

**PRIVATIZATION AND POST –
PRIVATIZATION IN KOSOVA:
GLASS HALF EMPTY OR HALF
FULL?**

(Research Report)

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ABBREVIATIONS

BSPK – Federation of Independent Trade Unions

ECO – European Consultants Organization

EU – European Union

FDI – Foreign Direct Investment

FES – Friedrich Ebert Stiftung

GDP – Gross Domestic Product

IMF – International Monetary Fund

KPA – Kosova Privatization Agency

KTA – Kosova Trust Agency

LLC – Limited Liability Company

MTI – Ministry of Trade and Industry

OSCE – Organization For Security and Cooperation in Europe

OSI – Open Society Institute

SME – Small and Medium Size Enterprises

SOE – Socially Owned Enterprises

SPSS – Statistical Package for Social Sciences

UNMIK – United Nations Mission in Kosovo

EXECUTIVE SUMMARY

This report is prepared for the Forum 2015 aiming at improving information at the disposal of policy makers and other stakeholders, and contributing to the improvement of transparency, accountability and especially public policies related to successful completion of this important process. It is based on a survey of 80 randomly selected post-privatized companies from the electronic register of the Kosovo Trust Agency (KTA) and all 23 special Spin-Offs. Also seven case studies including in-depth interviews with Trade unions have been explored. The available KTA documentation has also been used. Currently privatization of SOEs in Kosovo has entered in its final phase. Before and immediately after its start in July 2003, when the first wave of tenders was launched, it was followed by dilemmas and controversies which resulted in delays and even temporary suspension of privatization activities.. After a period of hesitation, the process recommenced in 2004 and since then KTA has tendered 313 socially owned enterprises (SOEs) in the form of 551 NewCos. However, only 347 buyers have signed contracts to date. The accumulated proceeds from the sale of assets reached over €383 million or around 11.5% of GDP¹ (KTA management Information Summary, 2008). However proceeds continue to be kept in the KTA Trust Fund, frozen and withdrawn from their economic activity. Also there has been a chronic delay with the payment of 20% of proceeds to former employees. It is estimated that some 100 SOEs remain to be tendered during next waves including some important companies like Trepca , Ski resorts in Brezovica , the status of companies in Gjakova have to be resolved, and the liquidation most of other SOEs in a list of privatization should be initiated.

Since the beginning of this year, for about 8 months, the privatization process has almost stopped due to the problems experienced during the Kosovarization of KTA. While the establishment of Kosovo Privatization Agency (KPA) was delayed, more problems occurred during the handover from KTA to KPA. Finally, in September 2008, the first meeting of the KPA Board was held and the 32nd wave of privatization was announced.

Some of key findings from our research include:

- Ownership change after privatization (or secondary privatization) has been relatively small; only 15%, or about one in six privatized company has been resoled; most post-privatized companies (NewCos) have been organized as partnerships² and corporations³ (50%) compared to 13% of private SMEs with similar legal status. Again contrary to the SMEs out of which 80% are unlimited liability companies, most of NewCos⁴ are limited liability companies (70%).

1 GDP in 2007 is estimated at 3,343 (in million Euros); Source: IMF, April 2008

2 Partnership is a type of business entity in which partners (owners) share with each other the profits or losses of the business undertaking in which all have invested; it might have limited or unlimited liability.

3 Corporation is a type of business entity with limited liability.

4 'NewCo' is a company created from an old SOE during the privatization process through the spin off method.

- Privatization effects are negatively impacted by long delays in contracting process and the winner of the bid could sign the contract, on average, only after 7 months while it took some other 3-5 months, on average, to take over the company
- The main motives of investors participating in the privatization process have been: availability of skilled workers at low wages, geographical location and natural resources.
- The performance of post-privatized companies is better than had been expected. The dynamics of growth of sales, exports, employment and investment are better than the remaining part of the private sector'. The acceleration of privatization process coincides with improvements in exports and GDP growth rates. The turnover of surveyed companies has doubled compared to 2006, exports have increased six times and investment has increased by 30% during the same period. Capacity utilization of NewCos on average is about 55%. The average export share of sales is 35% and they cover about 46% of imports (the rest of the economy 11%). About 80% of managers/respondents consider their business to be in better conditions during 2007 compared to 2006 and they expect that the current year would be even better.
- The majority of NewCos have continued the previous business activity, but nearly 40% of them have induced changes in manufacturing program and also undertaken technological changes.
- The number of employees was reduced immediately after privatization, but it has generally increased afterwards. Currently, about 60% of the work force were employees of the company prior to privatization. Surveyed companies expect to increase the number of employees in 2008 for about 9% than in 2007; more than 60% of companies have recruited new employees.
- There is strong orientation towards exports: 44% of companies are export oriented.
- More than 80% of these companies have made investment, financed by their own resources and about 1/3 from credit sources with loan terms considered unfavourable for more than 80% of respondents;
- This generally bright picture of privatization process in Kosova is undermined by the fact that nearly 1/3 of privatized companies are not active.
- Liquidated companies are performing better than expected; they are showing better labour productivity than companies privatized through Special Spin-Off.

Policy recommendations:

- Government should support the newly established Kosova Privatization Agency to consolidate its operations and continue the privatization process through : (a) completing the official handover of operations, documentation and databases from KTA as soon as possible; (b) establishing full transparency and reporting procedures toward investors, public opinion, the government and Parliament.
- KPA should immediately undertake necessary measures to complete the pending contracts and handover the NewCos to respective buyers, through shortening this process and targeting to complete it within one quarter.
- Following the concerns of investors and owners of privatized companies, the government should urgently deal with the necessary improvements in policies for creating a friendly investment environment (a) free tariffs and long term VAT credit for imported capital goods and equipment and (b) improve access to credit through better conditions (e.g. special credit lines) for manufacturing, export industries, etc.
- KPA should in a short period establish an effective system for payment of former employees' entitlements through establishing better cooperation with Trade Unions and creating necessary technical conditions and human resources for implementation of this process.
- The Government should build the necessary mechanism through which it can finally ensure the injection of privatization proceeds into economic flows of the country by investing them into business and infrastructure development through Banks with better conditions and, at the same time, establish a restitution fund with a part of the proceeds (10-15%) to address the eventual justified claims of creditors.

INTRODUCTION

Currently privatization of SOEs in Kosovo has entered in its final phase. Before and immediately after its start on July 2003, when the first wave of tenders was launched, it has been followed by dilemmas and controversies which have been reflected in the delay of this process. After a period of hesitation, privatization recommenced in 2004 and since then the Kosovo Trust Agency (KTA) has tendered 313 socially owned enterprises (SOEs) in the form of 551 NewCos. However, only 347 buyers have signed contracts to date. The accumulated proceeds from the sale of assets has reached over €383 million or around 11.5% of GDP and continues to be kept in the KTA Trust Fund, frozen and withdrawn from their economic activities of the country.

Riinvest Institute has been actively involved with research and advocacy in favour of launching effective privatization process in Kosovo since the early days of transition. During the period 2001 – 2005 it published four reports addressing the privatization process and its problems in Kosovo. These reports contain the theoretical and other arguments for privatization in Kosovo; they address the negative effects arising from hesitations and delay that accompanied the privatization process in Kosovo. They also provide a comprehensive review of different privatization methods and the results of privatization in other transition economies.

However, despite the large number of Socially Owned Enterprises (SOEs) that have been privatized during last three years, there has been no comprehensive study of their performance, the impact of the business environment on their activities, the effects of the privatized enterprises on the economy of Kosovo and the social issues that have accompanied this process. The information on what is happening with privatized companies is fragmented and covers mostly individual companies in the media, particularly in cases where problems have appeared in their transformation and operations.⁵

This report is prepared for Forum 2015 to not only shed light on these very important issues but also: (a) to improve information available to policy makers and other stakeholders of the society on the effects of privatization in Kosovo, and (b) to encourage an improvement in transparency, accountability and especially public policies related to successful completion of this important process.

The report is organized as follows: The *first* chapter discusses the current stage of privatization of SOEs in Kosovo. The *second* chapter gives an overview of the

5 To date, there is only one study which assesses the performance of privatized firms in Kosovo. The survey by the European Consultants Organization (2008) which focuses on the manufacturing and service sectors in Kosovo provides a rather bright picture of the effects of privatization in Kosovo. According to ECO (2008), since privatization, employment has increased by 23% in the surveyed companies, however no information is provided on employment changes compared to the pre-privatization period. An increase of 26% in sales is reported in the first months of 2007 compared to the average monthly sales in 2006, while the reported value of exports of the 55 surveyed companies is €557,000. However, it is not clear that the results of this survey can be generalized for the whole sectors it targets, primarily because it does not provide information on the manner of sample-selection. Also the Report does not address the problem companies that are inactive after privatization.

evidence on privatization effects in transition economies. The *third* chapter deals with the performance of privatized companies as compared to *de novo* private companies. The *fourth* chapter is dedicated to the level of restructuring taken place in privatized enterprises in terms of the current and previous economic activities, the level of investment, management and employee turnover, the introduction of new products or methods of production, etc. The *fifth* chapter deals with finance and investment activities of companies under consideration while the *sixth* chapter presents the business environment in terms of the barriers to doing business, competition and corruption under which privatized enterprises, and the private sector in general, operate. Chapter seven tackles some important issues associated with the process of privatization in Kosovo.

This Report is prepared on the basis of a survey of enterprises and case studies of privatized firms in different economic sectors. The experience of other transition countries suggests that the success of the privatization process and the performance of privatized enterprises depend largely on the business environment and institutional framework. Therefore in this study we attempt to address not only the performance of privatized companies but also the business environment and the way it affects both newly-privatized and *de novo* private enterprises. For this purpose, the survey includes a sample of around 600 enterprises, out of which 500 are private SMEs (*de novo*) and 100 post privatized companies aiming to compare their performance and also their perceptions of the business environment. Sampling and survey implementation have followed standard methodology (for more detailed information on the methodology used, refer to Appendix 1). Case studies are based on semi-structured interviews with key representatives of privatized companies – owners or managers. The interviews were conducted and case studies prepared by Riinvest University's graduate Masters Students in cooperation with the project team. Prior to the interviews, the students were trained by Riinvest researchers on the methodology and the aim of the research.

We would like to thank very much OSI, FES and the Dutch Office for supporting this research and related activities and for their continued cooperation during the realization of this project. We would also like to thank managers, owners and other respondents for their cooperation during the implementation of survey and preparation of case studies. We thank all parties involved in the preparation of this Report for their contribution. We take also the sole responsibility by for its findings and conclusions.

CURRENT STAGE OF THE PRIVATIZATION OF SOES IN KOSOVA

The privatization process in Kosova had very difficult start followed by hesitation and delays, and experienced its forwards and backwards during its development. Since its start in June 2002, it experienced two breaks, firstly during the fourth quarter of 2003 and 2004; then it had a good flow during 2005, 2006 and 2007 before again having a major slow down during the 2008. With the KPA on board, the process should continue with remaining SOEs of which the most important are entities of Trepca, Ski Resort in Brezovica, unresolved issues of SOEs in Gjakova. Majority of the remaining SOEs are expected to go under liquidation process.

The privatization process in Kosova inherited around 500 Socially Owned Enterprises of which only 30% with around 60 000 employees were functioning after the War. Out of this number, only 16000 were on a payroll. Important technological and human assets were concentrated in these enterprises during the 1980s but because of the imposition of 'special measures' by the Serbian government and the violent governance and poor management during the 1990s; the depreciation of assets and technologies, and changes in regional and international business environment most of these enterprises were operating ineffectively and below their capacities and many ceased operations altogether.

In order to institutionalize a privatization process in Kosova, the international administration (UNMIK) introduced a special legal framework which consisted of:

- Regulations governing the operation of KTA
- Regulation governing the land use
- Regulation for the Special Chamber of the Supreme Court
- KTA Operational policies
- Tendering and procurement rules for Government

Generally, this legislation enabled and facilitated the direct sale of enterprises through regular and special spin-off. The latter was accompanied with some undertakings on investment and employment given by the buyer.

An overview of the implementation of the privatization program in Kosova to date shows:

- It was estimated that some 300 SOEs should be privatized or liquidated. By June 2008, 313 SOEs were put up for tender, in the form of 551 NewCos. About 114 remaining SOEs are now in liquidation.
- After 5 years of privatization, 393 of these Spin off NewCos have reached the stage of contract completion, with an additional 24 Special Spin-offs reaching contract completion (the new company and its assets handed over to the winning bidders). A further 78 contracts for the sale of new companies are pending and will be passed on to the KPA. (51 NewCo tenders have not reached the completion stage).
- Total privatization proceeds to date have reached Euro 371 million.
- The additional investment commitment for Special Spin-offs (23 Companies

only) is in total Euro 196 million, while the average investment for a regular spin-off is 420 thousand Euros in the first 2 years.

- Employment commitments for special spin-offs are 8,114 jobs and employment in regular spin offs has also grown.

In summary, the total NewCos privatized since the initiation of the privatization program is now 495 (10% await contract completion). These NewCos have been created from the assets of 313 SOEs. The KTA was closed down by EU pillar IV, and has been succeeded by the Kosova Privatization Agency which commenced its operation in September 2008.

The accumulated proceeds from the sale of privatized assets reached over €383 million or around 11.5% of GDP. However proceeds continue to be kept in the KTA Trust Fund, frozen and withdrawn from economic activities of the country.

Furthermore, investment commitments from Special Spin off total €191.3 million which is an additional boost to the economy, and employment commitments total over 8,000 jobs. If all privatization commitments are honored (tender proceeds, liquidation sales, and investments), more than half a billion Euros will have been raised through privatization and liquidation tenders in the privatization program undertaken to date. (KTA management Information Summary, 2008)

AN OVERVIEW OF THE EVIDENCE ON PRIVATIZATION EFFECTS IN TRANSITION ECONOMIES

In academic writings, privatization is considered an effort to replace the hierarchical decisions of a command economy with the incentives of a profit-maximising producer reacting to market signals (Harvylyshyn and McGettigan, 1999, p.3). The common theoretical argument in favour of privatization as opposed to social ownership is the incentive of private owners to improve performance because they bear the financial responsibility of their actions. Frydman et al. (1997) provide a complementary argument for the superiority of privatized firms in conditions of transition. According to them, because of the uncertainty in transition periods, effective entrepreneurial skills (which are not associated with state ownership) become relatively more important for firm performance. Ultimately, improvements in firm-level efficiency which result from the privatization process add up to affect aggregate growth.

Although empirical studies use different methodologies, they all attempt to test the effect of privatization on firm-level performance (see survey by Megginson and Netter, 2001). Although isolating the effects of privatization in transition economies is very difficult because this process occurs at the same time as other massive changes throughout the economy, empirical studies have provided the basis for a consensus on a number of issues which we discuss below.

Different studies over the years have found strong evidence on the superiority of privatized firms using a number of performance criteria such as labour productivity, profitability, employment, investments, exports, developing new products and finding new markets (see, for example, Vining and Boardman, 1992; Megginson et al., 1994; Belka et al. 1995; Pohl et al., 1996; Djankov and Pohl 1998; etc.). At macroeconomic level, Harvylyshyn et al. (1998) find that progress in restructuring and privatization, as measured by EBRD's synthetic indicators, has a positive and statistically significant effect on GDP growth for twenty-five transition economies over the period 1991-1997. Another consensus appearing from studies of post-privatization performance is the great importance of the market environment, which is of course just as important for the growth of the private sector in general. In this regard, World Bank (1996) cites political and economic stability, price and market liberalization, rule of law and freedom from crime and corruption as factors which promote the growth of the private sector and the performance of privatized firms.

Dinosaurs vs. Greenfields

An important issue which is addressed in the post-privatization literature is the choice between privatization and *de novo* or greenfield enterprises as an alternative for increasing private sector activity in transition economies. Overall, empirical studies suggest that the performance of privatized enterprises lies between that of *de novo* private and SOEs. Many empirical studies suggest that *de novo* firms are invariably better performers than any privatized firms. For instance, Earle et al. (1996) find that the performance of privatized enterprises is not significantly differ-

ent from that of socially owned enterprises while the performance of *de novo* enterprises is significantly better than that of privatized enterprises; hence they conclude that governments should make more efforts for the development of small and medium *de novo* enterprises than for privatization of socially owned enterprises. However, another question is whether there is a trade-off between privatization and the development of the *de novo* private sector, or these are complementary. On the one hand, privatization leads to restructuring and frees the assets locked in SOEs which has positive effects on the private sector. On the other hand, Murrell (1992) argues that the costs of the privatization process are high and that the resources used in this process would be better used to develop a market environment that facilitates private sector growth. Harvylyshyn and McGettigan (1999) conclude that even though *de novo* enterprises are superior to privatized firms, some privatized firms can 'learn new tricks' and that the importance of socially owned enterprises should not be dismissed completely. Finally, the complementarity between the privatized and *de novo* private sector can be argued for in terms of the competitive environment that the latter generates and the competitive pressure it puts on the privatized firms. This argument emphasizes the importance of facilitating the entry conditions for *de novo* firms.

Employment and management before and after privatization

Under socialism one aim of the public sector is to provide as many jobs as possible, thus, most socially-owned enterprises tended to be overstaffed. Therefore, one would expect to see some labour shedding following their privatization. However, empirical studies on impact of privatization on employment have provided ambiguous results. Most studies find that employment after privatization falls, but some find employment increases (see survey by Megginson and Netter 2001). Further, Harper (2000) finds employment declines after the first wave of privatization in the Czech Republic in 1992, but not after the second wave in 1994.

Another question raised in the post-privatization literature is whether management turnover is associated with improved firm performance. Most empirical studies find that performance improves in firms where new managers are brought in compared to ones that continue to be managed by the same pre-privatization staff (see survey by Megginson and Netter 2001). A possible explanation for this is that in the socialist system managers were more likely to be selected for reasons other than their ability – political or other reasons. Another reason may be that many of the previous managers are unable to change their behaviour as required by the new market based conditions and therefore have to be removed to enable the firm to move forward.

PERFORMANCE OF PRIVATIZED COMPANIES IN KOSOVA

At the outset we present some of the changes in the performance of privatized companies from 2006 to 2007 measured by different indicators. According to the results of our survey, the turnover of surveyed privatized companies has nearly doubled from 2006 to 2007 (Table 4) while the export of same sample has increased for around 6 times during the same period. The level of investment has increased for around 30% during the same period while capacity utilization of the surveyed privatized companies on average was slightly reduced to around 54%.

Table 4: Some indicators of surveyed privatized companies

Year	Turnover	Export	Investment	Capacity Utilization
2006	21,360,424	2,852,100	38,574,915	57.4 %
2007	41,886,251	12,829,498	50,122,751	54.2%
Growth in %	196.09%	449.83%	129.94%	-3.20%

Summary statistics on company profile

The survey was conducted in April 2008; there were 103 privatized enterprises in the sample (23 special spin-offs), of which only 66 were active at the time of the survey (including all special spin-offs). Table 4.1 presents the descriptive statistics for the active privatized firms in the sample. Out of the total number of active privatized companies that were surveyed, nearly 60% are engaged in production activities; 21% are in the service sector and the remaining 19% in the trade sector. This diversification of our sample allows us to capture intra-sectoral differences.

In terms of size⁶, 11% of companies are micro-enterprises, 50% are small, 35% are medium and around 4.5% are large. Special spin-offs were *a priori* expected to be large companies, however, we found that there are enterprises privatized via this method which fell into both small and medium size categories. All large enterprises were privatized through Special Spin-off.

Additionally we investigated the ownership type of the companies. Results show that half of these companies are sole proprietorships out of which 10 are companies privatized through Special Spin-Offs. 27% of companies are corporations of which 8 are companies privatized through Special Spin-Off. The remaining 23 percent are partnerships out of which 5 are companies privatized through Special Spin-Off. As

⁶ Size of the company is determined by the number of employees. The classification of the enterprises based on the number of employees: Micro Enterprises: 1 - 9 employees; Small Enterprises: 10 - 49 employees; Medium Enterprises: 50 - 249 employees; Large Enterprises: more than 249 employees.

for the legal status of active privatized enterprises, around 70% are registered as limited liability companies among which 20 are companies privatized through Special Spin-Off. Remaining 30% are registered as unlimited liability company of which only 3 are companies privatized through Special Spin-Off. One can conclude that privatization has stimulated more partnerships and organization of enterprises as corporations compared to the private SMEs sector.

Table 4.1 Summary Statistics of Active Privatized Companies

Sector	%	Size	%	Ownership type	%	Legal status	%
Production sector	59.1	Micro – Enterprises	10.6	Individual Businesses	50	Unlimited liability company	30
Trade sector	19.7	Small – Enterprises	50.00	Corporations	27	Limited liability company	70
Service sector	21.2	Medium – Enterprises	34.9	Partnerships	23		
		Large – Enterprises	4.5				

Inactive companies

From the total of 103 privatized companies in the sample, 31% were not functioning at the time of the survey. This finding is worrying when we consider that the sample was selected only from companies which were privatized before March 2007, which leaves a more than reasonable time-frame of 13 months for the new owners to take control of the companies and consolidate their activity. Of these companies, 25% are in the trade sector and 22% in the production sector; 17% are land and agricultural cooperatives; 11% are hotels and restaurants; 6 % are in the service sector; and the remaining 19% are administrative buildings and warehouses. Out of these enterprises, 30% are from the Peja region; 48% from Mitrovica and Gjakova regions (24% each); 18% from Gjilani and Prizren regions (9% each); and only 3% from the Prishtina region.

It should be stressed that none of inactive companies were privatized through special Spin-Offs. Table 4.2 provides the summary statistics for the privatized enterprises which are still inactive..

Table 4.2: Summary Statistics for the Inactive Privatized Companies

Sector	%	Region	%
Trade sector	25	Prishtina	3%
Production sector	22	Prizreni	9%
Lands and agricultural cooperatives	17	Peja	30%
Hotels and restaurants	11	Mitrovica	24%
Service sector	6	Gjakova	24%
Administrative buildings and warehouses	19	Gjilani	9%

The reasons why nearly one third of privatizations cases are not operating varies from case to case. In some cases, the owners have no possibilities for additional investment and working capital necessary to put their companies into operations. Another reason might be that the buyers see more benefit in treating these companies as a real estate investment waiting for better valuation on the market. We could not investigate further this group of NewCos due to the fact that it was very difficult to find the new owners.

Turnover

Our previous experience with surveys has shown that turnover is usually a sensitive subject which the managers hesitate to report, or at least hesitate to report accurately. This problem is even greater in a country like Kosovo, where a considerable part of the economy is in the informal sector. Therefore, in the hope of increasing the response rate and minimize the incentive to under-report the turnover, companies were asked to specify the interval in which their turnover belongs rather than specifying its precise value.

The mean value of annual turnover in the sample is €101,250 for 2007, however, as is expected, it varies with company size. When compared to their private sector counterparts, the newly-privatized companies seem to have significantly smaller turnover (see Tables 4.3.1). The average turnover in privatized companies is 70, 129, and 20 percent lower for micro, small and medium enterprises respectively. This may be in part because privatized companies, on average, have entered the market relatively later and thus have a shorter experience and have not yet created a reputation in the market.

Table 4.3.1: Average monthly turnover of private and privatized firms according to size (2007)

Firm size	Mean value of turnover (€)	
	Privatised companies	Other companies
Micro	4,166	7,105
Small	36,048	82,445
Medium	177,159	211,346

As expected, the performance of privatized companies also differs according to their method of privatization; special spin-offs having the highest monthly turnover (see Table 4.3.2). However, in order to find the best performers, one must calculate labour productivity⁷. By doing so we find out that, on average, companies privatized through regular spin-off have the highest turnover per employee while companies privatized through liquidation have second best performance. Surprisingly companies that were privatized with Special Spin-Off have the lowest labour productivity. However, one might argue that this is caused due to excess number of employees that these companies have, even though they do not need them, as they are obliged with provisions of special Spin-Off contract.

Table 4.3.2: Average monthly turnover according to privatization method (2007)

Privatization method	Turnover	Labour productivity (Turnover/Number of employees)
Special spin-offs	224,048	707
Regular spin-offs	43,182	1,270
Liquidation	38,056	969

In order to capture the developments during last year and the expected future prospects, managers were asked to evaluate the overall state of their business and their profit in this year compared to the previous year. The results suggest that around 84% of privatized firms expect better performance this year compared to 2007 and this is the continuation of the trend from 2006 (see Table 4.3.3). This percentage is considerably lower for the rest of the private sector, which may suggest that privatized companies are performing much better than the rest of the private sector. However, a more plausible explanation for these results would be that these companies are new and are growing faster because they are starting from a lower base. In fact, for more than half of the companies surveyed, the year 2006 has been the year when they began their activity after privatization. It is very encouraging to see that the privatized firms, even though starting from a lower base in terms of turnover, are growing faster and may soon catch up with the rest of the private sector.

⁷ Labour productivity is calculated by dividing turnover with number of employees.

Table 4.3.3: Business and profit in 2007 compared to 2006

	Profit		Overall state of the business	
	Privatised companies	Other companies	Privatised companies	Other companies
Better	56%	32%	61%	38%
No change	27%	30%	23%	23%
Worse	17%	37%	16%	39%
Total	100%	100%	100%	100%

Employment

The number of employees is another performance indicator which we employ in this study. This indicator captures the approximate growth of firms and it is a more accurate description of the situation in the sense that respondents are not as hesitant to answer this question truthfully compared to specifying their turnover and profit. The average number of employees in the sample of privatized companies in 2007 is 125.8, almost ten times higher than that of SMEs. This is understandable because the sample also contains large firms. In addition, privatized firms are likely to have 'inherited' from SOEs a larger number of employees than they would choose to employ in other circumstances; therefore, a comparison of the average number of employees cannot be interpreted to portray the relative performance truthfully. We can, however, compare the level of growth in the number of employees during 2007 for the two types of firms. In accordance with the evaluations given by managers, this indicator suggests that privatized companies, on average, have grown faster relative to their private sector counterparts (see Table 4.4.1). During 2007 employment in the privatized sector has grown by 9.7% - almost double that in the rest of the private sector.

Table 4.4.1: Employment growth in private and privatized firms

	Average number of employees		
	Dec-06	Dec-07	%
Privatised firms	114.6	125.8	9.7
Private SMEs	4.3	4.5	5.0

While no conclusive results can be reached regarding employment in privatized enterprises compared to the pre-privatization period, it does seem that employment on average has fallen. Our survey of active privatized companies suggests that the number of employees after privatization is only around 10% lower but this is based on the response of half of the enterprises and can be considered only indicative.

From the employees currently working about 60 % have been working also prior to privatization. Nevertheless, a logical conclusion would be that employment in general has fallen even more because the companies that had and provided information about the number of employees prior to privatization are likely to be those which retained previous employees. This explanation is supported by the fact that the same companies that provided this information tended to have information also about the share of previous employees that they have retained. In addition, we should consider the number of enterprises that are not working and the negative impact of these on employment. However with the start of the operations and increase of the activities in terms of investment and turnover, employment will begin to increase as was the experience of the active companies in 2006 and 2007.

In terms of the level of education, we find slightly better qualification structure in the post-privatized companies compared to the rest of private sector (Table 4.4.2). The majority of the management in post-privatized companies have a superior education⁸ and better qualification structure compared to the rest of private sector. The survey also shows that these companies are paying more attention to the need for training of both staff and managers.

Table 4.4.2: The level of education of managerial structure on post privatized companies

Description	Level of Education			
	Superior	Higher	Secondary	Elementary
Management of post privatized companies	56.43	36.93	6.63	0
Management of other private companies	30.43	45.90	23.35	0.35

Exports

The survey of post-privatized enterprises shows that even though 60% of them are registered for export activities, only 29% had exports during the year 2007 (compared to 10% of SMEs that were involved in exports in the same year). Transferring this into monetary values, the annual average value of exports one of each enterprise is 1.1 million Euros, or 35% of their yearly turnover. The effect of privatized companies on exports have been visible during the last two years, where the value of exports has more than doubled.

Around 65% of products exported by privatized enterprises are readymade goods while the remaining part is raw materials. The structure of exported products is shown in Table 4.5.1

⁸ Superior education refers to University Education or higher.

Table 4.5.1. Structure of Exports

Type of exports	Post-Privatized	SMEs
Ready made products	64.6%	70.5%
Raw material	35.4%	22.7%
Services	0%	6.8%
TOTAL	100%	100%

Larger exporting post –privatized companies in 2007 were Lamkos and Qyqavica from Vushtri with 10 million Euros and 7.1 million Euros respectively; followed by Ferronikel with 1 million Euros, Fan Podujevë with 1 million Euros, Peja Wood with around 600.000 Euros. The approximate value of exports of largest exporting companies, as well as the destination of export in 2007 are given in Table 4.5.2.

Table 4.5.2: The value and destination of exports of selected companies

Company	Euro	Countries
Lamkos	10,000,000	Serbia, Albania, Monte Negro, Bosnia Rumania
Qyqavica	7,100,000	Macedonia, Austria, Rumania, Croatia and Albania
Ferronikel	1,000,000	India, China, Belgium, Scandinavia
Fan Podujevë	1,000,000	Croatia, Serbia, Albania
Peja Wood	680,000	Germany, Macedonia, Albania, Bosnia, Monte Negro

Countries where these companies export are those of the region, Central Europe and some Asian countries. The total export of privatized companies was Euro 22,792,750 in 2007. This accounts for around 15% of overall exports in Kosova. However, we must also point out that the level of imports during the same period was Euro 49,863,592. But exports of privatized companies cover imports by around 46% which is significantly higher than the average for Kosova's economy which reaches around 12%.

ENTERPRISE RESTRUCTURING

The term enterprise restructuring has come to denote the whole process undertaken by enterprises as they adapt their behaviour to that necessary for survival and success in a market economy. It is generally agreed that privatization process has been associated with the restructuring of former SOEs and that it has resulted in improvements in the efficiency, productivity, profitability, innovation and level of investment in SOEs.

In order to determine the level of restructuring in privatized companies we considered various factors - initially, the restructuring steps taken just after privatization and then the measures adopted in the last year. Table 5.1 summarises the results.

Firstly, we investigated whether NewCos had introduced new products or they had started with new method of production after privatization. It seems that, overall, 33.33 percent have introduced new products while remaining companies have continued to produce the same products as before. If we take into account the method of privatization used, we see that more than 45 percent of special spin-offs have started with new product and, as expected, this figure is higher than that for regular spin-off (30.30 percent) or through liquidation (22.22%). Furthermore, around 44 percent of privatized companies have introduced new production methods whereas others have continued to produce with same machinery and methods. If we further break up this figure, we see that more than a half of companies privatized through special Spin-Off have introduced new methods of production. This is slightly higher than that for companies privatized through regular spin-off (45.45 percent) or through liquidation (22.22%). Combining these results together we can see that some privatized companies have started with producing new products while using pre-privatization methods and machinery.

Table 5.1: Restructuring steps after privatization

Method of privatization	Started producing new product		Started with new method of production	
	Yes	No	Yes	No
TOTAL	33.33%	63.64%	43.94%	37.00
Special Spin-off	45.45%	54.55%	45.45%	12.00
Regular Spin-off	30.30%	69.70%	51.52%	18.00
Liquidation	22.22%	77.78%	22.22%	7.00

Next as described in the outset of this section, we investigated restructuring steps of these companies in the last year. The managers and owners generally accepted the statement that restructuring is a necessary step for the success of companies in a market economy. As we can see from Table 5.2, just under half of the companies are now producing with new production methods and around 75 percent have

upgraded their existing production methods. These results show encouraging signs of restructuring efforts by privatized companies. Further we see that only 13.7 percent of companies have closed down the existing production lines. This figure, combined with previous ones, shows that many companies are operating with a combined set of machinery and methods rather than closing down the old ones altogether. Consequently only a slight proportion of these companies (24.2 percent) offered innovative products/services in the market.

Table 5.2: Restructuring measures taken by privatized companies in the last year

Adopted new production methods		Upgraded existing production methods		Closed down existing production line/s		Innovations (new products/ services were introduced in the market for the first time)	
Yes	No	Yes	No	Yes	No	Yes	No
47.5%	52.5%	74.8%	25.2	13.7	83.3	24.2	65.2

This research also investigated the management structure of these companies. It seems that a majority of privatized companies are still managed by their owners. Only 6% of companies are managed by managers, while others are managed by various mixed forms. In turn, if this segment it is to be improved, it would initiate better restructuring and consequently better performance.

Additionally we considered the impact of ownership as it is considered as a major factor influencing restructuring (Djankov and Murrel, 2002). According to our survey results 13% of companies were privatized involved foreign owners (Table 6.1). The literature from other transition economies suggests that foreign ownership initiates better and more accelerated restructuring. What is more, most of the companies bought by foreign investors in Kosova are privatized through the special Spin-Off method. Despite their commitments in terms of investment and employment, these companies are considered to be more profitable than others. This in turn demands and fosters faster restructuring.

To sum up, our results provide evidence that companies are undergoing restructuring and consider them as prerequisites for better performance. However the extent of these steps needs further and continuous improvements.

FINANCE AND INVESTMENT IN PRIVATIZED COMPANIES

According to the survey findings 89% of enterprises intend to invest and the average planned investment is 1,8 mil Euro. The bulk of investment is intended to increase sales on the domestic market (53%) while 44% will be aimed at foreign markets. The volume of investment within privatized companies is much higher than in other private sector. In 2007 the average volume of investment in privatized companies almost tripled (from €1,347,811 in 2006 to €4,338,274 in 2007) It is important to investigate the sources of funds used to finance these investment activities, as well as those used to finance privatization.

The findings are reported in Table 6.1, showing that the overwhelming majority of investment was financed by own funds for both privatised and other *de-novo* private firms. However, one important difference is noted with regard to the share of other sources of finance. For example, the share of own funds in overall investment is much higher in other private firms than in privatised firms. On the other hand the share of bank loans to fund investment is much higher in privatised companies than in other private firms, for both domestic and foreign banks. This finding confirms the relatively greater importance of bank finance for firms participating in privatization process. Another important difference is noted in terms of foreign capital or foreign direct investment. As indicated in the Table 6.1, the share of foreign capital is 13% for privatised companies and only a small amount for other private firms (0.18%). Amongst firms financed by foreign capital, 28.8 percent (8 investors) are from Kosovar Diaspora.

This may indicate that privatization in Kosova has been relatively more attractive for to foreign capital compared to investment in other private companies. However, this should be viewed in terms of the amount of investment as in terms of number of firms only two of them reported that they had been privatised by foreign capital.

Table 6.1. Sources of investment in privatised and other private firms (in %)

Source	Privatized		Other private firms
	Sources of funds for privatization	Sources for post-privatization investment	
Own funds	52.16	63.9	83.07
Loans from domestic banks	28.54	21.3	15.21
Loans from foreign banks	2.24	5.2	0.48
Borrowing from family or friends	1.05	5.9	1.04
Foreign direct investment (FDI)	13.01	3.7	0.18
Other sources	2.99	0.0	0.02
Total	100.00	100.0	100.00

An interesting difference to note is in terms of sources of funds for privatization and post-privatization period. This difference is reflected in terms of the role of foreign direct investment and domestic banks. These two sources played comparably greater role in providing funds for purposes of privatization (buying SOEs' assets) compared to funds dedicated for investment in post privatization period (restructuring and revitalization).

Not only access to bank finance but also terms and conditions for loan play an important role in the expansion of firms. From the total number of privatised enterprises that have used bank loan (58%), a majority of them (81%) declared that loan terms and conditions were unfavourable or very unfavourable for their growth. None of the enterprises using bank loans thought that terms and conditions for loans were very favourable.. The average repayment period for loans is about 3. years for 'other private' firms suggesting that firms involved in long term investment projects will face difficulties in getting long term bank finance.

These findings indicate that in addition to policies that facilitate the firms' access to bank loans, other policies should be targeted towards improving terms and conditions for loan (interest rates, grace period, etc). For example from 42 privatised firms that asked for bank loans only 4 were rejected; two companies did not apply because of unfavourable terms and conditions. This illustrates the greater concern about the terms and conditions for loans compared to access to loans itself.

Although the special spin-off method of privatization has been applied to ensure the necessary investment in specific sectors, the findings of our survey show difficulties in achieving targets set by KTA. Only 39 % of privatized special spin-offs have so far met their investment commitment specified in their contracts with KTA. The criteria set by the privatization agency, and only 51% of companies privatized by special spin-off have met their investment targets. The reasons for this discrepancy in achieving investment targets need further investigation. However, some of the reasons which can partly explain the failure to meet investment targets are: delays in signing contracts after companies were bought and taken under owners' control (usually taking 9-12 months) the failure of KTA itself to monitor properly privatized companies; and the fact that some 15% of privatized companies has been sold to second buyers and the process has become more complicated.

PERCEPTIONS ON BUSINESS ENVIRONMENT

Barriers to doing business

Table 7.1 below presents the perceptions of respondents from privatized businesses about various barriers to doing business. The intensity of barriers is measured by a score ranging from zero to 100 identified by the respondents. It would be useful from a policy perspective to explore differences between barriers experienced by privatized businesses and by the rest of the firms, especially if the selective policies are to be applied.

The perceptions of entrepreneurs owning privatized businesses differ to a certain degree from those of entrepreneurs owning the rest of the firms. However these differences are not so significant. The range of scores is similar but the intensity of barriers such as poor power supply, the extent of the informal economy, communication difficulties, corruption and other public services is higher in other private firms than in privatized companies. The barriers with higher ranking in post-privatized companies are high taxes and access to credit.

Table 7.1: Intensity of barriers facing privatized and other private firms

	Privatized companies	Other private companies
Poor power supply	76.1	82.8
High taxes	74.6	68.4
Informal Economy	70.2	75.9
Public services	66.9	74.0
Poor roads and telecommunications	67.8	72.1
Corruption	61.3	70.6
Access to finance	63.3	49.8

Note: The 'intensity of barriers' range from 0 to 100.

Interestingly, high taxes and access to finance are more harmful for privatized businesses. A possible explanation is that privatized businesses are younger than other firms hence facing the liability of newness. In addition the entrepreneurs owning privatized businesses have invested a significant amount of financial capital during the process of privatization, hence any further financial burden experienced presents significant additional burden which is hard to overcome. Also, banks may hesitate to finance newly established businesses especially privatized businesses that might face cash flow problem due to large investment in the start up phase.

Competition

As far as competition is concerned, the results indicate that the intensity of competition from domestic competitors and imports, is more severe in 'other private firms' sector, where over 38 % of companies consider domestic competition as a very big obstacle, whereas only about 24 % of post-privatized companies consider this a big obstacle. Also it is worth pointing out that over 20 % of private sector companies, compared to 12% of post-privatized firms, consider the import competition as a very big obstacle for the development of their companies,. Most of both types of companies do not see domestic and import competition as an obstacle at all.

Another important difference is in terms of competition that the two groups of firms face. It is clear that privatized businesses face less competition compared to the rest of the firms. Several business indicators explain this. The privatized businesses are larger than the rest of the firms in terms of number of employees, turnover and assets. This provides them with the competitive advantage resulting from economies of scale. In addition 60 % of privatized businesses are export oriented (compared to 20% of the rest of the firms) underlining their competitive ability of penetrating in foreign markets and being less dependent on the local demand. Further, privatized businesses invest drastically larger amount of capital than other firms (Euro 4,338,274 vs. Euro 331,610), emphasizing their seriousness in business activities. Given these indicators, it is clear that privatized businesses are more competitive in the market place and thus face less competition than the rest of the firms.

Corruption

Given that the privatization process in Kosova has been transparent and open to everyone, the method used (especially the regular Spin-Off method) has left less space for corruption as it provided less discretion for the institutions involved in the process. This method has reduced subjective elements of other privatization methods. However, based on the results of our survey presented in Table 7.3.1, half of the respondents from privatized companies perceive the level of corruption as being very widespread, while another 31.8% perceive that corruption is spread. Only 3% of respondents perceive that the level of corruption is not spread at all. These results in turn, put into question the transparency of the process regardless the privatization method knowing the fact that the perception of pervasive corruption is considered to be enforced by the lack of transparency. The perceptions of owners of privatized companies on corruption are similar to those of de-novo private companies reflecting a more reliable illustration of the extent of corruption in Kosova (Table 1, Third Column).

Table 7.3.1 The perception of respondents on the level of corruption in Kosova (%)

Prevalence of corruption in Kosova	Privatized companies	Other private companies
Widely Spread	50.0	59.6
Spread	31.8	24.4
Moderately Spread	9.1	9.8
Rarely Spread	1.5	1.8
Not Spread	3.0	0.6
No answer	4.5	3.9
Total	100.0	100

Furthermore, the research endeavored to solicit the opinions of entrepreneurs on the level of corruption in various institutions. The scores for the presence of corruption in various institutions, representing its intensity, varies from zero to 100. According to these perceptions, corruption is more prevalent in Health Service Institutions (Table 7.3.2), which are out of scope of this research. They are followed by the Kosova Trust Agency (KTA) with the intensity of 82.1. Knowing that these companies were entrusted to KTA and later privatized by KTA these figures have some credibility since it is certain that the owners of privatized businesses had direct contact with KTA officials. KTA is followed by courts with an intensity of 67.7, followed by central and local administrations with an intensity of 67.2 and 65.6 respectively. Subsequently we find Customs, UNMIK, the Education Sector and Other International Organizations. The Kosova Police Service is considered to be least corrupt among all listed institutions.

Table 7.3.2 Perception of entrepreneurs about the intensity of corruption in various institutions

Institutions	Intensity
Health Sector	82.7
KTA (Kosova Trust Agency)	82.1
Courts	67.7
Central administration	67.2
Local Administration	65.6
Customs	62.5
UNMIK	60.8
Education Sector	50.8
Other international organizations	39.5
Police Service	37.7

Note: the intensity of corruption ranges from 0 to 100.

The results on the presence and intensity of corruption should be taken with great caution given the fact that these represent only the perceptions of entrepreneurs. These perceptions at different points in time might be influenced by external factors which in turn might not represent the actual situation in the field.

In order to shrink the gap between perceived and experienced corruption, we asked the respondents what they based their opinions on. We assumed *a priori* that there is a difference between the levels of perceived corruption as opposed to the direct involvement in it. This assumption proved to be correct since only around 25 percent of managers of privatized businesses had based their opinion for the presence of corruption on their own experience compared to around 20% of other firms' managers. As for the companies that were privatized through special spin-off, even though that half of them perceive the level of corruption as being very high, only 18% of them had based their perceptions on their own experience. Others, however, based their opinion on the presence of corruption on information received from other sources including relatives, media or others (Table 7.3.3).

Table 7.3.3 Sources of information on which perceptions of corruption are based (%).

Source of Information	Privatized companies	Other private companies
Personal Experience	25.3	19.3
Conversations with friends	24.0	27.0
Information from Media	40.0	53.5
Other sources	10.7	0.2
Total	100.0	100

In order to lower the likelihood of companies to engage in corruption, the government should work on keeping the interaction between companies and government officials at low level. And even though there have been attempts at keeping the interaction at low level, it still appears that governmental officials retain great discretionary power over allocating their services and therefore are able to engage in rent seeking behaviour. Moreover, the punishment that they may receive for being involved in corruption, if caught, does not represent a sufficient restraint to keep them away from malfeasance.

To sum up, corruption in Kosova might not be as pervasive as perceived. However more should be done to enforced the rule of law. Imposing transparent regulation in key administration positions, where the interaction with business community is high, will contribute to lowering corruption. Additionally, the business community needs to report cases when they are required to pay a bribe. On the other hand, tackling the supply side of corruption⁹, we can say that the business community should be aware that even though corruption might have a facilitating role in the market, it is at the cost of another firm and this in turn contributes to the deterioration of the market. This would consequently lead to lower profit because of the continuously raised level of corruption. The business community should be more

⁹ By supply side of corruption we do not imply that firms willingly offer bribes, they rather see corruption as the price they have to pay for being supplied a service.

determined in requiring higher level of accountability from government officials. Once this awareness is achieved, the business community can be transformed into an important actor in controlling corruption.

ISSUES ASSOCIATED WITH THE PROCESS OF PRIVATIZATION

Handover and management

Following controversies surrounding the privatization process in its early stage, the process seemed to continue at a satisfactory pace, before again being suspended after the resolution of the political status of Kosovo. The successor of the KTA, the KPA began to function in September 2008 after several months of inactivity. Even though the process resumed with KPA on charge of privatization, there was no formal handover of responsibilities from KTA to the new body. This suggests poor communication between the parties which consequently hampers the overall process. Hence the official handover is still pending.

Another issue to be addressed is better preparation of the contracting process and the handover of NewCos to the buyers. According to our survey, this process altogether can take up to 10 or 12 months. Measures should be taken to complete this process within a quarter or two at most. This is even more important because most of these companies have to continue to service their debts while waiting for the handover.

It is important and necessary that KPA becomes more transparent in its practices than KTA. Also, it is necessary that a sound reporting to Government and Parliament is developed for the new institution. Building good reputation for this Agency is one of key preconditions for attracting more investors.

Employee entitlements

Privatization proceeds are retained in order to pay the owners and creditors on liquidation of the old SOEs, as well as to make certain statutory payments to eligible former and current employees of privatised enterprises. According to relevant regulations, employees of privatized SOEs are entitled on a priority basis to a 20% share of the proceeds from the sale of privatized assets (whether a NewCo., land, or liquidation). Furthermore, the Kosovo Trust Agency would place the reserved amount in a special escrow account for distribution by the Federation of Independent Trade Unions (BSPK) to eligible employees.

Employees can only participate in the 20% share if they are registered as an employee with the SOE at the time of privatization or initiation of the liquidation and have been on the payroll of the SOE for not less than three years (at any time). To determine who is entitled to these benefits, the representative body of employees in the SOE, in cooperation with the Federation of Independent Trade Unions of Kosovo (BSPK), shall establish on a non-discriminatory basis and submit to the Trust Agency a list of eligible employees.

Previously, KTA did not review these lists and employees could file complaints directly with the Special Chamber. The review of these complaints took most of the time of the Special Chamber. Since an amendment to the rules in 2006/78 KTA must first publish a provisional list of eligible employees and within 20 days any person may file a request or challenge with respect to the list. KTA shall then require submission of evidence and may conduct evidentiary hearings. Thereafter, it shall adjust the list and publish it. Only then may employees file complaints with the Special Chamber, with the Agency as respondent¹⁰. The real concern however remains that these institutions namely, KTA and Special Chamber, lack sufficient resources for effectively dealing with complaints. Consequently, there have been delays in the process occur.

Based on the data we obtained from the Kosova Trust Agency which refer to the situation as of end of June 2008, figures regarding the net value of 20% employee entitlements, was 76,638,603 Euros. Out of these only 15,567,824 Euro (or 21.3% of the total) has been paid out. This is a very low level of payment to employees after some four years of privatization.. BSPK has been very concerned about this situation and their concerns were confirmed in our meeting with the head of the organisation who showed a real apprehension for this situation. They warn of massive strikes by employees if the process does not recommence and speeds up. In their view KTA (now KPA) has to resume paying most of the remaining amount, with some funds continuing to be kept by KPA for the payment of eventually approved legal claims. Moreover, they show great concern about the limited capacity of KPA to investigate claims, believing that the number of staff dealing exclusively with this issue within the KPA should increase substantially. Clearly, there should be greater political will to speed up the payment of 20% of privatization proceeds, a process which has stagnated since June 2007.

To conclude, KTA (and KAP at present) lacks sufficient resources to implement efficiently the payment of 20% of privatization proceeds to eligible employees; moreover a review of sample decisions of Special Chamber by the OSCE, reveals that there are shortcomings such as the failure to publish decisions of the Special Chamber, the incorrect assumption of jurisdiction by regular courts of cases which should be heard by the Special Chamber, and poor performance by attorneys before the courts. All these issues should be addressed with high priority as they represent prerequisites for a successful restart and acceleration of the process.

10 OSCE, May 2008 'Judicial Review of Kosovo Trust Agency Matters by the Special Chamber of the Supreme Court of Kosovo'

Privatization proceeds and their economic function

The economic use and function of the proceeds from the sale of SOEs' assets has remained one of the most controversial issues of the privatization process in Kosovo. The total value of the proceeds received through privatization is around 383 € million, while at the banks there are about 383 million Euros. As these assets are kept frozen in bank accounts, they are withdrawn from economic activities and thus having a negative effect on economic growth. Assuming that 20 % of these proceeds should be paid to the employees, the remainder have been kept frozen in order to address the potential ownership and other claims from creditors inside and outside of Kosovo. This solution was adopted by the KTA regulation (June 2002) although it had been opposed by Kosovar and international experts. It seems that this was a political price that had to be paid in exchange for the start of privatization. KTA as a trustee of these funds and the UN legal bodies have opposed other approaches and solutions which will bring these proceeds closer to being used to meet the challenges of the current economic and social problems.

Other federal units of the Former Yugoslavia have used privatization proceeds according to their development and other social needs. They have not reserved any part of these proceeds to address claims of potential creditors from other federal units. Consequently if any Kosovar company had claims against other SOEs in Serbia or elsewhere in Yugoslavia they had no possibility of making a claim against the proceeds of privatization in that entity. The experience in other countries is that a restitution fund, created by a contribution of a small percentage of proceeds (usually less than 10%), should be created to deal with future ownership claims.

As privatization proceeds are growing, accumulated in the trustee fund, and as there is no certainty about when the Special Chamber at the Supreme Court could address the relevant claims, we consider that this issues should be addressed again and a more reasonable solution should be found. At this moment it seems that the most reasonable solution would be to establish a Restitution Fund from 10-15% of privatization proceeds to address potential justified claims during next 3-5 years. The Kosovo Government could guarantee that it will cover justified claims through the budget if they surpass that amount up to the total proceeds collected from the sale of the assets of former SOE. The available funds could then be used for long term investment needs of the country.

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APPENDICES

APPENDIX 1: Detailed methodology

Survey

The data was gathered in face-to-face interviews with key people in firms - owners or managers – who were well-informed of the developments in the firm and authorized to provide the information. The survey was implemented using a comprehensive questionnaire with over 120 questions. The questionnaire for private firms was the same as that for privatized firms (excluding the questions that were relevant only to privatized firms) in order to allow for comparison. The survey in the field was conducted by the best students on the Masters programmes from Riinvest University who were assigned to conduct in-depth interviews for Case Studies whereas interviews with company managers were conducted by undergraduate students of Riinvest University and Prishtina University who were provided with a two-day training on the methodology, approach to respondents, aims of the research and the questionnaire. After the survey, the project team conducted logical and field control to verify the authenticity of the data. Subsequently, the data was entered using MS Excel and processed using the Statistical Package for Social Sciences (SPSS).

The sample of **privatized firms** was based on an electronic registry provided by the Kosova Trust Agency (KTA). However, the sample was selected only from the list of firms that were privatized before wave 22 (March 2007), which leaves more than a year for new owners to take control of their firms. We considered this a reasonable time-frame for new owners to have taken control and begun their activities (though in practice, this was not always the case). From the 367 companies in this list which belong to waves 1-21, we selected 108. By applying conventional methods of sampling, our sample size ensures results at confidence level of 95% and a confidence interval of 5. Because of their greater importance for the economy, we have included all 23 firms that were privatized by special spin-off up to wave 22. The rest of the sample was randomly selected from the electronic registry.¹¹ Of the 108 companies contacted, 36 are not yet active. In the case of 5 companies the surveys were cancelled because during the interview it was established that these had not been privatized yet (the contracts were not signed and/or the new owners had not taken control over the companies). Hence, the results presented here are based on 67 surveyed enterprises.

The sample of the **private sector (small and medium enterprises)** was based on the electronic registry of businesses obtained from the Ministry of Trade and Industry (MTI) in December 2007. The number of registered businesses in December 2007 was over 82,000 but the sample was selected only after excluding public companies, large companies and those which do not have the status of enterprises;

10 The registry obtained from the KTA did not make a distinction between ordinary spin-offs and liquidations, and only after the survey it was made clear to us that the list also contains liquidated companies. Although it can be argued that it is not reasonable to include these companies in the sample, we decided not to exclude these on the grounds that their performance did not substantially differ from those of ordinary spin-offs.

this leaves a population of 51,281 enterprises from which the sample was selected. The sample consists of 500 small and medium enterprises; this sample size ensures results at confidence level of 95% and a confidence interval of 4. In order to obtain a representative sample, the sample was stratified by sector, region and size. The stratification by sector and region was made according to their share in the population of SMEs (see Tables A2 and A3). However, because the small and medium enterprises make up only a small fraction of the population, their share in the sample was increased in order to get more representative results for these groups. (See Table A1)

Table A.1: Stratification according to size

Size	Population of SMEs	Share in the population	Share in the sample
Micro	49,985	97.5%	70%
Small	1,092	2.1%	25%
Medium	204	0.4%	5%
Total	52,281	100%	100%

Table A.2: Stratification according to sector

Sector	Share in the sample
Production	23%
Services	35%
Trade	42%
Total	100%

Table A.3: Stratification according to region

Region	Micro-enterprises	Small enterprises	Medium enterprises	Total
Prishtina	32.7%	40.8%	46.1%	32.9%
Prizren	13.5%	13.6%	8.3%	13.5%
Mitrovica	13.2%	10.0%	7.4%	13.1%
Ferizaj	11.0%	10.3%	7.8%	10.9%
Peja	12.3%	9.95	7.8%	12.2%
Gjilan	12.1%	8.7%	4.9%	12.0%
Gjakova	5.3%	6.7%	17.6%	5.3%
Total	100.0%	100.0%	100.0%	100.0%

APENDIX 2. SUMMARY OF CASE STUDIES

Case Study: NewCo Ballkan LLC

NewCo Ballkan LLC was established in year 1963, in Suhareka, Kosova. The core business of Ballkan LLC is production of rubber and chemical materials. The company in its full capacity could produce 14000 tons of conveyor belts, 12 million meters of narrow V belts, four million meters square of drapery, and 250 tons of technical rubber. In the period prior to privatization, the company has employed on average 850 workers. Ballkan LLC enjoyed a monopolistic position in the local and regional market, whereas in the international market there were producers from China and ex Soviet Union.

Privatization Process

Ballkan LLC is a success story of the privatization process in Kosova. The company was privatized with the price of 1.4 million euros. Except for the price offer, the company should also fulfill two more conditions, such as employment of 378 workers and investments of 6 million euros.

Post Privatization Process

Ballkan LLC after the privatization process examined the fixed capital of the company, and currently the balance sheet contains: 6 million euros in buildings, 10 million euros in technology, 300,000 euros in transport vehicles and 3 million euros in land. In the period after the privatization process, Ballkan LLC had an average annual turnover of 5.25 million euros. Around 70% of the production has been exported to the countries such as: Netherlands, Finland, Germany, Italy, Macedonia, Albania and Turkey. In the period from year 2006 – 2008, Ballkan LLC has invested 4.5 million euros, and the management team is planning to invest 1.5 million euros in the year 2008.

Ballkan LLC is a worldwide known company, with a strongly recognized brand both locally and internationally. The company has been awarded with ISO 9002/2000 standard for quality and recently received the International Award for the best trade name in the industry, Frankfurt 2002.

Case Study: Hotel Iliria – Prishtina

NewCo Hotel Iliria LLC is one of the oldest hotels in Prishtina, Kosova. The core activities of the company are hotelier services. Hotel Iliria was privatized in year 2006, with the price of around 1.6 million euros. Before the privatization process, in the company worked 46 employees.

Privatization Process

Hotel Iliria was privatized through method of special spin-off. The privatization process of this company was finished without any delays. The privatization was done by local investors in cooperation with foreign investors. Except for the price offer, the company should fulfill also two more conditions, such as employment of 250 workers and investments of 3 million euros.

Post Privatization Process

According to the financial manager, the company possesses high level of technological equipments, which is considered to be an advantage in comparison with competition in the market. The total value of fixed capital is evaluated at 8.2 million euros. While, before the privatization process there were only few hotels in Prishtina, nowadays there are more than hundred hotels in this region. Some of them work without any licenses and as a result damage fair and loyal competition.

The company invested a lot in infrastructure and equipments. The value of planned investments for the current year is around 3 million euros. Main barriers declared by the management of the company are unfair competition, delays in payments from public institutions, because they are one of the biggest consumers.

Case Study: M&Silloso

NewCo M&Silloso was established in year 1977. The core business of M&Silloso is production of flour as a main product of the company, and pastas as secondary products. Prior to privatization process, in the company worked 320 workers, whereas currently there are working 120 workers, where 90% of them has worked in the company prior to privatization process. The production capacity, before privatization process was 240 tons per day, whereas currently it is 600 tons per day.

Privatization Process

According to the management team of the company, since the privatization of the company, the total amount of investments reached 20 million euros. Investments and the privatization of the company were made by foreign and local investors. Majority of the investments were focused on technology.

Post Privatization Process

NewCo M&Silloso produces mainly for the local market, 80% of products are sold locally, whereas 20% of the production has been exported to the countries such as Albania and Macedonia. Competition to the company comes mainly from the countries of the region. The main advantage of NewCo M&Silloso over its competitors is the quality of products.

The main barrier to success for the company is informal market in Kosova. There are similar products in the market that entry without paying any custom fees and without paying attention to any quality controls.

Case Study: NewCo Alferon – ex Ferronikeli LLC

Ferronikeli LLC was established in year 1978, whereas the production process started in year 1985. The core business of the company is the production of Ferronickel (FeNi). Before privatization process, the company has exported 90% of its production, whereas the remaining 10% was sold in ex – Yugoslavian countries. Once, the company used to produce 6800 tons of ferronickel per year, where also used to work around 2000 workers. The company was damaged a lot during the war of year 1999, and that was the main reason why it was un-active until June of 2007.

Privatization Process

NewCo Ferronikeli Complex LLC was privatized in year 2006, with the price of 30.5 million euros. The company was privatized with special spin off method, and should fulfill some other requests. Requests set by KTA were, investments in minimum 20 million euros, 3 million euros for land compensation, and employment of 1000 workers in the first year. NewCo Ferronikeli Complex LLC is managed by the Alferon Management Limited, with its headquarters in London, UK.

Post Privatization Period

Currently, the company is not working with its full capacity, in year 2007 (July – December) the company has produced 1000 tons of ferronickel, whereas the total capacity of production is around 10000 tons of ferronickel per year. In year 2008, the company worked with full capacity in one line of production. The management of the company is planning to start also with the second line of production, in this year. The whole production has been exported to countries such as India, Belgium and Norway. The company declared no problems regarding the export procedures in the country. According to the management of the company, NewCo Ferronikeli Complex LLC is contributing positively in improving trade balance in Kosova.

There are 1037 workers, working currently in the company. The company hires part time workers also, in accordance with their needs and projects. The management of the company declared that there will be no increase in number of workers in coming years, even though the company will increase production.

ABOUT FORUM 2015

Forum 2015 is a project of Kosova SOROS Foundation and RIINVEST Institute that offers expertise and advocates development issues in Kosova. Forum 2015 through its activities stimulates the debate on different topics and promotes the development of an advanced political culture. In broader perspective, Forum 2015 aims to prepare Kosova for Euro-Atlantic integration.

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(SEMINARS AND CONFERENCES)

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Civil Platform for 2007 Elections - October 31, 2007

European Identity of Kosova - June 26 & 27, 2007

Kosova's post-status Foreign policy - May 9, 2007

A Modern Tale - Kosova C 2100 - April 18, 2007

Post-status Status – Kosova's future international oversight - December 14, 2006

Qualitative Elementary Education in Support of Human Development in Kosova
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Kosova Decentralization Dialogue - June 14, 2006

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Status against Status Quo - July 11, 2005

Media in Kosova: Challenges Regarding Independence and Sustainability -
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Kosova and integration into European Higher Education - December 23, 2004

Kosova Five Years Later: What Agenda for the Future? - July 9-10, 2004

The Status of Socially Owned Property in Kosova: Contests and Privatization -
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Privatization in Kosova: Forwards and Backwards - March 9, 2004
Electoral System in Kosova: Advantages and Shortcomings - February 2004
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Platform on Pristina-Belgrade Dialogue - October 7, 2003
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Previous Publications

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