

# PERFORMANCE INDICATORS OF ICBE IN PRIVATE HIGHER EDUCATION AND HEALTH IN ADDIS ABEBA IN THE POST 1991 PERIOD<sup>1</sup>

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## **Abstract<sup>3</sup>**

*This article is about institutional development around Investment Climate and the Business Environment [ICBE] in the establishment and growth of segments of the vital two social services - private higher education [PHE] and private health, in Addis Abeba, Ethiopia in the post 1991 period. ICBE encompasses aspects of institutions as they relate specifically to the start up, growth, development and performance or otherwise of businesses and their capacity to drive the pace of economic and social progress.*

*While the broad objective of the study has been to gauge progress in this arena and compare levels and directions of development, the specific objectives of the study was to develop parameters of performance indicators, gauge the on-going process as perceived by the market participants, derive issues for further fine tunings of ICBE, policy and serve as a baseline for further study.*

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<sup>1</sup> The final version of this article was submitted in November 2011.

<sup>2</sup> "One of the authors of this article, Dr. Dejene Aredo, Associate Professor of Economics at Addis Abeba University, passed away while this article was under review for publication. May his Soul Rest in Peace."

<sup>3</sup> The writers wish to acknowledge Trust Africa, a Canadian research consortium based in Senegal which funded the main study through a competitive grant [one of 10 selected from a crop of 265 proposals from 30 African countries], Unity University for hosting the same and all the colleagues [11] especially Dr. Demmelash Habte [the Task Manager] and Ato Wondwossen Tefera [Data Collection and Processing Manager], who took part in the wider research project as authors, co-authors and enumerators. The Research Team would also like to acknowledge the adaptation of part of the questionnaires from the World Bank's ICBE study series.

*To meet the objectives of shedding light on the on-going ICBE process, apart from desk research, the Data Collection Team interviewed 424 respondents including the managers and staff of private higher education [PHE] and private health service providers, the direct beneficiaries of the social services [employers, current students, graduate alumni and patients], the indirect beneficiaries [staff and parents] and the regulatory authorities [education and health bureaus of the City Government of Addis Abeba].*

***Partly as a result of improved ICBE, noticeable positive changes in governance, expansion in private higher education [PHE] and private health provision, efficiency gains, more effectiveness in the physical and social infrastructure are reported. Moreover, there are trends towards improved regional & gender equity, accountability in PHE and health delivery services, some levels of innovativeness and development and sustainability.***

*Notwithstanding these, the **absolute quality and standard of education and health provision leave a lot to be desired.** The noticeable achievements have been attained with some challenges which need to be addressed in the forthcoming fine tuning of ICBE improvement policies and institutional engineering.*

*Genuine and effective partnership between Government, the private sector and employers need to be remodeled with a certain level of autonomy for each. Government needs autonomy to ensure that its social goals are not entirely subsumed by the profit objectives of PHE and private health firms. The latter require autonomy to tailor their services in order to meet the specific demand of the market. The ultimate beneficiaries of the process, employers and students can enrich the institutional packaging through bringing in their up to date need in the state of the art and the content of education.*

## 1. Introduction<sup>4</sup>

Since the collapse of the command economy and even before in some cases, there has been an increasing global trend towards the liberalization of economies including the social sectors. Ethiopia began to undertake such measures following the fall of the *Derg*<sup>5</sup> in 1991. In the past seven years or so, the Ethiopian economy has been growing at an unprecedented rate of 10% per annum. Concurrently, both government and private sector growth especially in education and to a lesser extent in health sectors have been remarkable. While the factors accounting for the growth rates are many and their interactions complex, the better governance of the Investment Climate and the Business Environment [ICBE] and with it the mushrooming of the private sector in education and health must have had some contributory impact both in the quantitative scale and in driving the institutional momentum for growth and development.

This paper is about institutional development around Investment Climate and the Business Environment [ICBE] in the establishment and growth of segments of the vital two social services - private higher education [PHE] and private health, in Addis Abeba, Ethiopia in the post 1991 period<sup>6</sup>. ICBE encompasses aspects of institutions as they relate specifically to the start up, growth, development and performance or otherwise of businesses and their capacity to drive the pace of economic and social progress. Such studies on ICBE have been commissioned [2007] by Trust Africa, the sponsors of this study in ten nine African countries including Ethiopia. The broad objectives have been to gauge progress in this arena and compare levels and

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<sup>4</sup> The basic research and full reference for this article is found in the wider Trust Africa funded and Unity University hosted ICBE Research Report: **Investment Climate and the Business Environment [ICBE] in Private Higher Education [PHE] and Health Sectors in Addis Abeba [ETHIOPIA] in the Post-1991 Period.**

<sup>5</sup> The military junta that ruled Ethiopia during 1974 -91.

<sup>6</sup> To meet the objectives of shedding light on the on-going ICBE process, apart from desk research, the Data Collection Team interviewed 424 respondents including the managers and staff of private higher education [PHE] and private health service providers, the direct beneficiaries of the social services [employers, current students, graduate alumni and patients], the indirect beneficiaries [staff and parents] and the regulatory authorities [education and health bureaus of the City Government of Addis Abeba].

See Section two for details and the appendix for the list of the health and education institutions and employers of graduates from which data was collected.

directions of development.<sup>7</sup>

The ICBE study report in private higher education and health hereunder is a reflection of the ongoing interactions of the social forces unleashed by the Ethiopian People Revolutionary Democratic Front's [EPRDF] policy framework – private sector development and the state's leadership interacting with the embedded values of Ethiopian societies in implementation. While the private sector's and the state's operational *modes operandi* in the development of private higher education and health are explicitly dealt with, the federal system is purported to bring out the ownership and enhancement of development programmes in their respective areas<sup>8</sup>.

Among a myriad of social and cultural institutions, the business environment is enveloped by the formation, character and capability of the state to lead and/or promote the development process in conjunction with the private sector<sup>9</sup>. This is because of the fact that a capable state has the authority and capacity to create and modify institutions in order to define property rights and enforce contracts. The negotiated and/or contested social space between the private and public spheres represented by the state at a given time bring to the fore the opportunities and constraints in the working out of the ICBE. Constructing a working institutional and policy framework between the private and the public sectors and in the context of developing countries interfacing the two with the indigenous ones is a critical pre-requisite for successful transition towards growth and development. In this arena of discourse, *the relative role of the private sector and the state as drivers of the development process has been a contentious issue.*

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<sup>7</sup> The findings from the different countries are on website which were not available when this paper was drafted. Selected papers including this are slated to be published. The specific objectives of this paper are given under section two.

<sup>8</sup> Since the study was undertaken in Addis Ababa, the capital and the melting pot of the nation, if at all operational, the local/indigenous institutional aspects in the process have only been implicit and not explicitly incorporated in the study proper.

<sup>9</sup> The full research has several paragraphs as commentaries on the state and its changing role in the development process. A recent discourse in this realm is the concept of the "developmental state" [See chapter 2.7 of the Draft Research report by Dejene Aredo cited above.

Institutional economists classify institutions and their capacity to initiate, drive and sustain the development process at particular time in a given society into three interacting hierarchical levels – the social cultural foundation, the institutional environment or the “formal rules of the game” and institutions of governance or “the play of the game” [Clague: 1997; Dejene Aredo: 1999, 2009 in Tenkir Bonger (ed.) 2009a; Gibson *et al* 2001; Leftwich 1999; North 1991; Williamson 2000]. Applying this analytical scheme to Ethiopia, under the imperial regime of Haile Sellassie [1930-1974], Ethiopia was emerging from a fragmented traditional polity towards centralization under absolute monarchial rule with social norms dictated by religion and ages old tradition. Side by side, modern education, nascent industry and formal modern institutions in the form of civil service and the army were making significant inroads<sup>10</sup>.

This apparent reformist autocracy<sup>11</sup> was however interrupted by the coming to power of the military regime [1974-91]. The revolutionary transformation ushered in a period of uncertainty and instability arising from highly volatile institutional environment, wholesale expropriation of medium and large firms and the attendant outright limitation of property rights. During this period, there was very little formal control of neither power nor systems of checks and balances opening the way for excessive political rent-seeking behavior on the part of political leaders.

Unexpected and often changing regulations, unpredictable government interventions, lack of consistent enforcement of contracts and the absence of rule of law were the defining characteristics of the military regime. This institutional uncertainty led to undesirable behavior and attitude on the part of actual and potential economic agents including a retreat to personal transactions with private enforcement mechanisms, an almost entire dependence on social networks in lieu of markets, and a strong preferences for present consumption at the expense of intergenerational equity reinforcing the traditional saying “yenegewin egziabher yawkal” – that of tomorrow will be known by [only] God. The Ethiopian economy

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<sup>10</sup> Detailed exposition of the policy frameworks and the economic outturns of the different periods is found in Tenkir Bonger (ed), 2009a.

<sup>11</sup> These two seemingly contradicting elements of the *ancient regime* are deliberated on in some detail in the Draft Research Report, Tenkir Bonger 2009a, Chapter One, Section 4, “State and Economy in Ethiopia in the pre-1991 Period”.

experienced the lowest total and per capita growth rate. These outcomes were inimical for the emergence of ICBE to propel the economy towards reducing information and transaction costs, lowering uncertainty in human exchange, assisting individuals to make choices on the basis of their mental models - all of which are essential components of a conducive ICBE to drive the development process.

Given the above scenario, when the modern policy regimes of Ethiopia are taken together at the onset of the ICBE study period, the Ethiopian economy had traversed ideological swings, political and policy reversals and abrupt macro, meso and micro management system changes all of which did not augur well to drive it towards stability, sustained growth and productivity<sup>12</sup>. The ICBE in the baseline period of this study has thus been overlaid on abruptly changing policy regimes.

This paper has seven parts. Following this Introduction, the next section outlines the Methodology and Sample Distribution. This is followed in sections three and four by the Formal Regulatory Frameworks [rules of the game] and the Broad Outcomes [play of the game] towards ICBE in the study period. The gist of the article in section five, ICBE Promotion Performance Indicators, are discussed under **governance, expansion of services, standard and quality, possible efficiency gain, regional and gender equity, accountability, effectiveness, innovativeness, development and sustainability**. Section Six outlines the main Emerging Issues and Challenges. Derived from some of ramifications of the operation of ICBE in the study period as reported on in sections five and six, the Way Forward in Section Seven concludes the paper raising issues calling for fine tuning of policy, institution building avenues and implementation modalities.<sup>13</sup>

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<sup>12</sup> A 2002 survey by the World Bank (2007) showed very low labour productivity in Ethiopian firms partly accounted for by the poor ICBE. China's average wage was three times that of Ethiopia but China's labour productivity was nine times higher. The investment climate constraint is said to have accounted for about 16% of the low level of productivity.

<sup>13</sup> Part of the explicit and implicit conclusions and recommendations emanate from the larger Draft Research Report cited under footnote number 6 and 7. The regulations and proclamations on which the discussion is based are listed in the reference.

## 2. Methodology and Sample Distribution

The broader context of the study in general and with respect to Ethiopia in particular has been set out under Section One. Within this broad framework, in one form or another, private sector development and political liberalization have been among important hallmarks of globalization in the last twenty years or so. The simplification of doing business partly via improved investment climate and business environment [ICBE] have been driven in many countries especially by the Bretton Wood institutions. Concurrently, many African countries have reversed economic stagnation and a good number are on the path towards growth and better macro-economic indicators [World Development Report: various recent years]. At least part of the reasons for improved economic performance have been attributed to reformed ICBE. This paper set out to assess the process and outturns of ICBE in Addis Abeba focusing on health and education along similar lines undertaken by the World Bank [World Bank 2002, 2006 and 2007] for example in Ethiopia [for manufacturing industries] and India. The main objectives of the study was to:

1. develop parameters of performance indicators<sup>14</sup>
2. gauge the on-going process as perceived by the market participants
3. derive issues for further fine tunings of ICBE and policy
4. serve as a baseline for further study

As this is an attempt towards the measurement of **institutional development**, the study carried out surveys among a cross section of the service providers [private higher education and health], the direct [alumni and current students] and indirect beneficiaries [employers and parents] of the services and the regulatory bodies. Unlike the public sector, the distinguishing characteristics of both sides in the transaction is that they are connected by the nexus of the market. To amplify any differences in their products, some indirect comparison of service provision by the market and the public sector were made.

Towards this end, the survey encompassed eleven categories of interviewees which can be broadly classified into five vis:

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<sup>14</sup> Listed under section six, these were derived from the general and specific objectives of socio-economic development informed by the literature.

- Private higher education [PHE] and health service **providers** [2]
- PHE & health service provider **staff** [2]
- Direct beneficiaries of services – **students, patients & alumni** [3]
- Indirect beneficiaries of services – **employers and parents** [2]
- Government **regulatory authorities** [2]
- Total [11]

Under private higher education, four separate assessments have been designed to collect data from the education firms, staff of the education service providers, students (direct beneficiaries) and their parents (indirect beneficiaries) of the education services. Similarly, under the private health institutions, three different surveys were structured to obtain information from private health firms and their staff and patients (direct beneficiaries). In the third targeted institutional category, employers of and the alumni themselves, the survey was designed to compare the outputs of graduates from PHEs with those from Government colleges. The survey also included education and health regulatory institutions which as per the scope of the study, was confined to offices of the respective Federal and Addis Ababa Regional Governments

A total of 424 sample size was selected using structured questionnaires. Although this was an institutional study, to meet the minimum criteria for statistical inference, a sample size of 30 was adopted for institutions, parents and employers. Instead of interviewing just one, two each of staff [education and health separately], students, patients and alumni were interviewed from among the respective institutions giving a total of 60 interviewees each in these four categories. Among regulatory authorities, one each of the Federal and Regional health and education authorities were interviewed.

From the total population of 467 [103 lower clinics, 146 medium clinics, 99 higher clinics, 94 special clinics and 25 hospitals] private health institutions, a stratified sample was selected for interview. Similar procedure was employed for PHE institutions. Given the limited time and the large number of employers, it was impractical to construct a full list of all firms that employed graduates of private higher education institutions. Instead, a random sample of 30 were selected from a



list of 100 firms that were commonly known to have employed graduates of private higher education institutions.

Accordingly, 30 samples and 15 reserves that approximate the above distribution were selected. The names of the actual 30 firms each from among the health PHE institutions that gave the required information through structured interview is attached in the Annex 1. The names of the 30 employer firms are listed in Annex 2. Once the institutions were selected in this way, the corresponding students, staff of the health and PHE institutions, parents and alumni were selected at a random from each organization. Patients were interviewed on the day of their show up at the health institution sampled. The breakdowns are shown in the table below.

The institutional responses to the outcomes of the ICBE collected using the above set of questionnaires from the PHE firms, their staff, customers, indirect beneficiaries and supervising government agencies were categorized under **governance, expansion, quality and standards, possible efficiency gains, effectiveness in the physical and social infrastructure, regional & gender equity, accountability in the service delivery process, indicators of innovativeness and development and sustainability.**

**Table 1: Breakdown of the Total Sample Sizes**

No	Targets of Questionnaire	Sample Size
1	Education Firms	30
2	Health Firms	30
3	Staff of Service Providers -Education	60
4	Staff of Service Providers - Health	60
5	Students	60
6	Patients	60
7	Alumni	60
8	Parents	30
9	Employers	30
10	Regulatory Authorities - Education	2
11	Regulatory Authority - Health	2
<b>Total</b>		<b>424</b>

### **3. The Formal Regulatory Frameworks [The Rule of the Game]**

By privatizing a myriad of corporations previously owned by the state, the post 1991 Government of Ethiopia down sized the role of the state in economic activities and elevated the share of the private sector to enable it to operate within a market led economy<sup>15</sup>. This was a significant departure from the military regime's state-centered and centrally planned development policy.

The initial formal business climate change began following the Investment Proclamation No. 15/1992, which attempted to promote investment and lay a ground for private property. It encouraged investing domestic private capital in all sectors including in the production sector. Particularly after amendments in Proc. No. 7/1996, investments in private higher education and private health institutions have increased. The regulations grant different types of incentive packages for investment projects. It includes the education sector as one of promoted sectors and establishes eligibility for investment incentives in such areas as income tax exemption and duty free import of capital equipment.

By further amendment, in Regulation No. 36/1998, education is considered as a pioneer investment with more income tax incentive for general, secondary, technical, vocational and higher education. On their part, regional governments<sup>16</sup> have also played significant role in promoting service sector in general and education by making available suitable plots of land with relatively fair lease price in order to attract the private sector. The consecutive investment codes of Ethiopian since 1991 show that the education sector is fully open to both local and foreign investors.

The main formal features for improving investment climate as enunciated in the Program for Accelerating Sustainable Development and Ending Poverty [PASDEP: 2005] include:

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<sup>15</sup> However, this process is incomplete as there are a number of governing political parties affiliated firms with unfair advantage over the strictly private firms in similar ventures which have to operate with the full economic, financial and political risks.

<sup>16</sup> See paragraphs below on decentralization of power to regional governments.

- (i) continued simplification of business processes & licensing requirements
- (ii) strengthening of the regulatory framework and establishment of a level playing field through judicial strengthening, implementation of competition policy and enforcement of contracts.
- (iii) Financial sector reform to increase the availability of capital and working finance
- (iv) progressive withdrawal of state entities through privatization program and increased competition;
- (v) continued reforms to establish land tenure security
- (vi) maintaining macroeconomic stability and
- (vii) where appropriate, government provision of support to private sector in partnership and in some instances when a catalyst is needed to overcome initial barriers.

With specific reference to institution creation to facilitate dialogue, the Private the Public-Private Consultative Forum [PPF] was created with the Chambers of Commerce and Sector Associations. This serves the private sector as a venue to participate in reviewing and commenting on the government's strategies. The Consultative Forum involves owners from health and education sectors. It provides an opportunity for them to interact with Government & with each other.

With a population of nearly 80 million, the second largest in Africa after Nigeria, and diverse geographical and cultural entities, another important policy outcome of the post-liberalization period is the **decentralization** and consequent power devolution to lower level of administration. Unlike in the preceding decades of centralism, Ethiopian administration has shifted into a more proto type decentralized structure. Decentralization was operationalized with the establishment of regional governments in 1992. That Proclamation empowered regional states to have legislative, executive and judicial powers in respect of all matters within their geographical areas except in currency, foreign affairs, defence and inter-regional infrastructure, areas which have remained under the authority of the Federal Government.

In order to create a conducive environment for business among others, the Government has also carried out **Judicial and Legal Reforms**. According to PASDEP,

new laws are to be drafted and enacted in a number of key domains including revisions to civil and commercial laws. In addition, to provide better access to information on the justice system, a National Justice Information Centre is to be established. A consolidated Baseline Study Report covers all pertinent institutions of the justice system (federal and regional law making bodies, courts and police, prosecution service, higher education institutions providing legal training, and civil society organizations).

The PASDEP document discusses two major elements of the civil service reform process - staffing and incentives, and setting service standards for responsiveness to the public. They are being tackled under a medium-term **remuneration policy** at both Federal and Regional governments' levels. A **performance planning and management system, a human resource management policy and supporting rules and regulation** including job evaluation and grading, terms of service, and a civil-service-wide **HR management information system are being put in place. Gender-responsive recruitment mechanisms** and measures to make the working environment more women-friendly are expected to be instituted. To strengthen top management, a program of **annual management training** and bulk training of civil servants are targeted in the PASDEP.

To improve service delivery, in addition to the **Business Process Reform and Public Service Delivery Improvement Policy** already completed, **performance and service-delivery baselines** are expected to be established for (a) core government functions and (b) key services. These are to be publicized at the national, regional, and local levels. A **Public Servants' Code of Conduct** and supporting systems are currently under development. **The Public Service Delivery Improvement Policy (PSIP)** was adopted by the Council of Ministers in 2001. Most federal civil service reform offices have established **Customer Services and Complaints Handling** units and prepared service standards. The effectiveness and efficiency of all of these interventions remain to be evaluated by the targeted customers.

#### **4. The Broad Outcomes [Play of the Game]**

A full *ex poste* appraisal of the impact of the above regulatory and reform frameworks (play of the game) will need some more duration of implementation.

The following section provides only some general anecdotal review of their outcomes. The results of detailed interview based evaluations of ICBE and its outcomes from randomly selected PHE and health firms follow in sub-sections Four and Five below.

Five key federal Ministries (the Ministry of Finance and Economic Development [MoFED], Ministry of Trade and Industry [MOTI], the Ministry of Revenue, Ministry of Infrastructure, and Ministry of Agriculture and Rural Development [MoARD] together with their affiliated agencies have already undertaken service improvement measures resulting in the much reduced service time for licensing & customs clearances. The improvements are well observed in the operation of the Ethiopian Investment Agency for instance.

The decentralization process has devolved both legitimate power and fiscal decentralization at regional and down to *wereda*<sup>17</sup> level. In this context, both the health and education sector services are decentralized. Moreover, National Action Plan (NAP) on gender, Citizens' Charters have been developed and publicized by all federal institutions during 2006-07. Minimum service standards at the *wereda* level, defining indicators, norms and standards are meant to strengthen the above efforts.

As a contribution to the dialogue, a consultative research forum led by one of the major private university colleges, Saint Marry, undertakes studies related to the features and the environments of the private education institutions [Alebachew Truneh: 2005; Ayenew Tessera: 2005; Ashcroft and Rayner:2004; Damtew Teferra: 2005; Messai Girma; 2007] . The studies presented in 2006 & 2007 focussed on quality of higher education, the role of PPP in promoting quality, the need for research in PHE institutions, national laws on Government incentive structure, government policies and institutional responsibilities, PHE institutions & Industry Relationship etc. These are meant to enhance the information and institutional capacities of PHEs.

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<sup>17</sup> The lowest decentralized administrative unit below zone. A number of zones make up a regional state.

There are however, other lines of communication between the private sector and the government. One way is through annual consultation workshop between the respective ministries and the private sector. The Ethiopian Chamber of Commerce and the Ministry of Trade and Industry meet in a formal meeting after the end of the fiscal year. There are similar forms of consultation in Ministry of Education [MoE] and Ministry of Health [MoH] focusing on issues like quality & accreditation for improving the development of the private sector. In addition to the formal dialogues, consultations with urban and rural citizens on diverse development issues have raised the public awareness of the importance of Public-Private dialogue for improving the investment climate.

The outcomes have also been reflected in the passing of the Trade Practices Act and the adoption of competition laws and regulations. An important supporting activity is sustaining the rule of law – strengthening the legal framework and contract enforcement so that businesses can have confidence in their dealings with other businesses and the safety of their investments. This is ongoing as part of the judicial reform and strengthening activities under the capacity-building initiative.

While the above are the general settings of the rules and play of the game for ICBE in the post 1991 period, the followings section offers more detailed performance measures of the ICBE improvement outcomes set in motion by the process in the post 1991 period in the realm of PHE and health.

## **5. ICBE Improvement Performance Indicators**

### **5.1 Governance**

One of the core areas for the assessment of investment climate is the relationship of government and business firms. Good economic governance in areas such as regulations, business licensing and taxation is a fundamental pillar for the creation of a favorable business environment. Effective regulations address market failures that inhibit productive investment and reconcile private and public interests through enhancing investment by providing various incentive schemes and by protecting firms from informal practices and unfair competition. The number of permits and approvals that businesses need to obtain, and the time taken to obtain them affects the level of investment and transaction cost. Moreover, unpredictability of policy

directions and inconsistency of regulations, lack of proper enforcement and negative perception about the tax environment may limit the operation and growth of the private sector.

Accordingly, first attempts were made to measure the ability and consistency of the government officials' interpretation of laws and regulations affecting private health institutions and how firms perceive this situation whether as constraint or opportunity for the operation of business. 70% of the respondents do not perceive the knowledge and consistency of government officials in interpreting laws and regulations as a constraint. 75% of survey results depict the familiarity of the private sector firms with government policies.

Another set of indicators focused on the relationship of private health firms with the government at Local, Regional and Federal Government level and the extent to which this relationship has been helpful in the smooth operation of their day-to-day business and creating a viable investment climate for private sector development. The survey result illustrates that in Ethiopia, governments at all levels have been found to be helpful in creating good business climate for private sector development<sup>18</sup>.

With such premises, 81%, 88%, 86% of the firms have indicated the helpfulness of the government at Local, Regional and Federal levels respectively. However, Federal Inland Authority, Customs Authority, Ethiopian Telecommunication Corporation, Ethiopian Electric Light and Power Corporation, Water Supply and Sewerage Authority are the first 5 Government organizations which are relatively inefficient in providing services required by private health institutions in Addis Ababa. On the other hand, tax rate, tax administration, license and permit, macro economic instability and corruption are the first five problems that are seen to have created minor obstacles for the growth and expansion of private health firms in Addis Ababa.

The majority of firms (75%) agree in most cases that they are familiar with

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<sup>18</sup> Some of the survey results in these respects may have to be taken with a pinch of salt as firms would consider that it is not in their best interest to criticize Government.

government policies, and they also participate in policy discussions directly or through their representatives at different levels (federal, regional and/or local) of government. **But the response about government regulations and enforcement predictability is inconclusive as half of firms said they were predictable in most cases and the other half said they were not.**

There are considerable number of firms that agree (52%) about the existence of informal gifts to government officials in order to make things done but its effect as obstacle is ranked as minor. The majority of firms identified that their relationship with government as helpful for their business, but when it comes to the different levels of government from federal to regional and then to local, the number of firms identifying the relationship as helpful decreases. This may lead to a suggestion that either problem solving decisions are still centralized or the service rendering capacity of regional and local governments are not sufficiently developed or they are not providing friendly services.

The majority of firms have identified the existence of all types of inspection in the typical year, 2006/7, except the tax office. Relatively, the visits identified for inspections seem more (84%) by quality and standard office of the Ministry of Education followed by Labor and Social Affairs (65%), the Federal Quality/Standard Agency (64%) and finally the Incomes Tax Office (47%). The reported senior managers' time spent in dealing with government regulations varies from none to 75%, but the average is 22% with significant variation in firm responses.<sup>19</sup>

Crime is also a key constraint in the governance investment climate. Crime increases transaction costs. Crime, theft and disorder are not only personal concerns but also of investors. Crime drives up the cost of doing business. This is because crime and disorder lead to loss in productivity and destruction of property. Only few firms in investment and business environment survey have indicated the existence of this as a major problem. Thus, street crime, theft and disorder are not found to be major problems in doing business in Ethiopia. As a result, the corresponding annual cost

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<sup>19</sup> According to Enterprise Survey Data [World Bank: 2006]. Generally in Ethiopia, business firms' management time spent in dealing with requirements of government regulations is 3.8 %. The result above shows that PHE and health institutions managers take far more time.



that went to finance security as percentage of total operating cost was low.

On the other hand, commercial disputes between firms and their clients occur in the course of doing business. When legal institutions are weak or non-existent, resolving these disputes can be challenging. However, few firms recognize the function of the judiciary system as constraints to their operation. According to the result of the survey, 43% of the health firms stated the existence of minor obstacle within the judicial system. The second set of indicator along this line is the direct costs of security incurred by firms as well as their direct losses due to crime, theft and disorder. These resources represent opportunity cost since they could have been invested in productive activities. Due to low rate of crime, theft and disorder, there was not much cost incurred by both education and health firms. The reported prevalence of default payment and loss as a result of theft, robbery, vandalism are low.

To evaluate the functioning of the judiciary system in general, four indicators, speed, fairness, impartiality and judicial system's cleanliness from corruption were used. In all the four cases, firms rank for fairness is greater than the other choices. The better indicator that is ranked as either agree or strongly agree by 85% of firms are the justice system's affordability and ability to enforce decisions.<sup>20</sup> The final four scale of measurement used to assess the functioning of the judiciary were their perceptions as no obstacle, minor obstacle, major obstacle and severe obstacle. 29.4% of the respondents stated that the judicial system was not an obstacle at all, and 70.6% of respondents identified them as of minor obstacle.

Crime and street conflict are minor or no obstacle in general. Those few firms involved used the formal justice system rather than the '*shimgilina*'<sup>21</sup> to resolve their disputes. Eventhough their own experiences are limited, most agree that the level of the justice system's fairness, impartiality, quickness and affordability and

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<sup>20</sup> Since our sample firms have had very limited experience related to court action, the evaluation is based on their general experience.

<sup>21</sup> In Ethiopia, apart from the formal courts, there are other mechanisms of conflict resolution. One is '*Shimgilina*' whereby cases between the two parties will be handled by elders or individuals selected by both parties. No resort to this venue of conflict resolution was reported.

enforceability have not been obstacles for their business<sup>22</sup>.

With respect to governance at firm level, unlike the previously state run entities, at micro level, a new and diversified form of ownership and governance by nationals is emerging. While six of the surveyed firms are solely owned, the rest and the majorities are established in the form of partnership. Forty percent of the establishments' response shows that the firms are part of larger firm. The share of individuals and other businesses in the surveyed firms varied from ten percent up to eighty five percent, the average falling around fifty percent. In terms of classification of ownership by nationality, except one firm, all are registered as domestic firms, implying that the views and perceptions about investment climate and business environment presented in this paper represents mainly that of domestic firms.

Firms top management experience and level of education similarly shows variation from totally inexperienced managers to others with thirty years of experience in the field of education at an average of 8.6 years. The managers' level of educational qualification varies from first degree (20%) to Masters/PhD abroad (34%). From the sample taken, there are only four firms that have employed expatriate staff and even then at non-managerial level. Indigenous governance is the defining characteristic of PHEs and private health institutions.

In order to gauge the ease of operation of horizontal linkages between firms for self governance, firms were asked in which associations they were involved in and associated with. The result shows that almost all higher education firms (96%) identified themselves as members of professional associations but not in others. The three most identified services that firms expect from the associations are providing market information (25%), support for accreditation process (22%) and support on training and workshop (23%).

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<sup>22</sup> This mainly arises from their non-involvement. Case studies of those involved could have been a much better indicator along this line.

## 5.2 Expansion<sup>23</sup>

Since private higher education and health firms trainees are fed by the public sector, the following paragraphs survey expansion in the public domain as a background to the PHE and private health institutions. In the age category of children 7-14 years [lower and higher primary in grades 1-8], in 2006, primary school total enrollment reached 12,657,342 (MoE: 2007) from a mere 2,466,464 in 1991 (World Bank: 2007). The primary gross enrollment ratio at national level became 86 %, with 79% for female and 92.9% male (MoE, 2007). When alternative basic education is included, the gross enrollment rate for primary reaches to 91% (99% for boys and 84% for girls). In the consecutive years from 2001/02 up to 2005/06, at national level, the average annual growth rate was 11.7%. Starting from far behind, primary enrollment rate is now approaching that of the level of the sub Saharan Africa regional average.

In 2006, the secondary school total enrollment reached 5,061,872 from 720,825 in 1992 (World Bank: 2007). The total gross enrollment rate rose to 37% by 2006 from only 13% in 1991. The female gross enrollment rate also rose to 28% in 2006. Implementing the Technical and Vocational Education Training (TVET) program, in 2005/06 at national level, the government TVET institutions reached 113 and non-government institutions increased to 156 (MoE: 2007). By 2006, the total actual enrolling capacities of both institutions were 123,557, including both regular and evening programs (MoE: 2007). The percentage share of vocational and technical enrollment from the total secondary enrollment increased from 0.18% in 1999 to 2.38% in 2006, (World Bank: 2007). The total secondary education teachers increased from 23,319 in 1991 to 95,590 in 2006, a nearly fourfold increase.

The high growth rate, absolute levels of attainment in enrollment rate in the pre-primary, primary and secondary levels have also been achieved at tertiary level too. In this case, a more than fivefold increase from 34,076 in 1991 to 191,165 in 2005 was achieved (World Bank: 2007). The non-governmental higher education institutions enrolment in 2005/06 was 39,691, which is a share of 22% from the total

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<sup>23</sup> Most expansion has taken place in the state sector. But nearly ¼ of the newly constituted Technical and Vocational Education Training [TVET] programmes are in the private sector. The data for this section is heavily relies on the chapter by Demmelash Habte in Tenkir Bongor [ed] 2009a.

(MoE: 2007). The number of tertiary level teachers increased to 4,847 by 2005 from only 1,690 in 1991.

The average total enrollment of students in PHE per firm in the academic year of 2006/07 was found to be 1,590 with a standard deviation of 2,107 for degree and 1,328 for diploma students with a range from the minimum 24 up to maximum of 7,606 students. Similar to the size of the academic staff, the average enrollment in PHE is affected by few firms which have higher enrollment capacity. Those that had higher enrollment capacity in the period mentioned were Micro Link, an ICT firm (7,606), Admass College (6,283), St. Mary University College (5,217), and Unity University (4,355). The average enrolment per firm for each level was bachelor degree (971), diploma (858), and certificate (172). This indicates that bachelor program takes the larger number of enrollment per firm. There were distance education programs both in diploma and degree with average enrollments per firm of 36 and 283 respectively. Nationally, if the average of the last five years trend is maintained, there is a real prospect of reaching the MDG goal with respect to primary education even before 2015. If the current trend continues, gross enrollment at primary level will be 100% by 2010 (MDG Report: 2004:19).

### **5.3 Quality and Standards**

The post-liberalization reform, particularly the one in 2003 established two autonomous public institutions. They are the Higher Education Relevance and Quality Control Agency (HERQA) and Higher Education Strategic Centre (HESC) which are expected to control quality through external audit, guidance and overseeing both public and private institutions. With regard to standards and quality, only 17% of PHE institutions said that they have services which are of internationally recognized quality and certification. This is however at variance with alumni, 41.1% of which claimed that their alma mater had internationally recognized quality certification

Despite significant increase in the provision of health services both by the public and private sectors, the progress achieved in health in terms of quality and quantity has been much slower. In the face of population size of about 80 million, in the year 2005/06, there were 5,955 health posts, 1,206 health stations, 635 health centers,

138 hospitals and 13,922 beds - about one hospital bed for over 5,390 people which is very low by any standard.

The majority of basic health indicators in the country show that the health status of the population in Ethiopia is worse than the average for Sub-Sahara African countries. Life expectancy at birth averaged only 48 years. Infant mortality rate (IMR) is 97 per 1,000 live birth, child mortality is 50 per 1,000 children (MoH: 2005/06), and maternal mortality ratio is 673 per 100,000 live births (CSA: 2005). Compared to education, achievements in terms of improving the coverage and quality of health services has been modest. Many of the rural health institutions are understaffed and lack appropriately trained and experienced manpower.

Within this macro scenario, private sector health firms could not attract enough patients. The obvious reason is the economic demand with patients looking for lower fees, inability of the private health institutions to meet the minimum standard and the problem of recognition as a medical establishment. Very few of the sampled firms have reported to have internationally recognized quality certification. Even though the service quality of private sector health institutions are better than equivalent government institutions, the absolute quality of their service leaves much to be desired<sup>24</sup>.

Between 1992-2006, some 5.5 billion Birr worth projects were licensed by the Investment Authority for 432 projects in the health sector. Of this total capital intended for investment in the sector, only 32 % was in the implementation phase and even fewer [5.4 %] started services. In the same period, only 11 % with a capital share of 50 % of all the investments licensed in the health sector were owned fully or partially by foreigners. Both the quality and standard of private health and education leave much to be desired. Despite numerous attempts by the government to particularly encourage foreign investors, private foreign investment in Ethiopia is at a very low level.

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<sup>24</sup> The only consistent proxy measurement of quality in the study was a comparative one between Government and PHE/private health institution by employers [for PHE graduates] and patients in which the private ones were reported to have been at par [2/3 of all respondents] with those of Government. Those who said that the private ones were better were significantly more than those who said that they were worse. The value of this is of course dependent on absolute measurement by professionals.

It appears that given the rapid speed of expansion especially in the education and to some extent in health is enveloped by limited resources at disposal, a mere drive towards achieving universal primary education, at higher education levels may come at the expense of quality of education [Damtew Tefera:2005; Ayenew Tessera : 2005; Ashcroft 2004] and health.

#### **5.4 Efficiency Gain**

Private sector development involves stimulating domestic enterprise creation, growth and attracting more foreign investment. Legitimate investment needs an enabling environment. Investors invest where they find profitable opportunities and try to avoid risks or at least minimize them. Thus, good investment climate is an important determinant of a country's success in raising investment levels but also for firms to grow and develop through competition.

Efficiency gains in the process are both internal when firms employ new technologies, adopt healthy competitive practices and external which are induced by ICBE improvement measures external to the firms emanating from Government and/or global practices. When competition results in reduced costs [mostly transaction ones such as time spent in acquiring licenses and other services], its obverse is increased productivity, and gains from competition accruing both the consumers and suppliers of the services.

In this regard, with respect to the external efficiency gains, sample-licensed projects from manufacturing, construction and service sectors found that the average license approval time of projects over the period 1994-2003 showed a falling trend. The average number of days it took to get investment license in 1995 and 1997 were 41 and 22.8 respectively. This time drop shows that the Ethiopian Investment Commission has improved the efficiency of offering licenses.

The 2002 Ethiopian Investment Climate Survey by the World Bank showed tax rate, tax administration, access to land, electricity, corruption and regulatory policy uncertainty (in decreasing order) were the first five major constraints. A similar

survey of 2006, which covered 600 firms<sup>4</sup>, showed that there was improvement in investment climate in Ethiopia, compared to what it was in 2002 (World Bank: 2007). The study confirmed that improved conditions prevailed in business registration and licensing, customs clearance, telecommunication services and labour regulations. The update also signaled concerns in areas such as access to land, the firms' perceptions of the overall tax regime, access to credit; and utilities.

Taking successful competitive attraction of teachers and students by the private firms as a proxy for efficiency gains, firms reported to consider a variety of possible options including rumors, lowering fees, increasing salaries and/or manipulating prices and improving services. Though two or more of the methods are exercised by most of the firms, the dominant mechanisms are rumors (63%)<sup>25</sup> and lowering prices (59%). Run by bureaucrats, whereas fee charging public institutions take time to respond to conditions of demand and supply, private sector health and education firms appear to increase the producer and consumer surpluses by responding to prices more rapidly.

Education firms enrollment fee is also considered to show the degree of competition. It gives a signal for the existence of competition especially in the bachelor and diploma programs both in day and evening offers. There is large variation between per credit hour cost, ranging from 40 (35) to 120 (400) for bachelor degree by day (evening) and from 35 (35) to 300 (260) for diploma day (evening) programs. This may be partly explained by the nature and type of the course and partly as a mechanism of dislocating other competitors from the market. In order to reduce cost, firms reported to economize on one or more of the inputs: academic staff time, class room and teaching materials.

The other indicator for the efficiency of firms to increase service quality and productivity is capacity utilization. For the majority of firms in the health sector (86%) capacity utilization is 75% and above, but there are also 11% of firms whose

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<sup>4</sup> Included 360 manufacturing, 125 services and 115 informal sector firms taken from six major urban centres of six regions, including Addis Abeba and Dire Dawa.

<sup>25</sup> Nonetheless, according to the result of the survey, these practices have only created minor obstacle to the smooth business operation of most other firms who reported to not practice them.

capacity utilization is less than 50%. The main reasons that these firms mentioned for the underutilization of capacity is mainly lack of demand and working capital. Although they are operating at below capacity owing to various reasons, it can be inferred that private health sector firms in Ethiopia are more efficient than their counterparts in government institutions. The underlying reasons for the private sector firms efficiency is the economic use of the available resource that can be expressed in terms of operational space, staff time and materials mainly related to overhead costs. Competition and efficiency also prevail when private firms share the markets of those who had the dominant monopolist supplier position.

### 5.5 Gender and Regional Equity<sup>26</sup>

Given that a bulk of the GDP originates from Addis Abeba, most PHE and health service firms are also located in the capital city. Patriarchy and early marriage is in the social fabric of most communities in Ethiopia which has been contributing towards a lower participation rate for the girl child. Even when some improvements in enrolments are made at lower levels of education, high dropout rates following early marriage by young girls opens up the sex disparity in educational attainments. Limiting the minimum age of marriage and concerted awareness efforts by Government and rural communities has somewhat narrowed the gender gap, but differences still prevail.

The regional distribution of primary gross enrollment of 2005/06 is markedly disproportionate, with the highest in Addis Ababa (148%) and least is the Afar region at (21.9%). Ratio of female to male net enrollment in primary, secondary and tertiary are 0.89, 0.61 and 0.35 respectively. In spite of this, the PHE institutions have played significant role by creating access to high proportion of women students. More females in health and education by distance, evening and adult education has produced a better spread of educational attainment by age group giving adults a second chance in education. **There is now more parity between the sexes both in admission and alumni in the private sector but not yet among teaching staff showing the backlog of gender gap** and perhaps also of females

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<sup>26</sup> Since private goods and services are offered on the bases of the ability to pay, level of equity on social grounds is not dealt with.



preference and better capacity to access employment in non-teaching jobs in the economy.

While 20 of the privately owned hospitals are found in Addis Ababa, in regions like Afar, Somali, Benshangul-gumuz, Gambela and Harari, there are none. The distribution of private health facilities is skewed towards the urban areas. The growing size and scope of the private health sector, both for profit and not-for-profit, offers an opportunity to enhance the health service coverage through such measures as subsidy and more focus by government towards the rural areas.

Despite the clearly stated objective of the government to undo regional imbalance in economic growth, new private investment is still attracted to areas where sufficient infrastructure is available and the demand for goods and services is more concentrated. These issues apparently figure more in investors' decisions about where to locate their projects than tax and other incentives (for example easy access to land) that regional governments provide to new investors compared to the incentives provided in Addis Ababa. Disparity in spatial location is evidenced in both approved and operational investment projects. More than 89 % of the licenses issued are for domestic investment projects intended to be located in Addis Ababa. With regards to operational projects, of those operational domestic investment projects in the health sector 29 % and 27 % are found in Addis Ababa and Amhara region respectively. Out of the total 9 operational foreign projects, 7 of them [78 %] are located in Addis Ababa.

Unlike in education, the prevailing inequality in health services does not seem to augur well for the attainment of MDGs. A lot of effort and resources will be required to accelerate the current slow progress to attain the MDGs. Although infant and child mortality rates have been declining over the last five years, the rates still remain very high. At the current slow rate of decline, attaining the child survival Millennium Development Goals (MDGs) will be quite challenging. The private sector's contribution in this regard is far from adequate. With profit motive as the motive of private investment, public policy need to ameliorate the shortfall in the provision of health and education services.

## 5.6 Accountability

Perhaps the most important finding which emerges from the study is the higher level of accountability by PHE graduates compared to those from Government higher education institutions as consistently attested by employers. This is critical in the realm of governance, service delivery and performance at work.

None of the employers rated PHE graduates as 'worse' than those of government in terms of the very important attributes of consciousness about rights, obligations, friendliness and cooperativeness. As many as 39% and 38% of the employers rated PHE graduates as 'better' than public sector graduates with respect to cooperativeness and friendliness. When the proportion of those respondents who rated the PHE institution graduates as 'worse' [which were in all cases less than 10%] are deducted from those who rated them as 'better', the net gains are 33%, 30%, 26% and 25% for self improvement, flexibility, willingness to take more responsibility and punctuality respectively. There was no statistically significant difference between the responses of employers and alumni in this regard.

The source for such better outcomes can be ascribed to the fact that given PHE students and patients are fee payers, they are conferred with more rights to seek accountability from the service providers in terms of both the provision of the services and the creation of a better social environment to attract more client students. Value for their money is embodied in their receipt of the services which they in turn appear to pass on upon employment [the graduates] and to their patients [health institutions]. The current alumni of the PHE institutions had to simultaneously meet the academic standards on their part and unfettered payment of their fees resulting in the recognition to demand rights in conjunction with responsibility which may have been taken to the world of work. **In order to attain a higher rate return for investment in education, public providers may need to take some cues from the modalities of the PHE institutions**

## 5.7 Effectiveness

A strong infrastructure enhances the competitiveness of an economy and makes a business environment more effective for firm establishment, growth and

development. Good infrastructure efficiently connects firms to their customers and suppliers and enables the use of modern technologies. On the contrary, deficiencies in infrastructure create barriers to productive opportunities and increase costs for firms. Both the physical and social infrastructure consideration include the state of land access & ownership, power, water supply and communication services particularly e-mail and web.

Access to plot of land is a major obstacle to education firms. Only 10% of firms from the total respondents fully owned their establishment, while the other 13% own partly and the majority of firms provide their services by renting buildings. By their very nature, private education in general and higher education in particular are businesses which have a long payback period especially if the objective of private firms includes serving the community. When most firms work on rental bases, it leads to the question whether the businesses are just at their infant stage, their targets are the short term benefit that arises from the accumulated backlog demand or whether there exists obstacle in accessing investment capital on land. The sizeable number of respondents ranked land availability as a major obstacle (44%) and very severe obstacle (26%).

The next set of government services related to making businesses effective are the provision of different services which are essential for running businesses. These services affect their efficiency directly and competitiveness. The services<sup>27</sup> include supply and repair of telephone, electricity, water, and different licensing and permit service providers. Firms were asked to give information about the waiting periods they take in order to get such services and evaluate the services in general based on their experience. According to the responses, the average waiting period in days for the three utility services are telephone repair (6.5), electric connection (5.4), and water connection (9.3). But the waiting periods for construction permit, operating license from MoTI and operating license from MoE are 21, 29 and 68 days respectively.

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<sup>27</sup> FIRA = Federal Inland Revenue Authority  
EPCO = Ethiopian Electric & Power Authority  
MoTI = Ministry of Trade and Industry  
CenGov = Central Government

ETC = Ethiopian Telecommunication  
WSSA = Water & Sewage Authority  
MoE = Ministry of Education

**The service that takes the highest average waiting period is to obtaining operating license from MoE.** In order to see the operational efficiency and honesty of public service agencies including the central government, seven public institutions were evaluated by higher education firms based on four scale ordinal variables: very good, good, bad and very bad. The result shows that, all the institution's efficiency and honesty is ranked on average [33%] as very good and 57% as good which implies that 90% of the education firms are satisfied by the operational efficiency and honesty of these listed public services including the central government. Some of the firms which expressed satisfaction on operational efficiency and honesty also know the existence of informal gifts in order to get things done. If so, they may consider such informal gift as grease to smoothen the bureaucracy and increase efficiency.

In a scale of no obstacle, minor, major and severe obstacles, tax rates, tax administration, licensing and permit, macroeconomic stability, corruption, uncertainty, political stability, were identified as only minor obstacles. Among the obstacles, the three relatively major ones are unpredictability of policies (20%), and tax rate and corruption at 19% each. The three least identified as obstacle which can be considered as opportunity are licensing and permit (29%), political stability (28%) and macroeconomic stability (26%).

Since the majority of firms are not backed up by generators, they identified the existence of power interruption as a major obstacle. They also reported significant water disruption at least two times per month. In the consideration of electricity, transportation, water supply and communication taken separately as obstacles, electricity supply is relatively the major obstacle and communication is the least. Thus, taking the average of the four as potential obstacles in infrastructure, the reported negative effect in business is minor.

Transport is comparatively a moderate obstacle for the majority of all groups except patients, who visit health centres near their homes. However, the majority percentage of parents rank it as major obstacle. Telecommunication infrastructure is a minor obstacle for the majority of all groups, but few, less than 17%, consider it as major obstacle. Water supply is considered as moderate obstacle for the three groups, but the majority of staff consider it as minor problem. The study conducted

being for firms in Addis, the infrastructural constraints appear to be minor. E-mail is widely used in business but not the web. Another indicator for the existence of favorable infrastructure for education is the availability of recreational and sport facilities. A wide range of facilities like football, volley ball, basket ball etc. were considered. The aggregate response of the groups shows that 50.6% of respondents reported that there are one or more of sport and/or recreational facilities. Given the premium on space, outdoors facilities are far less than in door ones.

Regarding the effectiveness of the ICBE improvement measures in the provision of health services, close to one-fifth of the total population (18 %) who had health problem and sought medical assistance reported that the service was too expensive to consult. Problem of long waiting time is reported by 18% followed by about 16% that reported the unavailability of drugs, and 14% reported lack of laboratory facilities in the health institutions. Among the survey population, 22% reported shortage of personnel & medical equipment.

Although there is not as such a major problem in obtaining electricity connection in Addis Ababa, the results of investment climate survey in the private health sub-sector in Addis Ababa indicates that 77% of the firms reported to have experienced power outage ranging from 1 day to 111 days.

As a result, 70% of the firms were forced to own or share a generator with its all attendant impact on their operational performance and profitability. Likewise, the source of water being from public sources, 87% of the firms reported to have faced an average disruption of water supply for 15 days. The finding of the survey reveals that 97% and 30% of the firms have indicated the existence of respectively electricity and telecommunication infrastructure problems posing obstacles in their operation respectively.

### **5.8 Innovativeness**

Entrepreneurs are more creative, innovative and risk taking people/firms in their businesses and therefore they are supposed to perform better, faster and cheaper. Their creativity and effectiveness enable them to manage uncertainties and become successful. However, like in public institutions, the main value of PHE firms is the

usual teaching which on average makes up 90% of the value of their output. 60% respondent firms reported to have been engaged in research taking 7% share of their total services. Thirteen firms reported to have been engaged in consultancy services that making up 5% of the value of their services. There are also around 50% respondent firms that have engaged in publishing services which amounted on average to 4% of their total services.

Unlike in the past, local text books and business profiles are being published by scholars in the country. Compared to government colleges, these may be considered as new shoots from traditional offers of higher education.

Several institutions are also participating in various extracurricular activities such as annual higher institutions sport, greening and beautifying the city, providing scholarships, sponsoring social duties and national programs in television and radio entertainments and shows. Private investors in education and health and among the fast expanding throughout the country and now they are crossing international borders and serve Ethiopians abroad through distance education. Private higher institutions are the one which started entrepreneurship as a common course in all their programs indicating their pro activeness to come up with new solutions for life other than being employees. The entrepreneurship seed is now being planted in Ethiopia through radios, televisions, newspapers and others thanks to the initiatives first under taken by private higher institutions.

There is a new generation joining the business community especially amongst the graduates of the private colleges as compared to those who graduated from public institutions. Entrepreneurial private business owners in education and health enterprises of Ethiopia are not only creating wealth for themselves, but also producing new breeds of entrepreneurs for Ethiopia. They are becoming seed beds of new entrepreneurial blood in the country. Yet, 85% of new entrants said that they did not introduce new practices, which means that these new comer firms employ the same practice that other old education firms use. But the source of entrepreneurship is not always visible and apparent. To the question whether they have plans to introduce new practices for the coming period, 43% reported yes.

## 5.9 Development and Sustainability

73%, PHE institutions and private health service providers which emerged as self improvement programs starting from very low base of capital and employment. Some private hospitals are now bigger than government ones and include training of health personnel and consultancy treatment. The top four PHE institutions enroll tens of thousands of students including offerings at post-graduate levels. Almost half percentage of the valid respondent firms have conducted curriculum design, teaching material improvement programs and have also plan to work with foreign partner in order to introduce new practices. On the rest of improvement programs, on average, 30% of respondents claimed to have had improvement programs for sustainability.

About 80% say that they have plans of one or more type related to pay, space, equipment and social environment. The result shows that it is improvement for better equipment and more pay/return that are cited more by the majority of staff, students and firms. For employers and parents, improving social environment is the major future target area for improvement. There are also considerable number of firms' responses (48%) who aim to work with foreign partners in order to introduce new products. In the last three years, 37% (11) firms reported new method of teaching or programs. Almost all firms' expectation for the coming one year is either increase the service capacity (75%) or maintain the current level (21%). This implies that firms expect that there is still potential demand that can be attracted.

Although there is no apparent trend regarding the increase in number of health firms in Addis Ababa, certain growth has been observed between 1999 and 2007 due to the relative macro-economic stability and the encouraging policy measures taken by GoE. For the study period, private health institutions in Addis Ababa have registered an average growth rate of 5%. However, the growth and operation of these firms is not up to the expectation. This is because the growth in number has not been accompanied by internal growth and development of the firms.

About 1/3 of the parents have obtained at least a first degree. Diploma, BA and Masters degree holder parent respondents are 28%, 24% and 8% respectively. 32% of the parents have a first degree or above going up to 60% when the Diploma

holders are included. This is quite high given the low level of education in the country in that generatio. Since most students come from educated families, they benefit from academic and social tuitions boding well for the sustainability and development of the PHE sector. .

## **6. Emerging Issues and Institutional Challenges**

In order to see the existing opportunity and constraints for investing and doing business in PHE and private health in Addis Abeba, eighteen indicators that are related to the smooth functioning or otherwise of businesses were listed. These are electricity, transportation, access to land, tax rates, tax administration, customs and trade regulations, education of work force, labour regulations, licensing and permits, access to financing [availability and need for collateral], cost of financing [interest rates fees etc], macro-economic stability, political instability, corruption, street crime and disorder, practices of competitors, the functioning of the judiciary and Other: specify. The interviewees [firms, staff and employers]<sup>28</sup> were then asked to identify those three deemed to be the most and least obstacles to their businesses on the one hand and those which have resulted in the three most and least benefits to the firms on the other.

Access to land, electricity, access to finance and corruption and possible political stability are mentioned as the top obstacles. According to staff, the three least benefits from the reform are with regard to corruption, transportation, access to land & practice of competitors. This result is consistent with the firm responses. Staff response has brought in to picture corruption as one big problem and as the least benefit from reforms. The employers of graduates cited electricity, the practice of competitors, access to land, tax rates and macroeconomic instability as the major problems. They also said that the least benefit from the reforms are related to transportation, corruption, electricity and the functioning of the judiciary.

Regarding the opportunities (benefits from reform) education business firms

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<sup>28</sup> Firms refer to private higher education establishments whereas employers are those business firms that hire graduates from higher education establishments both from government and private.



identified the following as top three - macro-economic and political stability, licensing and permits and access to finance. Staff response for the top three benefits from the reform are electricity, access to land and political stability. According to them, the least three problems which are considered as opportunities are practice of competitors, electricity, street crime and disorder with equal weight for labor and regulation. **It is only among education firms that licensing and permit is one the top five problems.** This may be for the reason that getting license from MoE takes longer. Access to finance and macro economic stability are viewed as problems by education firms and staff but not by employers. The big problem unique to employers that is not identified among the top five in other cases is competitors' practices. Both staff and employers consider transport and corruption among five big problems which is not identified in the top five's by education firms.

All the three groups similarly recognized that the reform regarding licensing and permit, land access, electricity and macro economic stability as well as political stability have brought benefit to businesses. The paradox here is that except macro economic and political stability, the aforementioned areas especially electricity, access to land and finance also remain as major problem areas though to some extent benefit is obtained from the undergoing reform. Firms and employers also perceive that there is benefit related to access to finance.

Private businesses need an institutional structure that allows them to collectively voice views on policy, programs and institutional reform for delivery of efficient services. There is a dearth of evidence to indicate whether or not the PPP forum of the education and health private sector has had sufficient dialogues. The challenge is to invigorate them when as now developmental institutions are weak, nonexistent, or not oriented towards improvements. The institutions facilitating these kinds of forum can be the MoE and MoH. Yet, unlike in education, a body coordinating the private health has not been yet established.

The existing institutional facilities, whether in regulatory or supporting role are predominantly public. MoE and MoH are structured in such a way that they accommodate the roles expected of them in regulating and supporting both private and public service rendering institutions. Such Departments could have been too engaged in public institutions to undertake their required roles in the equivalent

private sectors. **As a result, unlike other private sector engagement such as manufacturing, the private health and education sectors have had less interactions with the government, among themselves and with society.** There is no established viable partnership with sister colleges at home as well as with the business enterprises and the local community. However, the recent move to establish Association of Private Health Institutions is a positive development. A lesson can be learned from the experience of the manufacturing and other service sectors that demonstrate the positive role of associations as significant steps towards the attainment of PPP objectives.

In anticipation of the increasing role of the private sector in health, Federal MoH has assigned the development of Private-Public Partnership to the Service Department. **On the ground, however, there is very little opportunity for private sector participation in the policy dialogue. Indeed, the private sector in health (both for-profit and not-for-profit) needs to become involved more actively.**

## **7. The Way Forward**

### **7.1 The Broad Economic Outturn**

Driven by the restructuring world economy with massive incremental output and demand in the BRIC [Brazil, Russia, China and India] countries in particular, the Ethiopian economy has been experiencing a remarkable growth rate of over 10% on the average in the last seven years. The growth rate in the post 1991 period as a whole has been significantly higher. This is the more interesting because it is posited on a small holder based agriculture without much of, albeit the 'curse, of minerals' such as in Angola and Nigeria. To take advantage of this global change, the Government of Ethiopia [GoE] has been taking several institutional and policy reforms spelt out in different part of this paper. With respect to PHE and health, the policy reforms appear to be bearing fruit as expressed in the expansion figures and the responses of service provider firms on different measures of aspects of ICBE.

### **7.2 Institutional Policy Fine Tuning**

Notwithstanding the above, there are several areas which require fine tuning of policy and institutional reforms.

**7.2.1** Privately educated employees are more conscious of both their rights and obligation. Since fees have to be paid, with the right to choose and ensuing demand for better services, the more rights and obligations consciousness is perhaps a carry-over of more accountability practiced in PHE colleges. This implies more effectiveness and efficiency in service delivery in the PHEs. Government may have to take some cues in studying and implementing a policy modality of making **public funded institutions to be accountable and transparent to their students and tax payers.**

**7.2.2** Given the still low level of the economy, tremendous growth in private health and education may have proceeded at the expense of quality. Using selected measures, this study compared the quality of delivery between the private and the public institutions which is only **relative**. There is a need to use **absolute dimensional benchmark** to compare and monitor quality.

**7.2.3** What emerges from this study is that the check on quality and standard appear to be very weak. There is a need to **classify and ascertain minimum standards**, not just for levels such as lower, medium and higher clinics, hospitals, primary, secondary schools etc. but also **grades within so that service buyers can make informed choices for given resources at their disposal.**

**7.2.4** The partnership between PHE and private health institutions on the one hand and the government on the other does not appear to be sufficient and effective. Similarly, the **partnership between PHE institutions and employer agencies seems to be weak and this can hamper further investment in education sector unless noticeably competent institutions are in place providing such services.**

**7.2.5** Unlike in the manufacturing sector firm associations, there has hardly been a dialogue **between the government and the private education and health sectors.** Except the already existing public supporting institutions that facilitate service delivery by both public and private institutions, there is a need for **the emergence of new innovative and supporting institution.**

**7.2.6 Improving the quality of education** at all levels and **strengthening the public – private partnership in the field of private health and education** are the main areas of challenge that all stakeholders must consider and accordingly deal with in the future.

**7.2.7** Among education firms, **obtaining licensing and permit is still a major roblem which needs to be looked into as soon as possible.**

**7.2.8 The response about government regulations and enforcement predictability is inconclusive** as half of firms said they were predictable in most cases and the other half said they were not. This is a cumulative expression of the quality of the services which requires the immediate attention of those concerned.

**7.2.9** The growing size and scope of the private health sector, both for profit and not-for-profit, offers an opportunity to enhance the health service coverage through such measures as **subsidy and more focus by government towards the rural areas.**

### **7.3 Broader Policy Issue**

Rather than absorbing the left over from the Government sector, genuine and effective partnership between Government, the private sector and employers need to be re-modeled with a certain level of autonomy for each. Government needs autonomy to ensure that its social goals are not subsumed by the profit objectives of PHE firms. The latter require autonomy to tailor their services in order to meet the specific demand of the market. The ultimate beneficiaries of the process, employers, patients and students can enrich the institutional packaging through bringing in their up to date need in the state of the art and the content of service delivery.

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### Annex 1: Private Health and PHE Firms Interviewed

<b>No.</b>	<b><u>Name of Health Firms Interviewed</u></b>	<b>No.</b>	<b><u>Name of PHE Firms Interviewed</u></b>
1	Abinet Clinic	1	Addis Ababa Polytechnique College
2	American Ghibi Clinic	2	Admas University College
3	Arat Kilo Clinic	3	Africa Health College
4	Arsho Laboratory	4	Atronus College
5	Asegedech Mother and Children Hospital	5	Ayer Tena Health Science College
6	Awash Dental Clinic	6	City University College
7	Aynalem Clinic	7	CPU College
8	Blue Nile Clinic	8	Dynamic International College
9	CMC Michael Clinic	9	Ethiopia Distance Education College
10	Connel Clinic	10	Hayat Medical College
11	Dashen Clinic	11	HilCoe Computer Science College
12	Dr. Akalewold Special Dental Clinic	12	Infonet College
13	Dr. Yeshihareg Dental Clinic	13	Keamed Medical College
14	Eldina Clinic	14	Kunuz College
15	Empire Clinic	15	Micro link IT College
16	Entoto Godana Clinic	16	Miracle Health College
17	Genet General Hospital	17	National College
18	Kidist Mariam Clinic	18	New Abyssinia University College
19	Luck Clinic	19	New Generation University College
20	Master Dental Clinic	20	Nolicom College
21	Megenagna Clinic	21	Orbit Information Technology College
22	Raey Clinic	22	Roha College
23	Selam Teklehaimanot Clinic	23	Royal University College
24	Sengater Clinic	24	St. Marry University College
25	Seyoum Special Eye Clinic	25	Tropical College of Medicine
26	St. Michael Clinic	26	Unity University
27	Tensae Clinic	27	Universal Medical College
28	Tesfa Kokeb Clinic	28	Yanet Health Science College
29	Tezena General Hospital	29	Yardstick Distance Education College
30	Toneam Dental Clinic	30	Yenegew Sew University College

**Annex 2: Interviewed Employer Organizations**

- 1 AB Plast PLC
- 2 Abyssinia Bank S.C
- 3 ACOMEX PLC
- 4 Addis M.F
- 5 ADS Pharma
- 6 Africa Insurance S.C
- 7 Africa Printing Press
- 8 Alliance Flowers PLC
- 9 Ambassador Textile and Garment PLC
- 10 ASA PLC
- 11 Awash International Bank
- 12 Chamber Printing Press
- 13 Comet Trading PLC
- 14 Commercial Bank of Ethiopia
- 15 Dream Flowers PLC
- 16 Ethiopian Insurance Corporation
- 17 Ethiopian Telecommunication Corporation
- 18 Finfine Furniture Factory
- 19 Global Insurance S.C
- 20 Jupiter Trading
- 21 Lion International Bank
- 22 Meweda Academy
- 23 Myungsung Christian Medical Center
- 24 NAS Foods PLC
- 25 Nib International Bank S.C
- 26 Nile Insurance S.C
- 27 Raselase Diversity School
- 28 SNAP Computers
- 29 United Bank S.C
- 30 Wogagen Bank S.C

