

ANOTHER TAKE ON THE PROCESS OF PRIVATIZATION IN SOME EUROPEAN COUNTRIES—THE CASE OF KOSOVO

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ABSTRACT

The process of privatization was controversial everywhere it happened. Its critics sought ways to preserve the previously existing situation; however, it is widely believed that every property must have its owner. Europe had to find new paths towards economic development, one of which was the process of privatization. Some countries went through this process easily, while others struggled. In Kosovo's case this process was perhaps the most troublesome in Europe. This happened because the process of privatization was left completely in the hands of the international community, who additionally had to deal with the fact that Kosovo was not politically independent, and were left with properties known as "socially owned enterprises", a notion which they struggled to understand until late. These and many other factors contributed so that the process of privatization in Kosovo was very difficult and a lot of time was lost before it began; its continuation was also unpromising, and even though it has been ongoing for over fifteen years, its end is not in sight. The sooner this process reaches its final epilog, the better for the proper economic development of the country.

Keywords: Privatization, Europe, Kosovo, Economy..

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The economic and political differences among European countries remain some of the main obstacles to a great economic potential which would lead to a better life for its over 500 million inhabitants. The creation of the European Union required the creation of a common market which would be based on the pluralism of property and a democratic society which would be a factor of the overall development.

The end of the last century, for Europe in general and especially for Southeast Europe, marked a great turn in the search for routes towards economic development. Under these circumstances, it was necessary to reform all parts of the society and the government that would be facing privatization.

Privatization in Southeastern Europe has a multidimensional character. To begin with, the privatization includes redefining the property rights, hence the rights on the enterprises. Privatization means recreating and re-fictionalizations of institutions of financial market, governing of corporations by managers, of property, capital, and other financial items such as pension funds, mutual funds, investment funds etc. (**David Lipton-Jeffrey Sachs, 1990**)¹

To begin with, this process requires well-defined legal rules, and then later the creation of institutions that would apply those rules efficiently. For the creation of a legal environment of the privatization of the government property, in a radical way, we need changes in the laws regarding finances. There are laws that determine the creation of new enterprises, their liquidation, bounds, competition, taxes, accounting standards etc.² Two of the fundamental parts of the process are: 1) the process of fast privatization, also known as wide-scale process and 2) the gradual rhythm, which is also known as the step-by-step increase. All the other methods of privatization fall somewhere in between. The process of privatization in the countries of South Eastern Europe (SEE), and in the countries of Central and Eastern Europe (CEE), identified two main situations: first, to overcome the weaknesses of the socialist system there was a need for massive privatization and passing to market economy, and secondly, the privatization process would help solve issues of unemployment (**Joseph M. Dogget**)³.

The second method of the process that we are considering created a shortage of jobs. Concretely, some countries chose the massive privatization, which enabled wide ranges of society to be participants in the state capital and lowered the domination that they had until then.

¹ David Lipton- Jeffrey Sachs, Privatization in Eastern Europe: The Case of Poland ,Brookings Papers on Economic Activity,2/ 1990 pg 294

² Legal Aspects of Privatization in Industry, Economics Commission for Europe, Geneva 1992 pg.. 14

³ Joseph M. Dogget- Privatization on Central and Eastern Europe <http://cog.kent.edu/lib/doggett1>

The debate regarding the privatization process in SEE has to do with the rhythm of the realization of an effective strategy. Some authors think that the potential benefits of privatization are so big that the process must be made as quickly as possible.

The supporters of the fast privatization (**Stanley Fischer, 1991**)⁴ emphasize the necessity of fast privatization. This way, small enterprises would be privatized at once, perhaps with a form of financing from the government. Large enterprises must be turned into corporations, such that they get out of the governing scope of the corresponding ministry, and instead are administered by boards, with the shares of the corporate being split. The process of privatization changes the owner of the capital. The capital loses the administrative character of the property (**V. Vukotic, 1993**)⁵. The process of privatization comes as a part of the economic transition, which transforms the centralist administrative government to a market economy, a process which appears in all post-socialist countries.

The creation of corporates is the first step of the process of privatization. Upon their creation, there's a need for a new way of governing, such as in Poland. The privatization of small enterprises, which are mainly about services and trade, are sold through the model known as "**liquidation**" (selling everything the enterprise owns), and this does not lead to the creation of corporates (**V. Vukotic 1993**). However, depending on the country, the formation of corporates and their functioning is viewed differently, such as in in Russia where, with a presidential decree (in 1992), they adopted the privatization concept of "**each enterprise individually**". This model formed all government enterprises that had more than one thousand employees or had more than 50 million rubles to turn into corporates.

In Bulgaria (1992) the process of the creation of corporates was put under the competences of the ministers.

In Hungary, in order to transform a big enterprise into a corporate, it required the approval of the Agency of Privatization, such that in those enterprises where they had worker's union it was required that they support it with 2/3 of the votes.

In Poland (1990) the law for the privatization of enterprises in corporates was decided by the Ministry of Privatization according to the principle: "**enterprise after enterprise**", upon the request of the director and the worker's union. There was a similar situation in other countries as well.

Slovenia, as opposed to other countries of former Yugoslavia, approached the privatization in a more organized way. This way, **Janez Sustresic (2001)**⁶, the direction of the Office for Macroeconomic Matters in Slovenia, thought that one of the best things about the Law on Privatization, was the education of auditors, for estimating the social property.

⁴ Stanlez Fischer 1991, Privatization in Eastern Europe, National Bureau of Economic Research Cambridge, 1991 pg.,3

⁵ Vukotić V., Privatizacija, Institut društvenih nauka, Beograd, 1993pg.. 29

⁶ <http://www.vesti.rs/vesti/kako-je-tekla-privatizacija-u-Sloveniji.html>

When it comes to the transparency of the process, it is considered that enough has been done and that no major problems have been reported. In Slovenia, all owners are known and everyone has access to it.

The process of privatization in Albania comes a little differently, trying to adjust to the specific needs of the country. The method used in Albania was based mainly on the enterprises being bought by the workers and directors, which lead to a wide structure of ownership (**Fatmir Mema**)⁷, with a complete lack of financial institutions throughout this process. This situation in Albania is completely different from what happened in the Czech Republic, Slovakia and Poland.

Changing politically to a democratic system and economically to a market economy, are ingredients that precede the pluralism of property. Closely connected to the method of privatization, each country had important duties of developing the market of bounds (**Shyqeri Llaci, 2010**)⁸. The stock market of Tirana has not started functioning yet, regardless that it's been approved for functioning since 1996. From this we can conclude at what stage of development is the process of privatization in Albania.

The process of privatization in Albania was a project that was meant to create well-being. This would make possible the creation of public funds, which would be directed in three ways (**Ardian Civici, 2010**)⁹:

1. Increasing the employment rate,
2. realization of internal requests,
3. social policies that would support the poor.

The conclusions regarding the process of privatization in Albania can be summarized that it was developed under special circumstances dictated by the government considering the situation, involving dilemmas that it was developed in an optimal way. However, the process was similar to the process of privatization in the developed countries of SEE.

The economic concentration of wide privatization that was used in the countries of SEE deals with the structure of property in the direction of increasing the production and service industry. The pluralism of property, in order to achieve the private property, offers the opportunity to govern through processes, through the role of taking beneficial decisions. While it shares many common themes, the massive privatization in different countries has been applied considering the specific needs of the corresponding societies. Thus, the massive privatization has things in common in countries such as Poland, Czech Republic, Slovakia, Bulgaria, countries of former Yugoslavia etc., but the effects of property are different.

⁷ **Fatmir Mema**, Privatizimi dhe efekte e tij në Shqipëri, fq. 197 <http://www.bankofalbania.org/web/pub/fatmirmema>

⁸ Shyqereri Llaci- Jorida Tabaku, Qeverisja e Korporatve, Tiranë : Albpaper, 2010 fq.238

⁹ Ardian Civici, Kriza Financiare...apo Globale , UET Press 2010, pq. 125

Overall, the process of privatization was quite successful in Czech Republic, Slovakia, Hungary and other countries, when considering the success of the corporations that were formed, the cash flow, payments of debts etc.

Few are those countries where privatization can be considered as transparent and “clean.”

Models, comparisons, opportunities and experiences from other countries in the application of the process of privatization in the case of Kosovo

The models that were used in the process of privatization in Kosovo are not the same, neither in form or content, compared to those used in other countries. All models that were used in SEE were created under conditions that fundamentally differ from those in Kosovo. The common theme of these countries is that they transformed the government property in private property, as a step toward modernization and democratization.

The models of privatization are the fundamentals of the transformation of property. This process will later influence the overall economic and political structure of the country. While other SEE countries were in their final phase of the process of privatization, in Kosovo it has not even started. The United Nations Mission in Kosovo, also known as UNMIK, installed in 1999, through the Department for Trade and Industry and using the fourth column, researched the applicable models of privatization in Kosovo. Four years later, in 2003, the efforts began to give the first results. The previous models which were applicable in other countries of former Yugoslavia, were not applicable in Kosovo.

Similarly, it was thought that models used in other SEE countries were also not applicable in Kosovo. This way, the model of vouchers could not be applied because of the lack of a juridical status of Kosovo. Moreover, it was thought that this model would later create many problems. For this reason, it was necessary to find new models that would correspond specifically to the needs of Kosovo. As a result, the following two aspects were decided:

1. Sell the enterprises, mainly their active part, while later, through the process of liquidation to finalize the demands towards the enterprise;
2. The land owned by the enterprise would be loaned out for 99 years. This will happen because of the problems in cadastral documentation, since these documents were largely destroyed or stolen during the war.

UNMIK through Kosovo Trust Agency (KTA), started the process of privatization of Socially Owned Enterprises in Kosovo using the following three models:

1. The model of regular spin-off
2. The model of special spin-off, and
3. The model of selling through liquidation.

The model of regular spin-off

The rules of auction for regular spin-off deal with only the selling of the active part of the enterprise. The new enterprise is formed as part of the old enterprise, while the debt remains with the old enterprise, in which then the process of liquidation will be applied.

The funds raised from the sale will be held in a special account, controlled by KTA, which will be used to be the debts to the banks, owners and workers.

Through this model, from the old enterprise can be formed many new enterprises. This makes sense, that first to preserve the healthy and less problematic parts of the enterprise, whereas the remaining parts to be sold through liquidation. The funds raised through this process will be split proportionally as follows: 20% will be given to the workers, whereas 80% will be held by the KTA, which will this money to pay the debts of the old enterprise. Except for a small amount of charges (property tax for the past 12 months, payment of public services for the past 3 months), the new owner of the privatized enterprise will not inherit any of the debt of the old enterprise.

The model of special spin-off

This model has the same rules of auction as the regular spin-off. The difference in this type of spin-off is in some restrictions posed on the new owner. Through this model, the new owner must satisfy certain conditions:

- Have the highest price offered;
- Has a certain amount of investment in certain amount of time;
- To retain the same number of workers as before, and to hire a certain number of new workers in a certain period.
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The model of selling through liquidation

This model is mainly used for small enterprises, and particularly for those where most assets have already been sold, and only a small part that remains will be sold through this process. When the enterprise becomes part of the liquidation process, its management no longer exists and all activities of the enterprise are shut.

The UNMIK was responsible for the social life in Kosovo, despite the multiple delays in the beginning of the process of privatization, one of the other mistakes was that the local people were not consulted at all about the methods of the privatization that were to be used. In the beginning of the process of privatization of Socially Owned Enterprises (**Muhamet Mustafa, 2001**) the local experts recommended that the privatization policies be in service of:

- Macroeconomic, development and innovative consolidation of economy;
- Encouraging economic activities and increasing the efficiency of the enterprise;

- Building institutions of market economy.
- Eliminating the consequences of the previous violent governing;
- Building a property structure compatible with the countries of market economy;
- Encouraging private investment in Small and Medium Enterprises, especially foreign investments;
- Mobilizing the savings and potential of diaspora.

CONCLUSIONS

The above-mentioned recommendations and many others were not considered in Kosovo. The motto of the International Monetary Fund and the World Bank after the fall of communism in the SEE countries, in the years 1989-90, was “**Stability, liberalization, privatization.**”¹⁰ This was a signal that these countries had to respect these three rules, but with fundamental differences in terms of time, but also in terms of the methods in their application. In Kosovo’s case, none of the previous methods was used. The UNMIK chose the methods that they thought were the best, in which case they did not consider the special characteristics of the country and did not consult the local experts. However, even after the 15-year period of the process of privatization, the people of Kosovo for many more years will suffer the consequences that were brought by this process.

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