

Study on Privatization



American
Chamber
of Commerce
in Kosovo

Study on Privatization

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Table of Contents

About the American Chamber of Commerce in Kosovo.....	3
About the Study on Privatization	4
Part 1 - Results of the Survey.....	5
Conclusions of the first part of the study	10
Recommendations of the first part of the study	11
Part 2 - Privatization Experiences in Estonia and Moldova.....	12
Estonia	12
Moldova	14
Comparisons between Estonia and Moldova	15
Conclusions of the second part of the study	16
Recommendations of the second part of the study.....	16
Reference list.....	17

Prishtina, April 2010

About the American Chamber of Commerce in Kosovo

The American Chamber of Commerce is one of the leading business associations in the world present in 95 countries including Kosovo. AmCham Kosovo is one of the most powerful business associations in Kosovo established in 2004 and operating fully since 2006. In addition to US Chamber of Commerce, AmCham Kosovo is also member of EU AmCham. AmCham Kosovo represents around 90 Kosovar and regional - international medium and large businesses, which jointly employ over 10,000 Kosovar employees with an annual turnover of more than € 100 million.

The American Chamber of Commerce in Kosovo is a nongovernmental organization officially accredited by the US Chamber of Commerce; it is a business association with one central purpose – to support, in every manner both legal and practicable, improvement of business environment and development of Kosovo's economy, implementing best practices from Western businesses, offering business support services and serving

as an intermediary for employment to its member companies, lobbying to the policy makers for better business environment – assisting in drafting legislation, policies and administrative procedures of Kosovo institutions.

AmCham Kosovo has been involved in trade investment conferences, trade visits to United States, investment promotion activities, lobbying for better and mixer fiscal policy system, promotion of better business practices and values for the business community, employment generation through biannual Career Fairs for students as well as other trainings and seminars in business communication and consulting. AmCham has also been involved in conducting surveys and compiling reports on several important economic issues in Kosovo.

AmCham, as an intermediary between government institutions and private sector companies, has engaged in many activities in helping the businesses push issues through to the government officials in order to address them.

About the Study on Privatization

American Chamber of Commerce (AmCham Kosovo) conducted a study on privatization during March-April 2010. The Study comprises of two parts, with the first part containing the results of a Survey conducted with the business community in Kosovo, and the second part bringing the privatization experience of two Eastern European post-communist countries.

The first part contains the results of the survey with 28 member and non-member firms of AmCham Kosovo from various sectors (construction, information technology, banking and finance, wholesale and retail, consulting, food importers, education, legal services, energy, transportation, automotive, etc.) For confidential grounds, the names of the firms shall not be mentioned in this report.

Through this survey, AmCham aimed at understanding the opinions of the business sector in Kosovo with regards to the management of the publicly-owned enterprises in Kosovo and the impact of these services that are still under public sector on the overall economic environment, on the changes that privatization process would bring on the management of these enterprises, and on the overall economic, social and political developments in Kosovo.

The second part of the Study presents the privatization experience of two Eastern European post-communist countries, Estonia and Moldova, at the same time two former members of the Union of Socialist Soviet Republics (USSR), who gained their independence in 1991. This part also contains comparative data for these two states, reflecting mainly their economic and social state.

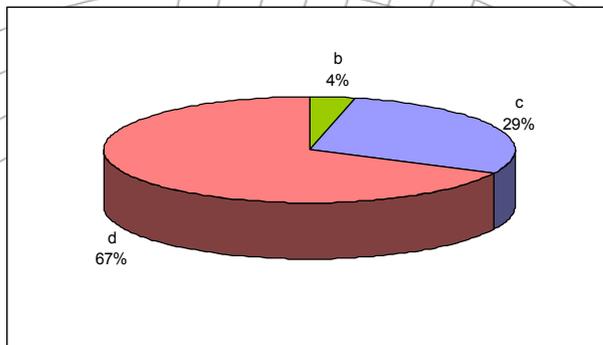
Acknowledgments

American Chamber of Commerce in Kosovo appreciates all the businesses who have shared their time to respond to AmCham Survey on Privatization, as well as the American Chamber of Commerce in Moldova and Estonian Investment and Trade Agency for their support and information provided for the second part of Study on Privatization.

Part 1

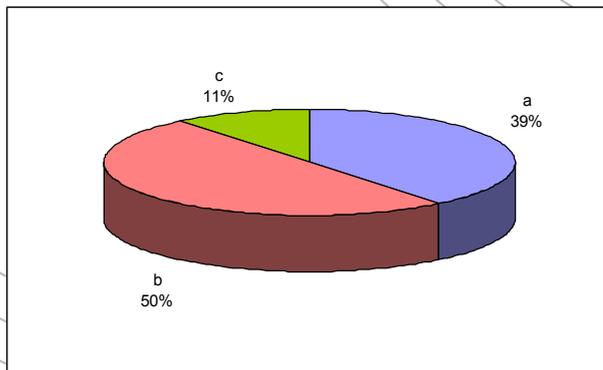
Results of the Survey

1. Are you satisfied with the way Publicly-Owned Enterprises are run in Kosovo?



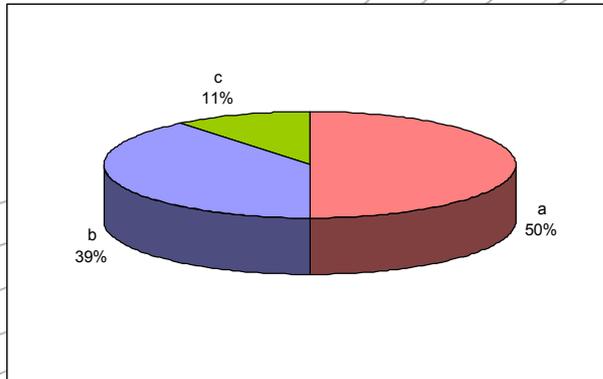
- a. Very much satisfied
- b. Satisfied
- c. Slightly satisfied
- d. Not satisfied at all

2. Is your business affected by the performance of POEs?



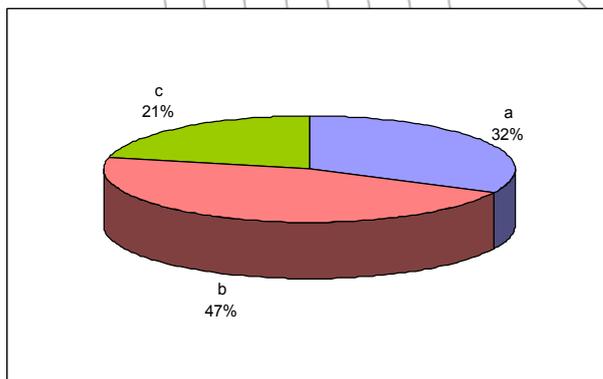
- a. To a large extent
- b. Slightly
- c. Not at all

3. Do you agree that involvement of private ownership in Publicly-Owned Enterprises would increase their efficiency?



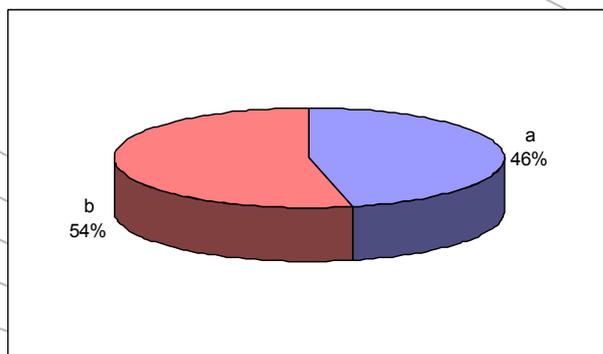
- a. I strongly agree
- b. I agree
- c. I partially agree
- d. I do not agree at all

4. Do you agree that privatization would reduce the level of corruption in the post-privatization process?



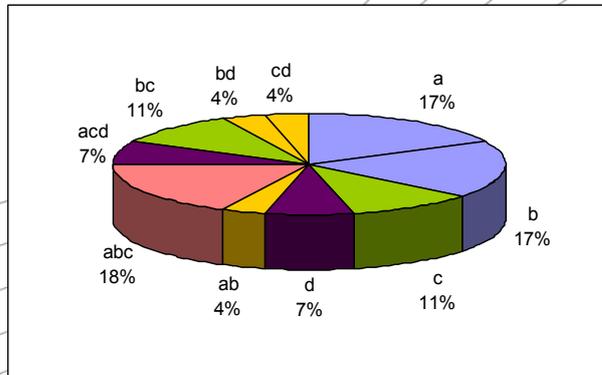
- a. I strongly agree
- b. I agree
- c. I partially agree
- d. I do not agree at all

5. What is your preference on the following:



- a. Government should maintain ownership over some shares of the company
- b. Privatization should be done in a 100% level

6. What do you consider to be the socio-political objectives of the privatization?

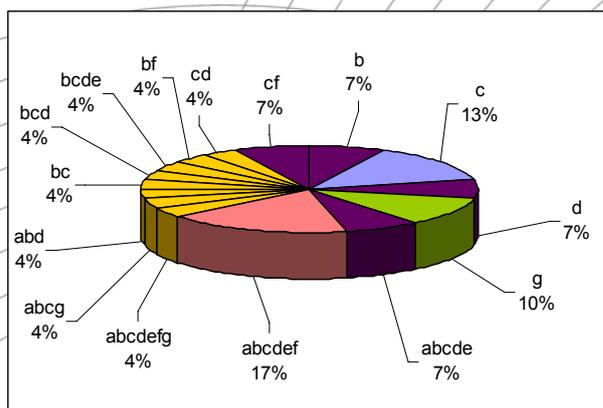


- a. Minimizing Government's role in economy
- b. Increasing employment rate
- c. Fighting corruption
- d. Other (Please specify)

Comments provided under option d:

1. Minimization of nepotism and employment of political supporters, and applying meritocracy instead of them.
2. Increase access to education; create a balanced macro-environment (where Government still keeps an eye on economy but also *efficient and selected* private entities are bringing more added value and know-how).
3. Increase in efficiency of management of all levels, thus increase in profit, which would enable public sector investments in the public sector: education, healthcare, social insurance, etc.
4. Noninterference of the political parties with business policies of publicly-owned companies; more sustainable stands of state institutions (central and local level); improvement of efficiency of the company and also the cutting of unnecessary operational expenses; creation of more favorable working conditions for the employees and having a clear prospect; deterring possibilities for corruption, which would lower the risk of companies overall corruption risk; improvement of financial balance of the company, which will contribute to the higher budget of the company, and thus to the state budget as well (this would contribute to direct employment generation – in the company or the sector; or in the indirect one – in other sectors in the country level, etc.).
5. It is essential to have a more efficient service for the citizens using the services provided by these enterprises. Mechanisms for improvement of payment of services that the clients purchase from these enterprises would be improved and the employment generation chances would be higher in these enterprises.
6. Improve efficiency and quality of service.

7. What do you consider to be the economic objectives of privatization?

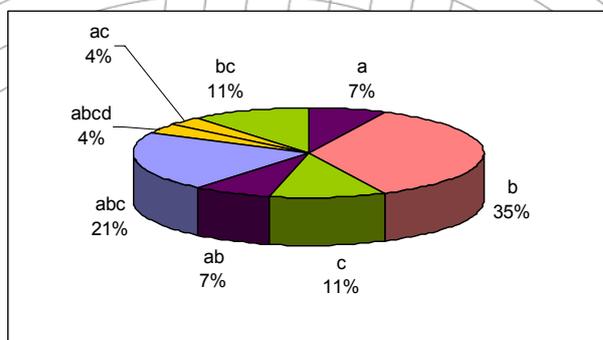


- a. Increase of the goods and services volume
- b. Improvement of quality of products
- c. Raising of overall economic efficiency
- d. Stimulation of private investments
- e. Revenue generation from the sale of POEs & SOEs
- f. Increased competition
- g. Other (Please specify)

Comments provided under option g:

1. Increase FDI (Foreign Direct Investments) in Kosovo; increase GDP per capita.
2. Arrival of foreign investors (especially the famous brands) that would lead to creation of a positive perception for Kosovo market and thus the stimulation and attraction of other foreign investments.
3. Utilization of the funds from privatization of socially-owned enterprises for stimulation of private investments. Establishment of the basic infrastructure for creation of economic development conditions.
4. More efficient and effective management of public utilities, which will lead to a better business enabling environment, which will lead to greater FDI.
5. Complete detachment of state from the economic life and thus creation of the fair competitiveness and eradication of the informal economy.

8. What do you consider to be the fiscal objectives of the privatization?



- a. Increase in revenue tax from the privatized companies
- b. Reduction of subsidies to POEs & SOEs from the Government
- c. More investments in infrastructure and social services
- d. Other (Please specify)

Comments provided under option d:

1. Potential buyers are large multi-national corporations who bring good governance practices.

Conclusions of the first part of the study

Based on the responses of the business community to the AmCham Kosovo Survey on Privatization, $\frac{3}{4}$ of them are not satisfied with the way publicly-owned enterprises are run in Kosovo. This becomes even more concerning if we take into consideration the responses to the second question, where almost half of the interviewed businesses say that they are affected to a high extent from the performance of publicly-owned enterprises, followed by a 50% of those stating that they are partially affected by the performance of POEs.

All the surveyed businesses agree strongly, averagely or partially that involvement of private ownership in publicly-owned enterprises would increase their efficiency. There is also a same portion of businesses believing that privatization of POEs would reduce the level of corruption after privatization. Responding to the question whether government should maintain any shares in the privatized companies, more than half of the businesses believe that privatization should be done in absolute (100%) basis.

With regards to the socio-political objectives of privatization, it is a general view of the businesses that privatization of POEs would minimize the role of the Government in economy, would increase the employment rate and would help the fighting of corruption. However businesses have also provided other opinions such as minimizing of nepotism, creation of a balanced macro-economic environment, more principled and policies and stands of the Government, avoiding of interference of political parties with the POE policies, improvement of the services provided by POEs, and so on.

With regards to the economic objectives of the privatization, businesses share an almost same opinion with regards to this issue, where the largest number of them think that privatization would impact the increase in the volume of goods and services, the improvement of the quality of products, the increase of the overall economy efficiency, the stimulation of private investments, the generation of income from the privatization of POEs and SOEs and increasing of competition. Other options provided by some businesses include, increase of foreign direct investments, increase of GDP per capita, arrival of foreign investors, utilization of funds from privatization for stimulation of private investments, more efficient and effective management of POEs and removal of the control of Government institutions over the economical life.

Finally, 1/3 of businesses believe that reduction of Government subsidies to POEs and SOEs would be the main fiscal objective of the privatization, followed by a large number of businesses who think that the increase of investments in infrastructure and social services, and increase of income tax from the privatized companies are the other fiscal objective of privatization. It is worth mentioning an interesting opinion that the new owners would also bring better governance practices.

Recommendations of the first part of the study

The abovementioned conclusions highlight the necessity of acceleration of the privatization process, since according to the surveyed businesses this would increase the improvement of efficiency in management of privatized enterprises. This becomes even more important given that the performance of publicly-owned enterprises has a significant impact on the activity of private businesses. Another argument supporting the necessity for privatization is the opinion that privatization would reduce the level of corruption in the country after the privatization process, especially through the decreasing of public procurement activities where corruption seems to be more present.

Also, based on the responses received from the majority of businesses, and aforementioned arguments with regards to the running of POEs, it is recommended that the privatization of these enterprises should be done on absolute basis, thus excluding the possibility of maintenance of any Government shares in these enterprises.

Other reasons that support a faster privatization of POEs include the significant social, political, economical and fiscal objectives that privatization would help achieve.

Part 2

Privatization Experiences in Estonia and Moldova

Estonia

Estonia is a country located in Eastern Europe, bordering the Baltic Sea and Gulf of Finland, between Latvia and Russia. Estonia declared its independence in 1918, after hundreds of years of Danish, Swedish, German, and Russian rule. It regained its independence in 1991 after 50 years of occupation by the Union of Socialist Soviet Republics (USSR), with the last Russian troops leaving the country only in 1994. Since then, Republic of Estonia has been free in promoting its political and economic connections with Western Europe. In 2004, Estonia became member of the Northern Atlantic Treaty Organization (NATO) and the European Union (CIA World Fact Book).

Estonia launched its privatization efforts in 1992. According to Estonian Investment and Trade Agency, "the privatization process in Estonia ended basically in 2000". It had been very successful, and this is illustrated by the fact that almost two thirds of the nations GDP comes from the private sector.

The successfulness of this process was based on Estonia's privatization program, which according to the *Estonian Information Society in Facts and Figures* has been among the most ambitious of those adopted by the states in Eastern/Central Europe.

The main functions of Estonian Privatization Act included:

- compiling a privatization program for each year, including lists of enterprises to be privatized,
- maintaining and using state property until its privatization
- planning and managing the reorganization and restructuring of these enterprises
- arranging the actual privatization (announcement of sale and sale conditions, negotiations with potential buyers, contract preparations)
- organizing municipalization and renationalization of state property
- monitoring the fulfillment of contracts of sale

Many observers have evaluated the Estonian Privatization Agency's privatization method as successful, with most enterprises operating profitably. The new owners have over fulfilled both investment and employment guarantees. The fact that only about 19 privatized enterprises out of 472 medium or large scale privatizations have gone bankrupt is an indicator of effective work of Estonian Agency.

This effectiveness derives from the tender method borrowed from Treuhand (Agency that privatized the East German enterprises), and which was supported by the Estonian Privatization Act. This resulted in about 70 percent of enterprises being sold to outside investors.

Current state in Estonia

Estonia joined the family of European Union countries in 2004. According to CIA Fact Book, Estonia today has a market-based economy and one of the higher per capita income levels in Central Europe.

The efforts of Estonia's successive governments have enabled a free market, pro-business economic environment and have remained very loyal to their pro-market reforms. Estonia's priority has been to sustain an average annual growth of 8% from 2003 to 2007.

The relatively sound fiscal policies of the Estonian Government resulted in a low public debt and in balanced budgets.

The World Bank Doing Business Report ranks Estonia 24th out of 183 world economies with the most affordable business environment.

Moldova

Republic of Moldova is a country located in the Eastern Europe, bordering with Romania and Ukraine. Country has been independent from the Union of Socialist Soviet Republics (USSR) since 1991, however, it remains one of the poorest European countries.

Privatization in Moldova began in 1993, but the results of privatization process in Moldova are not as impressive as they are in Estonia. Since the beginning of privatization, Moldova's Government has privatized several state-owned entities, mainly smaller ones, however it was not able to privatize larger state enterprises, notably Banca de Economii (a major Moldovan bank with state ownership), Moldtelecom (IT operator), CET1 and CET2 (heat and power plants in Chisinau), Tutun CTC (manufacturing of cigarettes), Unic (commercial centre in the downtown of Chisinau), etc.

According to the American Chamber of Commerce in Moldova, many Moldovan large public enterprises, are operating on financial losses and their privatization and sale to foreign investors could bring a new beginning of their development. Moldovan Government is currently analyzing hundreds of companies in which it has shares, and after a detailed analysis by independent experts, the Government will decide whether it should maintain its ownership over these companies or put them under privatization.

Recently, the Moldovan Government has undertaken several measures to improve the overall privatization process and transparency in the country, but despite the measures taken so far, there are currently a lot of discussions in the media on the legality of previous privatization of certain entities.

Current state in Moldova

According to the CIA Fact Book, Moldova remains one of the poorest countries in Europe despite recent progress. The economy depends heavily on agriculture, featuring fruits, vegetables, wine, and tobacco. Due to the lack of mineral deposits Moldova must import almost all of its energy supplies.

Economic reforms have been slow because of corruption and strong political forces backing government controls. Nevertheless, the government's primary goal of EU integration has resulted in some market-oriented progress. The economy is likely to have a modest recovery in 2010, but remains vulnerable to political uncertainty, weak administrative capacity, vested bureaucratic interests, higher fuel prices, poor agricultural weather, and the skepticism of foreign investors.

The World Bank Doing Business Report ranks Moldova 94th out of 183 world economies with the most affordable business environment.

Comparisons between Estonia and Moldova

Table 1.

	Estonia	Moldova
GDP (purchasing power parity)	\$24.48 billion	\$10.21 billion
GDP – per capita (PPP)	\$18, 800	\$2,400
Population below poverty line	19.5 %	29.5 %
Public debt	7.5%	31.3%
Stock of money	\$6.106 billion	\$1.116 billion
Current account balance	\$1.084 billion	- \$611 million
Exports	\$9.233 billion	\$1.24 billion

*Source CIA Fact Book

Table 2.

	Estonia	Moldova
Ease of doing business	24	94
Starting a business	37	77
Protecting investors	57	109

*Source World Bank Doing Business Report 2010

*The table shows the ranking of the respective countries out of 183 world economies

Conclusions of the second part of the study

Both countries, Estonia and Moldova have been members of USSR and both of them gained independence in 1991. Both countries have also gone through a transitional period from the communist system into accepting the western values. Estonia and Moldova have launched their privatization efforts almost at the same time, with the first one in 1991, and the second in 1992.

However, Estonia applied a more active policy and a more dynamic privatization process of POEs and SOEs, thus gaining many benefits from it, primarily in the economic aspect, and then in the political and social aspects as well.

Privatization in Estonia had ended almost in 2000, whereas four years later Estonia became a member of NATO and European Union. The best illustration of the economic benefits for Estonia is the fact that 2/3 of its GDP comes from the private sector.

On the other hand, Moldova has been slower in the privatization process, with a significant number of enterprises remaining in the public and social ownership. This had cost Moldova with stagnation in the implementation of reforms and the overall development of the country. Moldova is today considered to be the poorest country in Europe.

Recommendations of the second part of the study

Based on the conclusions and the comparative tables presented above, Kosovo institutions are recommended to follow the example of policies applied by Estonia, and thus pursue an accelerated. The empirical data from Moldova are a strong proof that the privatization should not be prolonged with unnecessary bureaucratic procedures.

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