

AN OVERVIEW OF THE ALBANIAN PRIVATIZATION PROCESS

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Abstract

In the process of transformation of the economy the emphasis is on structural reforms, where one of the supporting pillars of these reforms is the privatization process.

Given that, the privatization process in Albania for more than two decades has been the "Achilles heel" of government programs and its impact has been extraordinary in our economy. This paper will provide an overview of the development of this process in Albania, based on the hypothesis that "privatization positively affects the country's economy". What went well and what did not function properly, who can intervene this process in order to improve?

Besides tremendous impact on the economy, privatization requires extensive changes in the legislation and urges the creation of institutions that will make this process possible. Privatization is a process based on the political changing role of the government in the economy, but this process in Albania is associated with social consequences such as high unemployment and moderate wages, holidays and layoffs for employees more older and unskilled, retraining, etc.

Keywords: Privatization policy, Legal Reforms, State property, Economic Stability, Corruption

Introduction

The process of privatization constitutes the main economic reform that affects the interests of different population groups, and dynamically redefines the role of the government in different ways. Also privatization is a key element for foreign economic engagement in Albania. Only an effective process can create a conducive environment, needed for attracting foreign investment. The strategy should be developed in adequate frames and should be followed by post-interacting programs that together will lead to an effective process, creating a favorable climate for foreign investment. In a society where, for many decades, property, the private limited personal

goods, even a private house and a small piece of land is incomprehensible, there will be a lack of knowledge and much more uncertainty to “ private property concept”. The most important task of the government, in this area, is to set a new legislation to guarantee private property and increase the confidence of the people and also to enhance the trust of the population that this right would not be affected or removed in a later period. The transfer of property from the public to the private sector brings many difficult problems. Moreover, the privatization not only of the enterprises, but also the privatization of houses and arable land should be done in order to be considered fair by the majority of the population. We should emphasize that in the process of privatization there are some criteria to be conducted: justice criteria, social criteria, economic criteria and political criteria.

We should highlight three aspects of privatization: **efficiency, distribution and stability**. In the case of efficacy we should have in consideration of how property’s privatization will work efficiently in the short term and next we have to take care about the efficiency of new investment, and the impact of alternative privatization methods in the distribution of wealth. When we talk about stability, I mean, how the implemented privatization affects, in the short term, macroeconomic blasphemous variables as inflation, unemployment, GDP structure, etc.

Should all the state property be privatized?

A part of state assets to be privatized are or could be privatized under special conditions. State ownership of these types are:

a. State Property that is important for the country as a whole. These include unproductive state properties that are essential for the function of the state (buildings and installations of the central administration, courts, army etc.) and installations of public infrastructure to serve the whole society (stations, bridges, canals, public roads, etc.). These should remain state property.

b. State Property that experiences its activity in the form of state enterprises. Here, are included some companies that operate throughout the country, such as post and telecommunications, as well as companies that produce military equipment.

c. State Property operating in the field of municipal services that needs public administration today and in the future. Here should be mentioned:

- Public property of great importance, local buildings, parks, local roads can not be subject of privatization
- Enterprises of public need (local importance). They can be privatized if it is deemed necessary by the local administration. Proceeds from the privatization must pass fully to the local budget.

- State-owned enterprises, that do not fall in the preceding paragraph, but under local administration. They can be privatized by local authorities. To promote the local authorities, a part of their privatization proceeds remain in local budget.
- The property must remain under the control of local administration, municipal buildings, homes.

Privatization should reduce the space of government in the economy that may be too large and consuming more resources, and allow the private sector to operate efficiently and as a powerful engine for economic growth. Experience shows that economic growth is more successful in countries that have relied on the private sector to countries that have relied on the public sector.

In the current conditions of social, economic and political development , it is a large number of economic arguments in favor of privatization, which is worth mentioning:

- The superiority of the economic development that comes from the implementation of property private rights.
- The output from the process of monopolization in the sectors of economy, which is created by applying the principles of planned economy.
- Fostering competitiveness through practical application creating private demand and supply market and independent economic actors.
- Private control of production is recognized and accepted that is superior to public control

But above all, the main theoretical argument for privatization is; to increase economic efficiency in socio-economic development of a country.

Benefits from privatization are different forms. Privatization improves economic performance and helps private, domestic and foreign investment giving life to the country reforming process. It creates big economic opportunity for the individual investor as becoming a shareholder in the former state enterprises. So, this process insures benefits not only for companies but also for the general public, and it should be treated with caution.

Privatization in Albania

The process of economic reforms began in July 1992, when the government program was supported by the agreement "Stand By" with the International Monetary Fund.

The main objectives were:

- a. Macroeconomic stability, which aimed at reducing the budget deficit, inflation control and price liberalization.

b. The restructuring of the state sector, through the elimination of government subsidies, promotion and development of free competition and reorganization of public sector, including the banking system.

c. The privatization of the economy, which was conceived as a transfer of rights from the state sector to non-state sector. Aiming to increase the standard of living through the elimination of inefficient state property.

In the early 90s, entities operating in all sectors of the economy were in very difficult situation:

- backward technology and low technical condition, due to the lack of new investment in these sectors for a fairly long period of time,
- working with excessive force,
- trapped in the market and high state debt,
- the low level of management, stressed state intervention in everyday actions, shallow knowledge of the laws and rules of the market,
- the lack of capacity to manage crises,
- the low level of financial discipline, inadequate systems of measurement and control,
- unclear, multiple (no way) and conflicted objectives,
- under political patronage that did not allow an efficient activity of entities.

The serious situation in these sectors requires qualitative interventions; restructuring, liberalizing, accompanying it after privatization. Interventions for capitalization require large unaffordable investments' value, which demanded the withdrawal of foreign or private domestic capital activating and effectively using natural and human resources to these sectors. The industry had declined due to the great difficulties faced by the factories and plants in the face of competition with imported goods as a result of their old technology. Among other factors, higher costs of imported raw materials, inefficiencies in the management of state enterprises and new market rules, caused the product, produced in the country, was more expensive than the imported product. Despite the low cost of labor in comparison with other countries, the majority of state enterprises failed. On the other hand, during the privatization, the decline in industrial production slowed starting from 1993 onwards, this production has been almost constant, although at a very low level (31% in 1997 compared with the level in 1990).

In the process of economic transformation that our country was undergoing, privatization was conceived not only as a change of ownership, but as a new alternative that will provide effective functioning of the actions of "market players", private or public, and will ensure legal competition between them. This process is accompanied by complex problems, changes , political interests, social, macro and micro economic and legal issues.

The ultimate aim of the government through the privatization process, is the realization of the rights' transfer to private entities in all their forms and through a continuous and efficient process.

In this context, privatization is defined as the transfer of the three types of rights from the state to the private sector ("Privatization and its efficiency in Albania", Vasil Pano, Director of Directorate at the Ministry of Public Economy and Privatization).

- the right of ownership,
- the right to use,
- the right of development,

Through the transfer of the right of ownership (sales), the state liberated itself from all kinds of risks associated with the management of the company or society, and through the transfer of the right of use (management contracts, service, etc.); state generally remain involved in monitoring conditions and risk financial entity losses. Concession contracts, schemes EOT (Electro-Optics Technology); BOOT (; ROT and renting or leasing are among the methods used during the privatization to transfer simultaneously to the right of use and the right of development., Which faces or not the state to the financial risk, depending on the specific contracts. In Albania transfer "the right of property" is widely used in the privatization process during the period 1991-2000.

The main objectives of the privatization process.

The program of the government of the mid-90s aimed the privatization of small and medium enterprises and the privatization of key sectors of the economy (strategic sectors). The so wide implementation of this program, with powerful impact on political, economic and social environment, requested the preparation of a clear strategy for important sectors of the economy; targets, deadlines and procedures have to be defined legally and transparently. So the main objectives were to:

a. Provide a long-term sustainable economic development and increase the efficiency of the economy.

Government does not see privatization as an end to itself, but as an instrument of power to ensure sustainable economic growth through restructuring further development of the most important sectors. The use of potential natural resources and production capacities will be the inseparable aim of the privatization process, pointing that all economic resources will be in service. Simultaneously, this process will lead the releasing of budget funds, currently not allocated to efficient sectors of the economy, helping to reduce the budget deficit.

b. Increase the effectiveness of the market by promoting competition and further deregulation of the market.

As for the size of the domestic market, as well as for the legacy of the centralized economy structures, in certain branches of the economy are observed monopoly structure or oligo-monopolistic. These structures, avoiding competition, have created distortions in the market with all the harmful effects.

The privatization process will aim to demolish these structures, increasing competition in the domestic market, and also in certain sectors of foreign competition. Promoting competition as a driving force for the optimal capital use. These measures will lead not only to increase the effectiveness of the use of capital, but in particular, improve the level of service, especially in public services.

c. Withdraw foreign private capital in key sectors of the country economy.

The serious situation in which the strategic sectors are, requested priority reforms which involve investments of great value of the government and private sector. The attraction of foreign capital is an important factor for economic growth. In the selection of foreign investors, will be the demand for concrete development programs from foreign collaborators, reliable and supported by appropriate financial and banking structures. Foreign investments presupposes are not just “cash”, but also managerial skills, access to foreign markets, strategic alliances in the world market etc.

The realization of the above objectives is closely related to creating conditions for capital market development. Although the capital market is one of the most important dimensions of a market economy, the capital market in Albania still has not a concrete activity of quoted companies. The privatization process will be aimed at creating premises to start and to revive the capital market to absorb the internal and external financial funds and redirect them towards investment. To achieve these objectives, it has to be working on completing the legal and regulatory framework for the operation before and after privatization and in cooperation formalize market securities, as a prerequisite for making the market efficient.

It would be very superficial considering privatization simply as a change of ownership, or the introduction of private management. This platform will not pave the way that privatization leads to financial and economic efficiency.

Different countries are making great efforts to improve the organization and to increase the performance results of state entities, thus privatization is only one of the elements of the process of reforming the economy and the whole society.

The current privatization

In the context of economic reforms to transform the economy in a free market economy, the process of privatization in Albania began in 1991 with the Law no. 7512 dated 10.08.1991. The process began with the privatization of the trade and services network in all regions of the country, continued with privatization of a part of small and medium enterprises and managed until the beginning of privatization for large enterprises.

The process of privatization was characterized by the following features:

- lack of a strategy in short, medium and long-term, which would ensure harmonization of the economic, financial and social micro and macro level, the supply-demand balance in privatization with a view of the final performance of an efficient process
- return the process into a tool to meet the more narrow political goals, through the adoption of fully political elements such as boards of privatization, a tool that should be subject to economic irregularities.
- elements of corruption at various levels of the state administration related indirectly or directly with this process.
- existence of a vacuum in various acts and regulations to privatization which leave space for interpretation in favor of particular persons leading to violation of social justice criteria.

Mass privatization program through the issuance of money supply and bond of privatization, resulted a political propaganda-bluff, difficult to repair. According to NPA's statistics (National Privatization Agency), by 2005 in mass privatization and privatization of small and medium enterprises were used 10.2 billion of privatization bonds and 4.6 billion privatization money, for a total of 14.8 billion. So, they are used only 16.3% of the privatization bond and money, while 107 companies were privatized. Also, keeping from the government of a package of shares, generally above 51%, in part during the mass privatization of companies, it has been another weak moment of this program. The lack of concrete objectives in holding the shares of the government and further, the lack of a clear vision for the future of these shares, has often raised a doubt that that was only a momentary decision.

Keeping these actions by the government for not compelling economic reasons, it becomes a serious obstacle to normal economic activity performance after privatization.

The lack of a strategy, bring that the privatization of state property was performed faster than the restructuring of the banking system and market development capital. This has led to a lack of supporting young entrepreneurs, making the financial system not able to respond to growing business demands.

Then, a major negative impact on the privatization process were the problems in relation to the former owners of the lands. The existence of the Law no. 7698, dated 15.04.1993 "Restitution and Compensation of Property to the former owners' decisions on the basis of which carried out the privatization process and the activities of the Committees Return

Compensation of properties were often in contradiction with each other. The regulation of these relations will free the process from many contradictions and reduce the grievances of affected groups for specific reasons of their legal rights. Fragmentation of former state enterprises and selling them partly, filling certain interests, created a large number of sectors, which are outside the concern of private entities making the government pay thousands of guard officer without any interest. Because of the weak verification of financial guarantees and customer management skills, buyers have caused no small manufacturing unit fall in unsafe "Hands" and former manufacturing units are stopped, many are turning to warehouses and others are awaiting any use.

The privatization strategy

The process of privatization, affects the interests of different groups of the population, and that dynamically redefines the role of the government in different ways. Taking into consideration the fact that the privatization process conducted during the entire period of the previous governments lacked a comprehensive strategy medium and long term, it is deemed that in future it should be developed based on a strategy to build and consolidate consensus around the main privatization objectives and to have a wider support of the population for this program.

The privatization program includes the completion of the privatization of small and medium enterprises that still remain state property in special sectors of the economy. It includes about 80% of all economy assets, in the oil, electricity system, telecommunication, transport infrastructure, mining, water resources, tourism sectors, etc. The serious situation in which are these sectors and priority development needs of these sectors to ensure a rapid and stable economy, makes it a necessity performing investment in great value. Attracting private foreign and domestic capital, reactivating and effectively utilizing natural resources and potential development of these sectors, constitutes a key factor to ensure sustainable economic growth. Further liberalization and deregulation of the economy in strategic sectors, where the state monopoly still stored, and implementation of privatization program are considered necessary to ensure successful economic program. Considering the importance and complexity of Privatization Program, is prepared The Sectors Strategy of Special Importance, which was made possible through the coordination of the

program of privatization at all parts of its phases, as well as the determination of the main objectives, forms, methods and techniques of privatization that will carry out this program. The program of privatization of strategic sectors of the country is an attractive instrument for attracting private foreign capital in Albania. For this purpose it was very important from strategic investors appearance of development programs of the sectors in accordance with the objectives set by the Albanian government. Draft law on Privatization of sectors of particular importance aims to institutionalize the main ideas presented in this strategy, to pave the way to adoption of a comprehensive legal framework for privatization.

Conclusion

- The problem of the new privatization strategy lies in the formulation, but rather in the manner of implementation.
- Privatization is only one element of the process of reforming the economy and society.
- In many cases unemployment is a result of privatization and of the restructuring of the company after privatization.
- Public companies are more easily adaptable to political objectives than to their economic objectives in terms and according to their activity in the free market.
- Political frequent fluctuations obligate public enterprises to think more about short and perhaps medium-term objectives rather than long-term goals.
- Lack of the profit motive and lack of competitiveness from state-owned enterprises that remained ineffective by not providing qualitative products and services.
- In most of the state enterprises managers were appointed by political clans.
- Privatization brings high economic efficiency in socio-economic development of a country.
- The possibility of corruption is associated with the mass privatization.
- A stable macroeconomic environment encourages investment, especially foreign investment, bringing benefits that are important to future economic growth.
- The main base of direct sales privatization is to increase the income of the state budget.
- The calculation of the value of national assets that were be privatized, was one of the weakest points of the privatization program.

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