privatisation guarantees income generation, increases ability to spend with widening tax base and facilitates larger public spending on social development which is subsequent to increased economic activity arising from privatisation. Ahluwalia (2002) agrees that privatisation increases economic efficiency and generates more income and rapid growth. No wonder, the economies of sustainable income would spend more money on social overheads.

There are a few empirical proofs in linking privatisation to social spending. It is found that there has been a dearth of studies particularly in Africa to authenticate the connectivity between these variables, which has in turn failed to render a holistic and comprehensive view as to what degree or extent privatisation relates to social benefits. In some cases like Nigeria, the impacts of privatisation on social objectives have largely been overlooked (Mahmoud, 2002). As a consequence, many implications underlying the relationship between privatisation and real economic development of the most Sub-Saharan African (SSA) countries remain either unknown or over looked.

Ethiopia is one of the Least Developed African countries in SSA where privatisation has been widely implemented. Privatisation in Ethiopia, which was implemented in 1994/95 Ethiopian Fiscal Year (EFY), is so unique in Africa for three reasons: First, it is not only viewed as an effort to privatise state owned enterprises, but also seen as a policy helping the country transmit itself from a 17 years old-communistic pattern of economy—Derge Regime, a Marxist-Military Government, had ruled the country from 1974 to 1991—to the market-led economy. Second, the privatisation programme aims directly or indirectly at the poverty reduction mission since the country is one of the poorest countries in the world, with an estimate per capita income of about USD 100. As of 2003/04, 44 per cent of the people live below the basic needs poverty line (World Bank, 2004a). Non-monetary indicators of poverty are equally severe amidst its richest historical background, natural advantages and beautiful topography. Finally, the objectives of the privatisation programme itself contain an open inclination towards social objectives (GoE, 1998b).

This paper analyses the connectivity between privatisation and social overheads in Ethiopia to explore whether or not the privatisation programme in the country has benefited the society. The next section discusses the methodology and model specifications adopted in this study to examine the connectivity between privatisation and social spending. The third section provides a glimpse of the Ethiopian economic policy and Privatisation programme. The fourth section discusses social spending during the privatisation period, followed by the empirical testing and interpretation. The final section concludes the study.

II. Methodology of the Study

Data was collected from the Ethiopian Privatisation Agency (EPA), Ministry of Finance and Economic Development (MoFED), Central Statistical Authority (CSA) and also from the development reports of the World Bank. The data used for this study covers a period of over 10 years,[1] EFY-1994/95—EFY-2003/04.[2] OLS Models are used to accomplish the objective of the study, based on heterodox model which does not conclude that the non-significant variables necessarily imply that the hypothesised causal links are invalid. The privatisation for this study implies only the privatisation of state owned enterprise (SOEs), but not real estates and lands.[3]

Model Specifications

Four different econometric models given below are developed for the selected social spending which are expected to have drawn effects from privatisation. The models are designed in such a way as to see the impacts of privatisation on the per capita income, and also in relation to spending on education, health, road construction and social welfare. The purpose is to see whether these variables capture any effect from privatisation.

GDP growth $[y]_{t-1,}$ lagged one period is included in all models since it is considered an important variable determining capability of the government to spend for the well-being of the society. Privatisation $[PRIV/Y]_t$ is an explanatory variable, incorporated in all models. War with Eritrea $(D)_t$, which broke out in 1998, is fitted as a dummy variable in order to

1. As the privatisation programme commenced its first transaction in 1994/95, the period of study is limited only to 10 years, lacking a sufficient data of time series for regression analysis. The assumed accuracy is substituted by a careful interpretation.
2. The Ethiopian fiscal year begins on 8^{th} July and ends on 7^{th} July.
3. Real estates and lands, which were taken over in violation by then Derge Regime during 1974-1991, have been handed over to their previous owners in the wake of the country's political transition. As these transactions were made for a nominal restitution fee in return, it lacks a sound economic justification to be called as privatisation.

capture its effect on the government spending and also its inclusion has the assumption that a country directs a significant portion of money to war related expenditure than social spending.

$$In[Edu/Y]_t = \beta_0 + \beta_1 \, In\, [y]_{t-1} + \beta_2 \, In[PRIV/Y]_t + \beta_3 D_t + u_t \quad [1]$$

$$In[H/Y]_t = \beta_0 + \beta_1 In\, [y]_{t-1} + \beta_2 \, In[PRIV/Y]_t + \beta_3 \, D_t + u_t \quad [2]$$

$$In[Rc/Y]_t = \beta_0 + \beta_1 In\, [y]_{t-1} + \beta_2 \, In[PRIV/Y]_t + \beta_3 \, D_t + u_t \quad [3]$$

$$In[Sw/Y]_t = \beta_0 + \beta_1 In\, [y]_{t-1} + \beta_2 \, In[PRIV/Y]_t + \beta_3 \, D_t + u_t \quad [4]$$

Where t = 1……….,10 and u_t= the error terms, which are independently and identically distributed with zero mean and finite variance. As budget is always prepared in advance, the [y] is assumed to have impact on the response variables of [Edu/Y],[H/Y],[Rc/Y] and [Sw/Y] in the next year. As a result, [y] is lagged by one year. Each variable in the above mentioned four equations is empirically measured as follows:

$In[Edu/Y]_t$ = Spending on education as a percentage of the country's GDP.

$[H/Y]_t$ = Spending on health as a percentage of the country's GDP.

$[Rc/Y]_t$ = Spending on road construction as a percentage of the country's GDP.

$[Sw/Y]_t$ = Spending on Social welfare as a percentage of the country's GDP.

$[y]_{t-1}$ = GDP Growth (Real) rate, lagged by one period.

$[PVT/Y]_t$ = Privatisation proceeds as a percentage of the country's GDP.

$[D]_t$ = War with Eritrea $(D)_t$, which broke out in 1998, is fitted as a dummy variable (where D=1 for the war situation and 0 otherwise).

For ensuring the reasonable accuracy of results, the significant level of multi-collinearity (that is, a regression showing that a variance inflation factor (VIF) is greater than 5) is discarded from these results because a value of VIF higher than 10 usually indicates presence of multi-collinearity. Moreover, the results are adjusted for the presence of auto-correlation. Durbin-Watson is used to detect the autocorrelation and also the analyses are ensured that homoscedasticity is met.

III. Ethiopian Economic Policy and Privatisation

Ethiopia actually began the 1990s with a clear vision of reversing the socio-economic crisis of the 1980s and rapidly transforming the economy. The clear vision was nothing but the economic reforms, facilitated by the Transitional Economic Policy (TEP) which was then announced by the Government of Ethiopia (GoE) in November 1991. Following that policy, a three year Policy Framework Paper was also developed and agreed upon with the IMF and the World Bank in October 1992. The Policy Framework Paper, which forms the basis for the economic reform programme, sought to revitalise the economy and create a more market oriented economic system, giving room for privatisation and thereby, replacing the rigidly centralised command economy (GoE, 1992: 3-12). In 1992/93, the government began its first series of economic reform programmes. The reform programmes were at re-orienting the economy from command to market economy, rationalising the role of the state and creating a conducive legal, institutional and policy environment to enhance private sector investment. The adoption of Agricultural Development led Industrialisation Strategy (ADLI) provided long-term development framework for economic transformation.

Although privatisation was conceived in 1992, it was implemented as one of the structural adjustment programmes in 1994/95 EFY. Since then, about half a billion was collected as privatisation proceeds through a sale of 220 SOEs, including 13 transactions of restitutions taken place in the country as an outcome of political change. Although, the total privatisation proceeds seemed to be less as compared to that of those developing African countries such as South Africa and Zambia, it was considered the largest one in Eastern Africa. Table 1 examines the magnitude of privatisation in the country.

Table 1

Magnitude of Privatisation Transactions, 1994/95–2003/04

Year	*No. of Privatisations*	*Privatisation Proceeds (PP) (USD Millions)*	*GDP (USD Millions)*	*PP/GDP (In Percentage)*
1994/95	14	29.54	5,779	0.51
1995/96	116	51.46	6,393	0.8
1996/97	26	18.72	6,725	0.28
1997/98	9	193.1	6,647	2.91
1998/99	21	89.12	7,067	1.26
1999/2000	16	45.87	7,451	0.61
2000/01	11	2.97	8,106	0.04
2001/02	1	0.76	8,326	0.009
2002/03	3	0.56	6,638	0.008
2003/04	3	1.60	7,408	0.021
Annual Average	22	29.54	6,277	0.21

Source: EPA (2003) and World Bank (2004).

Table 1 reveals that the privatisation programme was started with 14 maiden-transactions, contributing on an average USD 29.54 million a year, and the volume rose up to USD 51.46 million in the following fiscal year 1995/96. Privatisation proceeds collected during the first phase, 1994/95–1998/99 were more lucrative than the second phase, 1999/2000–2003/04. Of the total proceeds, 88.07 per cent were collected during the first phase which was a good sign of progress, whereas, in the second phase, it was only 11.93 per cent which shows a poor show of the privatisation of the country.

It is also observed that the earlier phase was considered a boost, owing to the proceeds received during the fiscal year 1997/98 which was the peak moment in the Ethiopian privatisation history that yielded USD 193.1 million, constituting 45 per cent in the total proceeds collected during the privatisation period. Since then, there has not been any commendable progress in the privatisation revenues. In total, the programme yielded USD 433.7 million. Nellis (2003) finds that the size of privatisation in the country over the period constitutes only 4.7 per cent of the total sale proceeds received in the whole African region.

IV. Connectivity between Privatisation and Social Spending

Privatisation as a policy is conceived not only in terms of selling SOEs and promoting private sector, but also is seen as to help avoid budget constraints of a country. Privatisation proceeds as observed in many countries are found to have been directed as social overheads which enabled them to experience a substantial improvement in the social conditions. Such expectations are common in all developing countries where the implications of any policy towards social conditions are more emphasised.

Ethiopia was quite prone to these expectations since the country, with its low income, was unable to attain a minimal standard of living as gauged by access to adequate education, health services, social welfare and road construction. Without their adequate presence it is much difficult for a country to achieve economic development and improve social opportunity. It is, hence, implied that most policies including privatisation are said to have been directed at improving the access to these basic social benefits, and thereby ending up in poverty reduction. The forthcoming discussions analyses the pattern of social overheads and their effect in poverty reduction over the study period, followed by an empirical testing to prove whether the privatisation in Ethiopia has benefited the society on these chosen variables.

Privatisation and Education

Education plays a key role in offering individuals with the knowledge skill and competencies to participate more effectively in society. A well educated and well trained population is important for the social and economic well being of countries and individuals. Technological advances and hence the rising skill needs of labour markets underscore the importance of continuous development of skill levels. The level of educational attainment in a population is an indicator of the stock of human capital (*The Hindu*, 2001: 20). Fields (2001) also asserts that without education, it is much difficult for a country to achieve economic development and social opportunity.

Ethiopia is the second most populous country in SSA, but with a 56.2 per cent of illiteracy among the adult population in 2003/04. As far as the education attainment is concerned, the country improved over the study period because the illiteracy stood at 71 and 64 per cents respectively in the fiscal years of 1990/91 and 1996/97 (World Bank, 2004b). Other indicator of primary school gross enrollment ratio also improved from 37 per cent in 1994/95 to 64 per cent during the end of the study period, whereas the pupil/teacher ratio increased from 38 to 55 over the study period, owing to the rapid number of students going to schools. But the number of schools have not increased proportionately.

CSA statistical abstracts in 1999, 2002 and 2004 report that the number of government schools, which stood at 10148 in 1994/95, rose to only 12,217 in 2003/04, whereas the number of students admitted increased from 3.2 million to 8.7 million over the period. Table 2 shows the details of education expenditure during the privatisation period. For the analysis, the magnitude of education is expressed in terms of expenditure in per cent of GDP.

Table 2

Spending on Education

Year	*Education Expenditure (USD Million)*	*Education/GDP (In Percentage)*
1994/95	19.65	0.34
1995/96	23.00	0.36
1996/97	25.40	0.38
1997/98	29.05	0.44
1998/99	24.51	0.35
1999/2000	29.09	0.39
2000/01	29.29	0.36
2001/02	39.74	0.48
2002/03	49.73	0.75
2003/04	56.02	0.76
Annual Average	30.81	0.44

Source: Government Budget Gazettes (various proclamations) and MoFED (2004).

Table 2 shows that the country improved its stand on education by increasing its expenditure share on education. The education expenditure increased from USD 19.65 million in 1994/95 to USD 56.02 million in 2003/04, recording an average spending of USD 31 million over the study period. Spending on education relative to GDP gives a measure of how much a country invests in human capital. Education in per cent of GDP also rose over the period, climbing from 0.34 per cent to 0.76 per cent, accounting for an annual average of 0.44 per cent over the period. A simple correlation analysis reveals that there is an insignificant negative correlation (correlation coefficient is -0.312) between privatisation and educational spending.

Privatisation and Health

The attainment of a healthier society depends on how much the government spends on health. Health coupled with education determines the quantity and quality of manpower available in a country. Health facilities in Ethiopia were in a bad condition since its national income could not afford to provide as much health facilities as possible to the public. Looking at the statistics of population per hospital bed rose from 4,141 in 1994/95 (World Bank, 1996) to 6,561 (CSA, 2004) in 2003/04. As of 2003/04, the country had 83 hospitals and 2013 clinics, manned with only 1,301 doctors and 9,228 nurses.

Table 3

Spending on Health

Year	*Health Expenditure (USD Million)*	*Health/GDP (In Percentage)*
1994/95	17.55	0.30
1995/96	19.46	0.30
1996/97	88.33	1.31
1997/98	74.48	1.12
1998/99	13.21	0.19
1999/2000	8.12	0.11
2000/01	10.74	0.13
2001/02	7.22	0.09
2002/03	8.03	0.12
2003/04	7.45	0.10
Annual Average	16.03	0.23

Source: GoE's Budget Gazettes (various fiscal years) and MoFED (2004).

Table 3 shows the health expenditure over the study period. It indicates that the health expenditure declined by almost half the amount over the period. In 1994/95, it recorded USD 17.55 million, but reached at the end of the study period, only USD 7.45 million despite an alarming increase of HIV/AIDS infections in the country. Unprecedently, the fiscal years 1996/97 and 1997/98 received relatively a huge share, but afterwards, it is found that there was a steep decline in the health expenditure.

Privatisation and Road Construction and Social Welfare

In line with education and health, road construction (also called as economic infrastructure) and social welfare are the critical ones. Expenditure on road construction plays a vital role in the development of any country, particularly in alleviating poverty. Having more than 80 per cent of the population living in rural areas, the country has realised the importance of roads, connecting villages to main towns and capital cities. Roads not only bring people together, but also the rural commodities for their livelihood. Expenditure on social welfare determines the friendliness and concern of the government towards the society. Social welfare includes safety net programme for the labour, family planning programme and food security.

Table 4

Spending on Road Construction and Social Welfare

Year	*Road Construction(Rc) (USD Million)*	*Social Welfare(Sw) (USD Million)*	*Rc/GDP (In Percentage)*	*Sw/GDP (In Percentage)*
1994/95	17.95	17.27	0.31	0.30
1995/96	13.12	14.06	0.21	0.22
1996/97	15.34	67.69	0.23	1.01
1997/98	21.1	52.36	0.32	0.79
1998/99	77.68	0.03	1.10	0.0003
1999/2000	79.25	0.20	1.06	0.0026
2000/01	94.32	0.06	1.16	0.0007
2001/02	116.53	Nil	1.40	Nil
2002/03	121.87	0.42	1.84	0.006
2003/04	140.83	1.26	1.90	0.017
Annual Average	69.8	17.03	0.71	0.031

Source: GoE's Budget Gazettes (various fiscal years) and MoFED (2004).

Table 4 shows the expenditure on road construction and social welfare activities over the study period. It pictures out that the expenditure on road construction increased rapidly, whereas the spending on social welfare declined over the study period. The spending on road construction, which accounted for USD 17.95 million in 1994/95, rose to USD 140.83 millions in 2003/04, constituting an annual average of USD 69.8 million over the period. It is also observed that Rc/GDP increased from 0.31 per cent to 1.90 per cent, establishing an annual average of 0.71 per cent over the study period. The reasons are not known for the reduction of social welfare spending, but the spending on road construction may have resulted in improving the well being of the people. Dercon (2002) also finds that the market connectedness efforts through road infrastructure during the reform period improved the well-being of the people

It is also drawn from Table 4 that the spending on social welfare declined from USD 17.27 million in 1994/95 to USD 1.26 million in 2003/04. The lowest spending was found at the aftermath of the war, particularly in the fiscal years 1998/99 and 2001/02. Spending on social welfare on an annual average stood at USD 17.03 million, accounting for 0.031 per cent in terms of GDP over the period.

A simple correlation analyses of the variables of road construction and social spending reveal that there is a negative correlation (correlation coefficient is -0.508) observed on road construction, whereas a positive relationship (correlation coefficient is 0.469) with social welfare spending. Both these results may also be interpreted in such a way that the direction of their magnitude counts a lot to determine their correlation. As it is already learned that the magnitude of privatisation shrunk over the period relates inversely with the spending on road construction which increased over the period, while directly relating with the shrinking pattern of social welfare spending.

Privatisation and Poverty

Complication underlying the assessment of privatisation in Ethiopia is further provoked by the priority given to poverty reduction. However, an attempt is made here to discuss the link between privatisation and poverty reduction. Finding an annual average of USD 101 per capita income over the study period, the country remained to be one of the poorest countries in the world. As a result, poverty reduction has become one of the major objectives behind the economic reforms and privatisation efforts in the country. The government is committed to these reforms either voluntarily or forcibly for poverty reduction within a framework of macro-economic stability because most of the policy framework of the World Bank links even privatisation with poverty eradication (World Bank, 2003).

While observed, during the initial period of implementation of privatisation programme, 45.5 per cent of the population was under absolute poverty, meaning unable to meet the minimum requirements for subsistence. In this rate of national poverty, the rural constituted 47.0 per cent, whereas the urban accounted for 33.3 per cent (MoFED, 2002). Looking at the UN definition of poverty, the population living below USD 1 a day was 81 per cent in the same period which stagnated over the study period, showing no further improvement. However, the 'absolute poverty' declined from 45.5 per cent in 1993/94 to 44.2 per cent in 2002/03, resulting in a decrease of rural poverty by 4.26 per cent.

In line with poverty, the human development index which is the weighted average of five indices (UNDP, 2003: 244)—life expectancy, education, population, GDP at market prices and GDP per capita index is a more comprehensive measure of the social status of the people. The country moved from the HRD index of 0.252 HRD (UNDP, 1998) in the fiscal year of 1994/95 to 0.359 in 2002/03, resulting in an increase of a marginal percentage point of 0.107. However, the rank remained 169th out of 174 countries taken into consideration.

As far as access to improved water sources, 15 per cent of the rural population had access in 1994/95 which unfortunately declined to 12 per cent as 2002/03 (UNDP, 2003). This decline of facilities correlates with the observed decrease of the government expenditure on health and social welfare, particularly in rural areas. On the other hand, in urban areas, it increased from 66 per cent to 81 per cent over the same period.

It can be said that the national poverty and HRD index were reduced but insignificantly over the study period. The rural showed the positive effect in which there is, however, no strong evidence to have linked with privatisation, owing to non-availability of time series data on poverty. Christiaensen *et al.,* (2002), however, links this poverty reduction, through their international cross-sectional growth regression, with the macro economy policy improvement in the country. Whatever be the case, it is found that the facilities offered to the rural were found declining. If it were the case, the effect may no longer hold good.

It is unfortunate to observe that the country over a decade with these economic reforms including privatisation has been unsuccessful in stimulating recovery. Week (2001) acknowledges that such failure was only rampant in SSA. It is because of the reason that these countries lack a growth-focused macroeconomic policy which is essential to a new policy consensus. The first step toward poverty reduction strategy is faster growth. No matter, how often it is asserted, deficit cutting, exchange rate liberalisation and high real interest rates do not cause a growth strategy. This is true in the case of Ethiopia where a lot of reforms were made towards these determinants. Inflation and interest rates were not so harmful, but no effect was found in poverty reduction. The problem in the country was slow growth, with a lot of uncertainties. Unless the focus is showered on this aspect, the expected changes of these reform policies may not be imminent.

The above discussions on social spending during the study period reveal that the expenditure on education and road construction was kept in an increased trend to improve the quality of human stock, and enhance the market connectivity. But, the spending on health and social welfare was reduced over the study period against all odds that privatisation improves the social spending.

Empirical Estimation and Interpretation

The results of impact of privatisation on the private capital accumulation, which are tested at 5 per cent significance level, are given in Table 5. The explanatory power in all models is substantially robust and behaved soundly with the adjusted R^2s of 0.792, 0.654, 0.978 and 0.810 respectively for the results on education, health, road construction and social welfare.

Table 5

OLS Results on Social Spending

Variable	*Coefficient*	*T-statistic*	*Significance*
Constant	-0.704	-7.751	0.001
GDP Growth $(y)_{t-1}$	-0.693	-4.152	0.009
Privatisation $(PRIV/Y)_t$	-0.450	-2.238	0.075
D_t	0.047	0.239	0.821
R^2	0.870		
Adjusted R^2	0.792		
F-statistic	11.148		
Significance (F-statistic)	0.012		
D/W statistic	2.228		

Note: All the variables in the logarithmic form Dependent Variable: $[Edu/Y]_t$

Variable	*Coefficient*	*T-statistic*	*Significance*
Constant	-0.094	-0.202	0.848
GDP Growth $(y)_{t-1}$	-0.227	-1.056	0.339
Privatisation $(PRIV/Y)_t$	0.237	0.908	0.405
D_t	-0.727	-2.265	0.035
R^2	0.784		
Adjusted R^2	0.654		
F-statistic	6.048		
Significance (F-statistic)	0.041		
D/W statistic	2.133		

Note: All the variables in the logarithmic form Dependent Variable: $[H/Y]_t$

Variable	*Coefficient*	*T-statistic*	*Significance*
Constant	-1.096	-10.626	0.000
GDP Growth $(y)_{t-1}$	-0.180	-3.312	0.021
Privatisation $(PRIV/Y)_t$	-0.088	-1.328	0.42
D_t	0.908	14.132	0.000
R^2	0.986		
Adjusted R^2	0.978		
F-statistic	118.592		
Significance (F-statistic)	0.000		
D/W statistic	1.669		

Note: All the variables in the logarithmic form Dependent Variable: $[Rc/Y]_t$

Variable	*Coefficient*	*T-statistic*	*Significance*
Constant	1.695	1.258	0.277
GDP Growth $(y)_{t-1}$	-0.407	-2.436	0.071
Privatisation $(PRIV/Y)_t$	-0.586	-3.079	0.037
D_t	-0.936	-4.903	0.008
R^2	0.892		
Adjusted R^2	0.810		
F-statistic	10.967		
Significance (F-statistic)	0.021		
D/W statistic	2.982		

Note: All the variables in the logarithmic form Dependent Variable: $[Sw/Y]_t$

The empirical findings in the model underscores the fact that privatisation is either invariably insignificant or robustly negative on the social spending of the country. This finding, therefore, exhibits that the link between privatisation and social spending is weak and partial. The coefficient for education is robustly negative, indicating its negligible role in the nation's human capital development. The co-efficient results obtained for the health and road construction shows that these variables are not significantly influenced by the privatisation programme of the country despite a steady increase in the expenditure on road construction. This fragile connectivity as a net result is obvious since the revenue collected from privatisation was too small to divert and accommodate in large quantity for these overheads.

The exogenous variable of the growth rate of the country is found to be a discouraging phenomenon in all response variables, revealing the incapability of the economic growth rate to meet the needs of the growing population of the country. If privatisation does not help surge economic growth, it is obviously difficult for the same to enhance social overheads. The War, which broke out in 1998, affected negatively the social spending except road construction to which the dummy variable shows a positive result. It might be complicated to demonstrate as to why only the variable of road construction is exception in relation to war. However, it can be justified that the expenditure on war might have been used substantially for constructing road connecting the borders to transport war infrastructure and personnel easily.

V. Conclusion

Linking privatisation to social spending is a complicated task. The privatisation proceeds collected through the sale of SOEs may improve the budget in the short-run, but the same effect may not be expected in the social overheads. The government spends its revenues according to their options and priorities—public needs and economic requirements may be the rationale governing such priorities—which are normally set forth in line with economic and political conditions of the country as well as with the election manifesto of the ruling party. Widening trade deficits, increasing burden of debt and mounting political instability often cause the earned revenues to spare for many activities which may not, most of the times, entail social ones. Ethiopia is at the height of all these problems to which the economic policies like privatisation, which was small in indeed, cannot be expected to work well.

The future of Ethiopia is determined not only by what the policy is, but also by how the policy is linked to the objectives set forth. Biased and impracticable objectives may cause for a negative opinion of the policy when evaluated. Hence, it can be recognised that privatisation, if pursued within the wrong framework and without human development as an objective in mind, would fail to achieve the objective of improving human well-being. The policy implications arising from this analysis demand for further research into the policy environment, in particular the roles played by the magnitude of budget deficit and expenditure priorities of the country if the relation between privatisation and social spending is well understood.

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