

## ASSESSMENT OF PERFORMANCE AT PRIVATISED ENTERPRISES IN KOSOVO

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### **Abstract**

Privatization in Kosovo started in 2003 hence the majority of Socially Owned Enterprises are privatized until now. Factors that determined success or failure of privatized enterprises performance in Kosovo are not much treated. The purpose of this paper is to handle indicators with impact on performance of privatized enterprises in post-privatization period. On the elaboration of this quality study is used comparative and abstraction method. An empiric analyses is supported by primary data, entwisted with secondary data. Main instrument for collection of primary data is semi-structured questionnaire. The data are collected through direct canvass to 125 privatized enterprises that are privatized through Kosovo Privatization Agency assigned by random sample. Performance measurement is done through these indicators: level of turnover, investments, export, new products or services, employment and restructuring. It is found that the biggest investments are carried out at enterprises privatized by special Spin-off method, whereas the level of employment is lapsed. Out of 58% of registered enterprises for export only 25.2% have export.

The progress of an enterprise after privatization depends not only from the external factors and method of privatization, but also from the process administration and management after privatization. The state politics have impact on the increase of enterprise performance therefore in Kosovo the politics should be in function of revitalization of businesses. New owners need to concentrate more on information technology and professional development.

**Keywords:** *post-privatization, enterprise, performance, investment, restructuring.*

### **Introduction**

Privatization is carried for the purpose of economic growth, promotion of private initiatives, creation of free competition, development through market economy. It is complex and difficult process and usually takes long time. One of the reasons for privatization is also reduction of government interference in state economy. Public and socially owned enterprises (SOE) are considered to be less efficient in their development process because of interference of daily government, the level and low quality of management, insufficient allocation of resources, quality of management and other factors. It is known that privatization does not show and produce same impact at low developing countries and at developing countries. However enforcing law next to regulations and supporting mechanisms, as well as very good strategy for privatization, ensures improvement of governance at post-privatised period.

Kosovo is young country that has undergone the war in 1998-1999. But, during the period of violation measures of Serbia in Kosovo since 1989 up to the war, the majority of economic generation sources were destroyed completely or partially. The Kosovo economy was destroyed and privatization was needed to build principles to generate incomes and to have employment; to attract investors and to develop market economy. Privatization in Kosovo is

initiated and established by internationals. Pillar IV of UNMIK-United Nations Mission in Kosovo administered and directed the process of privatization. It is followed with big dilemmas and hesitations because of the unsolved status of Kosovo in that period and the transformation of property carried by Serbia in 90's. Kosovo Trust Agency (KTA)<sup>1</sup> is established to administer Publicly Owned Enterprises (POE) and to privatize Socially Owned Enterprises (SOE). Privatization Agency of Kosovo (PAK)<sup>2</sup>, established by Kosovo Parliament, continued the privatization of SOE's after proclamation of the independence of Kosovo. According to PAK, Socially Owned Enterprises represent 90% of industrial and mineral resources, 50% of locals and less than 20% of agricultural land.<sup>3</sup> Around 10% of all SOEs are categorized as non functional and are not included in the sale with Spin-off method, but they will be placed in liquidation<sup>4</sup>.

The majority of SOE's in Kosovo are privatized, thus until end December 2013 there are 712 contracts signed. The amount collected from privatization through Spin-off method is 576.924.883,00 €<sup>5</sup>. The process of liquidation is continuing, PAK hired a contractor for it.

Reseracher, Rita Audestad Knudsen (2009)<sup>6</sup> in her book "Privatization in Kosovo", points out that *Internationals may have realised their freedom from responsibility for privatization in Kosovo, but, the domestic population is not seen to have benefited from this process*. Further she emphasizes that *the losers are they, who are already disadvantaged, without social insurance, without health security and with light possibilities for politic of economic empowerment*<sup>7</sup>. Research Report of RIINVEST<sup>8</sup> points out that about 1/3 of privatized SOE's are not active after privatization. Number of privatized enterprises were followed by problems and it directly had impact on their operation and performance, continues report. Rita Augestad Knudsen<sup>9</sup>, also makes a remark that privatization has not included any system to assess if new owners will be able to maintain or increase the value of enterprises privatized through Special Spin-off method, for which they have obligations, or to contribute in economic activities and general development. Hence, it was an inducement to study the factors of success and failure with impact on performance of enterprises after their privatization, as well as to view its impact on overall economy of Kosovo. This study may serve economists and politicians to clarify their view and attitude on importance of politics and mechanisms, to achieving better outcomes from privatization toward economic growth.

## Purpose and objectives of study

<sup>1</sup> UNMIK Regulation, REG/No.2002/12, on Kosovo Trust Agency

<sup>2</sup> Law on Establishment of Privatization Agency of Kosovo, No. 03/L-067, ammended on September 2011

<sup>3</sup> Report of Work of the Kosovo Privatization Agency, 2009

<sup>4</sup> UNMIK Economic News, 24 Nov 2005, informing that European Agency for Reonstruction will alocate 3.8 million Euro for liquidation of SOEs. Liquidation is referred to type of liquidation 'falimentation'-but not to the liquidation of SOE's cadre, and was planned to be carried in 2010 and 2011.

<sup>5</sup> PAK, Annual Report, January - December 2013

<sup>6</sup> Privatisation in Kosovo: The International Project 1999-2008. NUPI Report. 2009, faqe 92

<sup>7</sup> Rita Augestad Knudsen in her study noted issues linked with the transfer of property after the enterprise have been sold by KTA: International Legal framework created for privatization in Kosovo leaves unclear if the immovable property of SOE especially the land where the enterprise is situated, is made private property after privatization.

<sup>8</sup> Research Report, *Privatization and Post-privatization in Kosova: Glass Half Empty or Half Full?*, 2008, Prishtinë, pg. 16

<sup>9</sup> Rita Augestad Knudsen *Privatization in Kosovo: The International Project 1999-2008*. NUPI Report, pg. 77

The purpose of this study is to handle the indicators of performance at privatized enterprises in scientific manner in order to give respond to challenges of operation and performance of privatized enterprises in Kosovo the period of post – privatization. .

First objective is to analyse the factors that have impact on success or failure of enterprises after their privatization. The second objective is to research and address practical challenges the privatized enterprises re faced with.

### **Research question, hypotheiss and methodology**

Studying the objectives of UNMIK-Pillar IV (Economic reconstrucion and development), it is difficult to say if the privatization was successful in Kosovo. Majority of factories are not functioning, the unemployment is increasing and people are becoming more unsatisfied. Thus the main research question is: To what extend the privatized enterprises were able to performe effectively in order to ensure effective operation? Research question is further detailed: How much is saved the integrity of privatization process taking into account challenges of enterprises? What are the factors considered as obstacle in the performance of enterprises in the post-privatization period? Does privatization proces have impact on the development of enterprises performance after privatization?

H1: Business environment in Kosovo is considerd to be not enough attractive and is undergoing often institutional changes. Under these conditions, standards of existing rules imply challenges for enterprises in the post-privatization period.

H2: The updated politics of privatization and empowerment of organs for implementation of law may have positive impact on the function of business revitalization. .

### **Scientific methods**

In this study is used qualitative research method. Primary source of data is collected through half –sturctured questionnaire. While, as secondary source of data are used, books, reports, journals, literature, other data from web-pages and other publications.

From the total list of privatized enterprises in the period 2002-2011, through random sample is found number from 125 enterprises. Direct canvass, 125 questionnaires (103 responds, 9 refused, 13 not found). Analyze of data passed through several steps:

- Drafting of questionnaires and contact with new owners
- Process of direct canvass with owners or managers of enterprises
- Gathering of data from questionnaires and its comparision with literature which specifies achievements in the field o privatization and post-privatization;
- Analyse of impact of privatization especially in the beginning of operation
- Carefull elaboration of enterprise's activity focusing on business and politics factors
- Identification of main challenges and list ranking. Attention is paid to forms that privatized enterprises have used to overtake the challenges and impact of these forms
- Conclusions about findings and recommendations.

### **Review of privatization process in Kosovo (2002-2011)**

Privatization in Kosovo is carried by Privatization Agency of Kosovo (PAK). Up to date, 60 waves of privatization and 27 sales of assets through liquidation is announced. During the reporting period, 570 contracts have been signed for privatization, and 25 cases from this number are privatized with Special Spin-off method, while 142 contracts are signed for sale

of assets through liquidation<sup>10</sup>. The amount of employees benefited by now is from €76,166,646, from this €15,558,654<sup>11</sup> is placed to the account of Kosovo Joint Independent Syndicate to be divide to employees as so-called 20% of sale.

Years	Number of signed contracts	Value of signed contracts
2003	4	1,685,875.00 €
2004	12	13,814,209.00 €
2005	69	83,636,301.73 €
2006	145	146,868,198.72 €
2007	143	65,038,125.88 €
2008	81	45,143,795.01 €
2009	168	56,702,629.90 €
2010	99	79,457,219.00 €
2011	123	73,995,008.00 €
<b>Total</b>	<b>844</b>	<b>566,341,362.20 €</b>

Table:1: *Statistics of privatization* (Source: Privatization Agency of Kosovo - PAK)

The amount from the sales, is still deposited in foreign banks and is not allowed for investment in Kosovo, in a form our state would benefit. Because of isolation of this funds Kosovo's economy have had negativ impact on economic growth. Socially Owned Enterprises (SOEs) sold through Special Spin-off method, have contractual obligations from transaction, related to investments and employees. Some of these enterprises have fulfilled the conditions of contracts<sup>12</sup>, and some of them have increased the value of enterprise.

### Performance of enterprises after privatization-Evidence and samples

The majority of successful stories of privatization are coming from states with average and high incomes, while at the states with low incomes is often not the case. A positive experience after privatization is noticed at the Central East Europe countries and Baltic states, notes professor Bruno Schonfelder. In terms of best privatization model are known Check Republic, Poland and Hungary. One of most detailed studies on pre and post-privatization statistics is of Megginson et al (1994)<sup>13</sup>. In the study is compared operational and financial performance three years before privatization and three years after privatization at 61 companies in 18 states, within 32 industries in the period 1961-1990. It is found increase on efficiency, profit, employment, capital expenses and sale of immovable property. According to a study on post-privatization in Albania, 45 out of 80 privatized enterprises are functioning normally, but only 9 of them have visible progress, while the rest survive in the hard market.

Coming to post-privatization in Kosovo, the years of transition testify for a period of decrease of employment and increase of poverty. In study Report of RIINVEST (2008), out of 103 privatized enterprises in Kosovo, only 66 were active after privatization that means 1/3 of them are not active. Some of enterprises find difficult to make particular investments and some pay loans with very high rates. Report points out that 56% have expected better

<sup>10</sup> This data refers to period 2003-2010. In the time of Kosovo Trust Agency, during 2003-2008 are signed 418 contracts with Spin-off and value of the sales is: €352.370.450,00

<sup>11</sup> PAK Report of Work 2008-2009

<sup>12</sup> See PAK Report of work 2009-2010, Prishtinë, for details of specific enterprises

<sup>13</sup> T.T. Ram Mohan. *Privatization: Theory and Evidence, Special articles* Economical and Political Weekly, Vol.36, No.52, page 4869

business in 2008 than in 2007, but the number of employees is decreased and out of 60 %registered fro export only 29% of them had export<sup>14</sup>. Privatization in Slovakia, Bulgaria, Slovenia, Check Republic, Hungary and Poland, is associated with improvements of performance through many indicators: working region, finding of markets and new products, performance of productivity and profitability. These indicators are result of state politics and this example may be adopted in Kosovo as model.

### Information analyses and findings

Survey is developed in 125 privatized enterprises as follows: 94-ordinary Spin-off method; 6-Special spin off method and 25 with liquidation method of sale. From this number 11 of them were sold, and 30 of them were inactive. The size of analysed enterprises<sup>15</sup>, is as follows: 21% microenterprises, 42% small enterprises, 28 % medium and about 4% big enterprises. The type of their business was: 25%-production; 5%-construction; 22%-services and 25%-trade. From the surveyed enterprises 1/3 of them are not functioning. The majority of inactive enterprises are from Mitrovica region, and main problem is lack of security. Even if there are Albanians who bought property, in North part of Mitrovica they have no access to their property, being threaten by local Serbs who don't respect Kosovo Institutions. From the research is found that 34% of respondents had problems after ratification of contract, 48% of them had no problems and 19% of respondents did not respond on this question. Based on findings the biggest problem with 11.5% is existence of usurpers at the privatized property. Three main obstacles for business development are found to be: unfair competition, high taxes as well as law and lack of mechanisms for its implementation.

**Turnover:** The level of turnover at privatized enterprises changes according to their size and activity they develop. From the enterprises is requested to give an approximate amount of turnover within specified intervals. Based on the findings, it is ascertained that the level of turnover is higher to enterprises privatized with Special Spin-off method, which means better performance.

	Annual average turnover / in euro/ 2011 year	Enterprises
1	Up to 5000	0
2	5001-10000	4
3	10001-20000	6
4	20001-50000	10
5	50000-100000	11
6	100001-200000	11
7	200.001-500.000	9
8	500000-2000000	12
9	Over 2000000	11

**Table 2:** Annual average turnover for 2011 year for surveyed enterprises

<sup>14</sup> This enterprises export in: Albania, Montenegro, Serbia, BH, FYROM, Rumania, Belgium, Scandinav Countries, Germany, Croatia, Austy, India and China.

<sup>15</sup> Size of enterprises as per Trade Ministry is determined based on the number of employees. They are classified as follows: Micro-enterprises 1-9 workers; Small enterprise 10—49 workeres; Medium enterprises 5—249 workers and Big enterprises with above 249 workers.

In order to analyze developments of last year and expectations for next year, the owners were asked to assess the general situation of their business for 2011, by comparing it with 2010. From the results of canvass is found that 29 % of enterprises have increase in 2011, about 41% have same business and 9% marked decrease. Respond is not given from other owners on this question.

**Employment and investments:** From respondents, eight of them declared to have contractual obligations with PAK. The obligation to keep existing number of workers had 5 out of these 8 enterprises, and to add another 400 new workers within two years period. It was not possible to find out the accurate result about employment at privatized enterprises but based on questionnaires collected it is considered the average decrease on the number of employees.

Obligation for investments for two year period is from the amount of 25, 000, 400, 00 euro. Based on PAK Reports, from 25 enterprises privatized through special spin-off, 19 of them have fulfilled conditions of bind contract and are released from monitoring. Some of owners who have bought small and medium enterprises were not able to make needed investments to have better performance.

Year Investment	Up to 2007 (€)	2008 (€)	2009 (€)	2010 (€)	2011 (€)	2012 forecasting
Building	€2.172.008,00	€4.270.000,00	€1.001.800,00	€2.680.000,00	€2.919.000,00	€31.010.000,00
Machinery and tools	€8.643.280,00	€11.615.737,00	€13.029.000,00	€4.392.200,00	€6.622.000,00	€ 9.551.900,00
Maintenance renovations	€1.578.000,00	€1.258.000,00	€ 1.981.000,00	€1.748.000,00	€3.974.000,00	€ 4.766.000,00
Training	€335.000,00	€ 410.000,00	€ 310.000,00	€ 71.000,00	€1.748.000,00	€ 480.000,00

**Table 3:** *Investments after privatization along years*<sup>16</sup>

About 61% of owners have not made any investment on new objects after privatization, but having in mind that 30% are inactive, than comes out that only 9.2% invested on new objects. Majority of investments are financed from own funds including loans and support from family.

The owners-respondents are not happy to take loan as the interests in Kosovo Banks are too high. Another financial difficulty for investment is delay from PAK. It is worth to mention that about 12% is the participation of foreign capital at privatization of Socially Owned Enterprises.

## Conclusions

Problems and difficulties that associated the process of privatization have influence on the performance of enterprises in the market in the post-privatisation phase. Many small and medium enterprises were rented or sold. Small number of them had good business; they were able to make restructuring, to make investments and to have satisfactory performance.

<sup>16</sup> Aferdita Dervishi-Berisha, *Pas privatizimi dhe performancat e ndermarrjeve ne Kosove, RIINVEST, Prishtinë, 2012*

Concern is that new enterprises had no sufficient capacities to increase employment. They operate at hard environment with unfair competition and politicised government.

Performance of privatized enterprises in Kosovo distinguishes from the method used for privatization. Progress of privatized enterprise depends also from the way of administration of privatization and from macroeconomic situation, access to markets and external factors as well. Some of privatized enterprises that earlier were commercialized are proved to be successful and profitable especially when the new owner-buyer is previous contractor of commercialization. It is worth to mention Abi & Elif enterprise that above 30% of its products exports to west countries and other continents.

In generally performance of enterprises after privatization does not fulfil criteria and managerial business levels. From our findings may be concluded that no matter that there are done light improvements on today's climate of investments, privatized enterprises continue to face with obstacles in their work and it impacts directly to their performance. At different reports and research papers is ascertained that property is concentrated on hand of few persons. Politic engagement and effective public communication are key elements for a successful privatization.

## Recommendations

- To bind three party agreement between PAK, Ministry of Justice and Kosovo Police for ensuring removal of usurpers from sold enterprises and its usage by new owners
- Business community to be voiced to state institutions to soften politics for the buyers who offer employment after privatization
- Government to support PAK in the difficult process of privatization in the north part of Kosovo
- Development of consulting debate within Agency for Promotion of Investments to create a mechanism or a team that would train and consult privatized enterprise managers
- New owners to concentrate more on production and new services/products
- New owners to invest more on information technology and training of staff
- Proposed enterprises for sale to be evaluated by professional experts before approval of their sale from Board of Directors and before tender procedures.

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