

PRIVATIZATION AND ITS EFFICIENCY  
IN ALBANIA

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In the process of the economy transformation, the focus is on structural reforms one of the main pillars of which is the privatization process.

In this process, as a rule, political objectives move (rather they fly) very rapidly, while the economical side keeps a slower rhythm, moving cautiously and counterbalancing the unjustified political pace. If we pose the question “what is happening with the privatized enterprises and have the post-privatization objectives been met?” we must admit that it is very difficult to conduct a thorough analysis and come up with the right answer. However, in this paper we will try to cover some of the main aspects of this issue.

## **1. THE USE OF VOUCHERS AND THE PUBLIC TRUST IN THEM**

First, we must clarify that vouchers as securities that can be used only during the privatization process, are and remain securities and must be considered as such. Unfortunately, despite the extensive propaganda, in the first phases of this process the securities served only as a means of profit (mostly in corrupt ways) for certain groups. Consequently during the privatization process only a fraction of the distributed vouchers was used (21.25 per cent) which constituted about 14.59 per cent of the total issued.

Based on the privatization strategy, in the strategic privatization as well, only a small part of the vouchers have been used. For this reason, to most Albanians these vouchers are useless securities. In this respect the government lacked and is still lacking a well defined policy. In our point of view the problem should be approached in the following way:

First, vouchers are securities issued by the Albanian government and as such they represent a liability to any existing or future government in Albania. We think that the country has all the potential for a full use of these securities (although not at their nominal value) and that this would also improve the reputation of the government.

Second. Does the privatization program in Albania contain even the minimal social element? We think that in the manner that this strategy has been implemented, social elements are completely absent. In Albania PB were a means of profit for several groups connected to the government and several employees of the privatized enterprises (chance element).

Third, think of a situation in which the state issues securities for the public. Could the public put their trust in such securities?

Fourth, the 1997 privatization of the enterprises through PB created a precondition for inefficiency of these enterprises after privatization. This was due to two factors: one, the purchasers of these companies acquired their shares without paying cash (read: almost free of charge) and two, most of the companies lacked the minimal capacity for capital investment in technology and they often lacked necessary managerial skills, which were vital for the new business environment. The total absence of foreign capital in this process is an element that speaks for itself.

On the other hand, today, the claim raised during the implementation of the privatization strategy sounds very absurd. According to the government of the time :” within year 1997 the government will conduct an analysis of the phenomenon created by the issuance of PB which was unbalanced from the legal, economical and market point of view. The government will also envision the measures that will need to be taken in order to overcome this situation”.

## **2. MANAGERIAL PROBLEMS OF POST-PRIVATIZATION**

The massive privatization method that was implemented in Albania was based mainly on purchases within the enterprises (employers and employees) and it resulted in a very dispersed ownership structure. Employees and former employees are present in more than 80 per cent of the privatized enterprises, while the presence of financial institutions is almost non-existent. The lack of funds for investment that could have been used by certain individuals in the monitoring and decision making processes, deprived those individuals of this specialized service. What happened in Albania in this direction was completely the opposite of what happened in Slovakia, Poland and the Czech Republic.

The dispersed ownership structure brought about a passive attitude and lack of motivation from the managers to restructure their enterprises after privatization. For the 45 privatized enterprises that were analyzed, the restructuring index resulted lower than 2.5 on a 1 to 5 scale. This index is also low compared to those of other countries that have undergone massive privatization like Albania. In these circumstances the managerial mechanism in these enterprises does not and can not function properly; managers lack strong motivation to engage in thorough restructuring and as a result the unfavorable situation does not attract new capital, which is fundamental to the privatized enterprises. This scenario has a negative impact on performance. In this context, the past few years have shown a tendency toward lower dispersion of ownership. Even though enterprises are moving toward a more compact ownership structure, the number of enterprises owned by more than 100 individuals is still very large (46.7 per cent). The controlling package however is in the hands of only a few persons. What we have observed is that in companies with compact ownership structure the restructuring index

(measured by the restructuring of facilities, use of sources, managerial structure, product, market and financial restructuring) is larger than in companies with dispersed ownership structure. This conclusion is also logical since it is easier and more time-efficient to reach an agreement when fewer persons with conflicting viewpoints are involved in the decision making process. In this case the managers can take more radical and strategic restructuring measures.

We have also observed that for each of the ownership groups (less than 20 shareholders; 20-50; 50-100 and above 100) the biggest weight in the restructuring index is carried by employment and managerial aspects, which proves that managers are concentrating on the structural transformation of their companies as well as on more efficient use of raw materials and other sources. The most problematic issues encountered by managers are those related to loan restructuring. This index marks the lowest value in the total restructuring index. In sum we can say that from the ownership structure point of view, the enterprises with lower number of shareholders display better restructuring performance in all the aspects.

The survey that we conducted included several questions related to the changes in the managing structure in the post-privatization period. Around 67 per cent of the enterprises (30 of 45) have undergone several changes in the managing structure. 68 per cent of the enterprises had made changes in both the structure of financial management as well as operation and production management. 62 per cent had made changes in the marketing structures as well as quality control. Only 33 per cent of the enterprises had not undergone any visible change in their managing structures. The evidence is that most of these enterprises had a dispersed ownership structures. In this group more than 60 per cent had more than 50 owners and only 6.7 per cent had less than 20. These results could also be expected by their performance.

In conclusion, we can state that the experience of other countries in transition in the corporate governance field suggests an urgent need for financial intermediaries (such as investment funds) in the process of privatization.

### **3. THE ADMINISTRATION OF THE PROCESS**

The problem of corporate governance has always arisen in cases of visible gaps between ownership and direction, between owners and managers. This division can most often be observed where private ownership is involved, but in the case of state owned properties the division between the owner (state) and manager of public companies is clear. Enterprises and companies should be structures where ownership is divided from management. Managers are the ones who run the company and make the decisions, whereas owners can only intervene to the extent that their possessions allow them to.

Given the existing administrative capacity and the modest development of markets and financial institutions, the massive privatization method that was employed in Albania was more simple and different from the ones employed in other transition countries. In addition, because domestic capital was missing in Albania, this method aimed at a rapid and equal transformation of ownership which would bring about more credibility for the reform programs as well as heighten their chances of success. It was thought that, if the method was implemented quickly, the chances of being contested by the employees and other interested groups were smaller.

Despite the quick steps that were taken in the beginning, the privatization process lacked a general plan. This proved to be one of the major drawbacks of the whole program. The program was implemented via ad hoc decisions that were taken in separate meetings of the Council of Ministers rather than through a Privatization Law. This means that the decision makers did not pay full attention to privatization implications. Moreover the fact that political consensus was not reached from the very beginning of the privatization process and the later change of strategy are evidence of a lack of responsibility on the side of political class toward the public and their savings. Lack of synchronization between the distribution of PB-s and the selection of companies that would be privatized brought about a significant element of inequality in a system which aimed to reach equality. Thus, if the privatized companies in the first rounds would prove successful, then the citizens who did not possess their PB-s at that moment would be at a disadvantage in the process and the opposite would happen if privatization proved unsuccessful. The justice and equality of the program was further doubted due to the fact that the list, the value and the many-sided information related to the companies put forth for privatization were incomplete. So much so that two years after the massive privatization process had begun,

in 1997, no one could tell which companies would be privatized and which would not.

In the same way, the scheme did not include conditions for the auction or any other attempt to measure the market value of the companies shares. Instead of this value the accounting book values were used for each company. All the buyers received shares for which they had applied in proportion to the total number of vouchers allocated to the specific company. In this way, in an extreme case, if the offer for the shares of a given company was extended by a single buyer, then this buyer could take all the available shares. This hypothetical example should also speak for the (lack of) equality of the whole process.

#### **4. THE NEW STRATEGY AND ITS IMPLICATIONS**

As expected, once the left wing party came to power, the privatization strategy became a very hot issue. Despite the flaws in its compilation, we think that the major drawbacks stemmed from the way in which this strategy was implemented. If we take a careful look at the strategy, we will discover that the deadlines for the preparation and privatization of different companies have not been respected. How is it possible that no analysis (even a public one) was made in order to uncover the factors which impeded the realization of a strategy that was ratified by law?

Another problem, related to political interference has to do with the order that was set in the privatization process, in terms of the companies that would or should be privatized before others. It is obvious that the decision has been and is being influenced by previous performance and management of the company. Companies with satisfactory previous performance were and are being privatized with the purpose of creating the image of a successful privatization. This image is seen as a powerful attraction to foreign investment. As can be inferred from above the selection of companies is not done through economical analysis of the potential for normal operation in the market (elimination of the monopoly position, the support by managers and specialists market, the creation of necessary fiscal incentives and the analysis of potential market for the given product or service).

The frequent political fluctuations require that we focus mostly on short and medium term objectives rather than on long-term ones. In addition their high correlation to governmental corruption is a serious obstacle to satisfactory performance. Let us take the

example of AMC (Albanian Mobile Communication). It is still unknown to us why the propaganda stated that privatization (acquisition) was done by a Norwegian company (Telenor) and not a Greek one as was the case. This claim raised public suspicion and anticipation of unpleasant events in the future. Reality showed that AMC is robbing Albanians in two directions:

1. Low service quality;
2. Very expensive service.

The strategy, only theoretically mentions “harmonization in appropriate fractions and use of securities” because, as was made clear above, nothing has been done in this direction. The privatization strategy had another objective which read like this: “The process will aim to destroy these structures (monopoly and oligo-monopoly) and increase competition in the domestic market while opening several sectors to external competition”. This objective, in our view, has not been reached. Another objective of the strategy follows: “we will work for the completion of legal and regulatory framework for the functioning of Incorporated Companies before and after privatization in order to turn those companies into positive examples for the capital market. We will also co-operate with the stock exchange of Tirana for the formalization of securities market as a precondition to make this market efficient and liquid”. In our opinion this objective has not been reached either.

#### **5. THE RIGHT TO OWNERSHIP, ADMINISTRATION, MANAGEMENT, AND MONITORING**

If we analyze the state of Inc. Companies that are in the process of privatization we can see that in Albania, no distinction is made among the organisms that exercise ownership, administrative, management and monitoring rights. All these organisms depend on the minister in charge. We can bring as an example the entities of telecommunications, energy etc.. How can monitoring be effective when it depends on the same person from who depend the activities that are being monitored? On the other hand how transparent is the monitoring process of public companies when Managerial Boards are used as tools that will boost the income of some directors and supporters of forces in position? If one asks for information related to participation in the Boards of public companies, one would be seen as a heretic.

#### **6. THE STATE ROLE IN THE MONITORING OF COMPETITIVE ENVIRONMENT**

State units have as primary goal the creation of a favorable environment for pure competition. If dishonest competition hits private companies, it will more hardly strike privatized companies.

Without wanting to politicize the problem, we would like to assert that today in Albania, it is impossible to speak of honest competition and privatization efficiency. We also think that it is the duty of state to compile programs that will be of use in the post-privatization period. This does not mean that state should be the major supporter of privatized companies. Rather it should keep an eye on these companies until they are strong and secure enough to manage competition on their own.

For Albania, domestic production is more advisable than import and consumption of foreign goods. Import increases the chances of corruption in customs and state administration whereas domestic production would open new job places and improve the structure of state revenues besides increasing the absolute value of these revenues.

## **7. PB AND THE CAPITAL MARKETS**

The results of our survey related to the financing sources of the enterprises that were privatized through PB-s, show that the main financing source was internal , drawn from retained income and completely insufficient for new investment. These enterprises have received very limited support in the form of loans by banks. Only 22 per cent of these enterprises have turned to banks or other financial institutions for loans. Among the reasons that have been mentioned by the enterprises that have not used loans by banks, are the high lending rates, the collateral and the complex application procedures. Banks on their side, prefer to extend short term commercial loans while the conditions of the equipment and other fixed assets of these enterprises require long term financing. Co-operation with foreigners, though desirable by privatized enterprises that need to increase their capital and acquire new technology, has been almost completely absent due to the economical and political conditions of the country in the period after year 1997.

The only form of privatization that has not been considered so far is that of the issuance of new common shares and maybe the increase of the shareholders number. This form, because of the current stage of the capital markets in Albania is practically

impossible. The law no. 8080 "On securities" and the respective regulations passed by the Securities Commission, theoretically regulate the procedures of new shares issuance by Incorporated Companies with public and private offers. However in practice, there have been no cases when an enterprise (all the companies that have been privatized through PB are Incorporated Companies) has issued new shares. This phenomenon is closely related to the lack of an institution (bank) that would take responsibility for the shares of these enterprises and promote the shares' sale in the market. Commercial banks (in which enterprises have their accounts) can only play the role of a counter for the sale of the new shares issued. However, in a best case scenario, the speed and effectiveness of this process would be far from satisfactory. On the other hand the law that regulates this activity as well as the nature of commercial banks business today, prohibits banks from assuming competences and other responsibilities in this direction. In short, these institutions could not play the genuine role of a capital market that would secure financing sources. An extensive offer of new shares to the wide public would be very difficult and would still remain within the boundaries of a private offer, where personal contacts and acquaintances would be the key players.

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