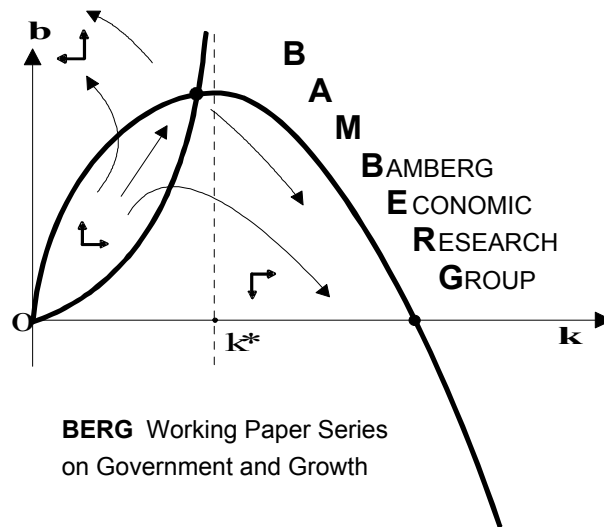


STRATEGIC PRIVATISATION, ITS ACHIEVEMENTS AND CHALLENGES

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STRATEGIC PRIVATISATION, ITS ACHIEVEMENTS AND CHALLENGES

by

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Three myths of privatisation.

Privatisation will create economic growth, (increase yes, but not immediately)

Privatisation will create security for the enterprise, (no, because there will be unemployment, competition)

Privatisation will result in financial growth for the Government budget, (yes for the moment but these indicators will decrease later on.)

Privatising process by the end of 1997

The new administering privatisation processes structure by the end of '97 suffered from:

- a- Lack of a strategy of midterm and long term goals in this crucial process
- b- Discouraging results and a bitter image for the investors and the population.
- c- The old practice of the privatising structure in the legal framework and questions of mentality.
- d- Disparities in the organization and liberalization of the markets of goods (thoroughly liberalized), capitals, lack of financial and banking system, and human resources.

Under these circumstances it was imperative the necessary institutional reconstruction, setting up new strategies and concepts, aiming at the new approach of the markets? In the same time special attention was paid on how to improve the privatisation's image. This goes hand in hand with the perfection of legal framework of action. While the elaboration of a new set of legalities, accompanied with a check and balance system will establish the creation of a transparent market's value exchange.

1. The new Strategy and its implications.

The coming to power of left wing parties posed new questions. Naturally this process required a complexity of problems, and changes such as political interests, social, legal, micro and macroeconomics. It was an immediate and paramount importance

duty to realize the liberalization and recapitalisation of markets in order to set free the sources and potentials our country possessed. That is seen by a special decree of the Council of Ministers for the privatisation of strategic sectors of the Albanian economy, stressing among other issues:

- 1- A rapid inclusion of all sectors in the privatisation process.
- 2- Revitalization of economy through efficient employment of natural and human resources.
- 3- Guarantee and maintain the pace of entire growth and economic development.
- 4- Support for the private sectors in the field of production and services.
- 5- Attraction of potential and strategic investors.
- 6- Setting up the condition for the creation of capital markets.

This program in the context of main objectives has aimed at:

- being present in all sectors of the economy.
- a fast effective way, rightful from the social viewpoint and transparent,
- promoter of economic revitalization,
- adoptive and supportive after the privatising processes for in order to maintain a continuous growth, development and strengthening of properties.
- an encouraging process for production activities,

and in the same time to obtain the benefits and fulfil the following objectives;

- democratization of property,
- maintenance of social peace and increasing the living standards,
- reduction of budget deficit and increasing the budgetary income directly or indirectly,
- promotion of economic efficiency growth,
- reduction of foreign and public debt,
- development of a capitals national market
- encouraging competition and weakening the monopoly,
- reducing the state interference in economy,
- confronting economic units with new market rules and discipline
- improving the quality of products and services,
- increasing long-time employment
- creation and consolidation of a managerial class.

If not the main mistake, but more of a defect, it has been the slow speed of implementing these processes. In this context we ought to consider the fact that from our side the privatisation process is being conducted without sufficient aid of different factors relating to this issue, such as reform in the financial market, human resources and a lack of implementing market economy rules in the goods market etc. We remain confident that time is ripe for a profound analyses of the factors leading to the lack of commitment for carrying out this strategy.

Another problem to be reckoned with is the definition of priorities of companies to be privatised. This decision was taken based on a better performance of the company, creating a better image of the privatisation, just to increase the possibilities of FDI participation at privatisation. We are supporting the idea of fixing priorities based on an economic analysis regarding the possibilities of normal operation at the market (elimination of monopolistic position, supporting by the managers and specialists market, creation of fiscal incentives, and market analysis for the productions or services offered.

This has led people to concentrate quite often in short-term goals, neglecting the long term ones. Also its high correlation with the phenomena of corruption has become a barrier affecting a good performance. It is mentioned in this strategy the harmonization of appropriate accounts of treasury bonds, because in reality the work done leaves too much to be desired.

The new strategy touches upon the issue of “the process of privatisation will aim at the elimination of certain structures (like monopoly and oligarchy-monopoly) and focus on increasing the competition in the domestic market and for any given sector the opening up for international competition,” we believe that is one of those goals we are still away from.

In the same time one of the main objects declared in the strategy that “... work should be focused in completion of legal framework for Shareholder Companies functions (inside privatisation of public companies), before and after Privatisation, for inclusion in the privatising program of the above mentioned companies, it will serve as good example in the capital markets, and also in close relation with the Tirana stock market for the formalization of the bonds market as a precondition to make this market efficient...” in reality we are almost at square one.

2. Institutional and legal framework of this process.

Privatisation of shareholder package of trade companies operating in strategic sectors is realized according to the overall Privatisation Strategy, approved by the Law No. 8306, in the 14.03.1998, titled "Strategy of Privatising sectors of special importance," and is headed by the Consultancy and Transparency Committee, set up with a special decision by the Council of Ministers (DCM), No. 621 in 25. 09. 1998, changed by a DCM No.32, in the 28.1.2002 " Regarding a change at DCM No. 621, in the 25.9.1998 "Regarding the creation of Consultancy and Transparency Commity for privatising sectors of special importance".

According to the procedures, based on the law No. 8306, in the 14.03.1998, for every public company to be privatized, has to be a specific law (for example Law No. 8515, the 21.7.1999 "Regarding the privatization of anonime company "Albanian Mobile Communications" (AMC), Law No. 8810, in the 17.05.2001 "Regarding the definition of the privatization strukture and formula of anonime company "Albtelecom" etc.

Afterwards in accordance with the law the Council of Ministers composes and approves articles like:

- for procedures of tender for selection of strategic investors and the transfer of shares.
- criteria of better selecting strategic investors interested in buying shares
- criteria of appraising offers for privatising companies of strategic sectors
- for the method of using the income created by the privatisation
- for the approval of project-contract of share buying and the instructions for the presentation and opening of offers for privatisation of strategic sectors companies
- for approval of report appraisal of offers for company privatisation.

3. Practical results, reasons and problems of certain delays.

To implement an economic reform, a reconstruction process and commercialisation, both coordinated with a successful efficient economic privatisation it is necessary that governmental institutions must take into consideration certain preconditions. Management or miss-management of these preconditions can facilitate advantages or disadvantages that may delay the whole process.

Banking system and financial intermediaries: without a strong banking system and financial intermediaries can lose their confidence, and banks can stop being a partner in the reconstruction process.

Institutional policies: without an industrial policy the reconstruction process can turn into a mixture of values and different systems, temporary solutions, absence of clear goal aimed at and vague institutional guidelines.

Training and Education: training as a basic element for reconstructing human resources should be coordinated with government policies.

Delays in Privatisation: In general the government policies of reconstruction are not in the same level with privatisation. It is not clear if a government aims at privatising state enterprises or undertakes some reconstructing processes in order to obtain a higher process or the reconstruction processes be conducted by the new owners who can buy state enterprises.

Debt structure: first of all the accumulated debt is an intellectual question, because that debt is created out of their control and above all new managers do not have the solution to this problem.

Corporate Governance: absence of corporate managing due to unique structure of property can cause either lack of interest in the part of the shareholders or lack of comprehension on the issues of good governance. Owing to this situation the managers will spend more time doing their daily routine than focus on the strategy of the company.

Supervising committees and qualification of the administrative staffs: after close to 50 years of the indoctrination that “production is important”, the early nineties brought back the idea that sales and marketing are very important.

Trade Unions: although in principle the administrators admit to the fact that Trade Unions do represent the majority of workers, they now realize that these Trade Unions did not foresee some of the circumstances.

Production and Technology: if the enterprises are not able to find new markets, than automatically the first thing that comes to mind is the new technology installed inside the enterprise, employed to facilitate a new line of products. In cases when that is next to impossible than this enterprise ought to seek capital investments or can go as far as to completely transform into a new enterprise.

Market: the market should take into consideration new measurements to determine if the given company is potentially able to compete in this new environment. This decision must through internal improvements, such as cutting the loses, expenditure, improving the quality or a different pace in the market. It is still possible that the market is dramatically altered making it hard for the enterprise to compete for a long time.

Owner's support for reconstruction: supervisory committee as the sole representative of the state is not always conscious or qualified to comprehend the need of the enterprise to commercialise or privatise. This comes due to their rare analyses of its position in the market or other changes related to this market.

The program to privatise the most important sectors of the economy includes close to 75% of economic assets, such as in oil and natural gas sector, electro-energy, telecommunication, transport, mines and water sources and delivery systems. In this moment some of the sectors mentioned above face tough challenges due to:

- old technology and a bad overall technical situation, owing to the lack of investments for a long period of time
- extra workers
- blocked in their marketing and a large debt
- low management level, inadequate planning, strong intervention by the state in their daily activities, shallow knowledge of market rules.
- low level of financial discipline, or low level of check and balances.
- conflicting or vague objectives
- under political patronage hampering their efficient activities.

Obviously these sectors are natural monopoly in the great economic picture of Albania, in close connection with the products and services they offer. Privatisation of special strategic sectors of our economy in principle it will be achieved in close relation with strategic investors, on whom there will be transferred the ownership of the entire company or significant shares?

There are two main reasons how to solve this issue:

- 1- Enterprises need new technology, know-how, new financial sources and very good managing.
- 2- Enterprises in difficult financial situation and miss-management can turn the tables around when they pass at a private investor with experience and strong financial sources.

JV Companies are seen as a partnership between the individual and the state that in the end split up the costs, risks and profits. Initially establishing these sorts of companies was motivated by the idea of seeking collaboration with foreign investors because:

- a- state owned enterprises can penetrate in new export markets
- b- the foreign partner could offer new foreign technology, capital, managing and know-how.

In the early nineties the economic situation was so deplorable that all hopes were pinned on foreign investment and aid. The work started on these issues after the legal framework was approved, concerning the cooperation between state owned enterprises and private sector, foreign or local.

At that time there was almost no experience at all, the legal framework was not prepared yet, thus many contract were signed without paying too much attention to details, obligations coming out of the contracts, or interests of the state. State owned enterprises were introducing in this collaboration with their activities, entirely or partially, while the foreign partners were supposed to bring fresh capital, new technology, and know-how. As a result in many cases the technology and know-how introduced was backward and in the same time the state interests were more or less neglected. It comes as no surprise that the pace of such companies was slow in the majority of instances, as elsewhere in Eastern Europe. It is a fact that more than half of these companies are either not operating or completely ruined.

Table: The public share to JV companies

Share quota	Number of JV	[%]
<10%	6	4.5
10%-20%	10	7.5
20%-30%	16	11.9
30%-40%	27	20.1
40%-50%	23	17.2
50%-80%	3	2.2
80%-100%	2	1.5
No information	47	35.1
Total	134	100.0

Actuality is going the process of public quotas privatisation regarding the JV-s that are surviving at the market.

4. The Social Impact of Strategic Privatisation

During the implementation of the Privatisation Strategy of state capitals and efficient policies for market liberalization, a special attention was directed toward finding proper solution for socio-economic conflicts, maintaining the pace of recapitalisation of the economy in accordance with the socio-economic situation. That was done in order to orient the economy and Albanian society towards social market economy. The solution is not to be seen as clearly a political process. The solution is clearly seen during the realization of this process, after long analyses of all resources, capital situation and Albanian economy. Experienced consultants in the field of recapitalisation of all markets have assisted the whole process.

Generally all the companies or enterprises have inherited an extra labour market, compared that with their efficiency. The number of workers needs to cut, especially pertaining to the administrative structures. However it has become a routine that the managerial staffs have preferred to cut the number of workers in the production area, perhaps due to a lower “moral cost” of general manager to them compared with his personal cost to administrative staff.

In many economic sectors, relating to the unemployment numbers, report presented by the staffs are to be considered not very reliable, because sometimes that can be interpreted as a reason to find an easy solution to make the necessary managerial job cuts. Moreover that can be considered as a lack of desire to negotiate with Trade Unions, and in the same time as lack of experience for a better management of human

resources regarding the capability to select the needed staff versus the staff that ought to be reduced.

Another challenge for these enterprises are dealing with is sales and marketing areas. That comes as a lack of experience on the part of the main manager for this area or his commitment only in production field. Beside that problem, some companies have not the experience to recruit the specialists at the field such are selling and marketing. May be this is result of the lack of managerial capability of the general manager to such fields as well as his focusing to production sectors of company more than to selling sector.

In conclusion the poor development of sales and marketing sectors is caused not only from low numbers of qualified staff, but even when that formally existed their rewarding system failed to produce motivating incentives.

5. The future of strategic privatisation

The present period of privatisation seeks for the activities perfection of the government structures towards the government funds administration and for liberalization and coherence market, according this process with the macroeconomic development of the country. Privatisation process 2003 – 2005 program includes all important sectors of economy as oil and gas, electric power, telecommunication, transport infrastructure and water infrastructure. This constitutes the most important moment of economic, social and political reform, expecting from, positive impacts, essential in capital, goods, financial and labour markets. For establishing conditions and guarantying the realization of the privatisation program, according to 2003-2005 program, is foreseen co-ordination of detailed programs with lines ministries, co-ordination of activities for the elaboration of sector politics and strategies and for the activity regulator commissions as for sectors. In these framework, through training program, will be aimed the management perfection of enterprises in phase of restructuring and the growth of analysing capacities of administrative structures, from enterprises to general directory levels. Privatisation process, after accordance with line ministries, will be accompanied by common programs, duties and detailed terms for structure, legal and administrative duties.

1. Common programs with administrative lines for realization of privatisation process till end of 2005.
2. Crystallization of strategy and program of following up privatisation process of Alb telecom A.S.
3. Following up privatisation process by auction of local HEC, besides those included in concession contract
4. Preparation for selling Servcom A.S. and separated assets of Armo and Albpetrol companies.
5. Concluding management contract of Kavaja Water supply and Duress, Saranda, Fier and Lezhe water supply services.
6. Concluding preparation of tender documentation for selecting concession firm for Berat and Kucova Water supply services.
7. Selecting concession firm for The new terminal of Rinas Airport and the start of negotiation phase
8. Preparation and sending for approval Durrës Sea port Authority Law and the privatisation law of Durrës Sea port Authority.
9. Continuing the process of KESH restructuring.

Annexes

Annex 1.

Some of main legal documents regarding privatization

- Law No. 8459, in the 11.2.1999 “Regarding a change at law No. 8306, in the 14.3.1998 “Strategy of Privatising sectors of special importance.
- Law No.8582, in the 23.2.2000 “Regarding an change at the law No. 8306, in the 14.3.1998 “Regrading Strategy of Privatising sectors of special importance”.
- Law No. 8237 in the 01.09.1997 “Regarding some changes at the law 7926, in the 20.04.1995 "Regarding transformation of public enterprises at trade societies“.
- Law No.7973 in the 26.07.1995 “Regarding conncesions and participation of private sector at public sevises and infrastrukture”.
- Law No.8329 in the 16.04.1998 “Regarding some change at the law 7973 in the 26.07.1995 “Regarding conncesions and participation of private sector at public sevises and infrastrukture”, changed by the law Nr.8105, in the 28.3.1996 and the president decree No. 1628, in the 17.10 1996.
- DCM No.329, in the 12.7.1999 “Regarding the tender proçedures for selecting strategic investor and for transferring the shares that government is owning at the companies at sectors of special importance” .
- DCM No.578, in the 8.12.1999 " Regarding the tender proçedures for selecting strategic investor and for transferring the shares that government is owning at the companies at sectors of special importance” .
- Law No.8618, in the 14.06.2000 “Regarding telekomunikations at Republic of Albania”.
- Law No.8288, in the 18.2.1998 “Regarding the telekomunikations regulation entity”.
- Law 7962, in the 13.7.1995 “Regarding electric energy”.
- Law No. 7970, in the 20.7.1995 “Regarding the regulation at the electric energy sector”.
- Law No. 8102 in the 28.03.1996 "Regarding the regulatory framework at the water supply and sewages sectors”.
- Law No. 8093 in the 21.03.1996 "Regarding the water reserves".
- One and four years programs of privatisation.

Annex 2. Activities and government structures engaged at the privatisation process of the companies at most important sectors of economy

Activity	Ministry of Economy	Lines ministries	Public company	Regulation entity	International consultant
The composition of sectorial policies					
The composition of privatisation strategy					
Elaboration of legal framework					
Preparing the informativ memorandum					
Promotion and marketing					
Practical aplying of marketing					
Offers evaluation and contract negotiation					
Selling asets by National Agency of Privatization					

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10. Problems of Privatisation in Bulgaria (Edited by Schonfelder) Munchen, 1997
11. “The strategy of Privatisation for most important sectors of economy”
12. Data regarding privatisation, National Agency of Privatisation 1998-2000

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