

Privatization in Albania in numbers

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Abstract

The privatization process after the 90's has laid the foundation stone for Albania's EU integration, not only in the economic, but also in its legal field. In the late 80's an ideological, political, economic system disintegrated and in Albania as in all countries of Eastern Europe, democracy, free market economy and the rule of law, based on private property and free market economy were the foundation of the transformation. But the way this transformation had to be mastered was not clearly defined. For more than 40 years, Albanian citizens were faced with the communist ideology as the basis of state government regulation. This ideology stated that, all citizens had contributed the same way and in the same extent during socialism for the construction of state and social property. In Albania, as in all other countries of Eastern Europe, the so-called "Rent seekers" were transformed into Oligarchs and Owners of the privatized state-property for little money. In this context, this process was accompanied by the deficiency of accurate economic statistics, privatization strategies, foreign investors, a bad policy implementation as well as delays in the framework of immediately needed reforms (Åslund 2013). Main objective of this article is the Analysis of the privatization process in Albania through statistics.

Keywords: Privatization, Economy, law, Albania, EU.

Introduction

Albania was mainly an agrarian state before communists came into power in 1944. Agriculture constituted more than 90 % of domestic production; meanwhile the industry consisted in less than 4%. Construction and services sector constituted approximately 3 % of general production costs. Table 1 indicates the structure of net production from 1938-1989. It is apparent, that during the communist regime, the percentage of industry gradually increased until it reached 45%, meanwhile agriculture fell by 33%. In accordance with the communist ideology, heavy industry was a priority. Heavy industry as part of the whole industry grew from 48,9% in 1960, to 63,9% in 1988, meanwhile the percentage of small enterprises declined from 51,1% to 36,1 % during the same period (Pashko, 1991). The number of employers in the industry sector increased continuously during 1938-1989. In 1990, the percentage of employers in the industrial sector constituted 27,5% of all employers, meanwhile 60% were employed in the agricultural sector (EIU, 1994).

Table 1

Sectors	1938	1950	1960	1970	1980	1983	1988	1989
Industry	3,8	7.0	18.6	28.2	43.6	43.3	46.4	44.6
Agriculture	93.1	73.2	37.6	34.2	32.7	34.1	31.4	32.7
Construction	0.8	3.1	6.5	7.1	6.7	7.8	6.5	6.4
Services	2.3	16.7	37.3	30.5	17.0	14.8	15.7	16.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

After the implementation process of reforms in 1992, the state budget improved and it was associated with a large increase of the GDP (from 9,6% in 1993 to 13,3% in 1995) (EIU, 1994) and a declining inflation (from 85% in 1993 to 7,8% in 1995) – Table 2. The privatization of land of agricultural cooperatives were the main causes of increase of numbers in the agriculture sector, during this period of time.

The situation in the industrial sector was not in this level and its development slowed down. Inherited old technologies, lack of investments, and mainly the external competition, made it difficult for privatized and state enterprises to be competitive and to “survive” (Llaci/Mema/Pine, 2005). The majority of them changed their business activity. The development that occurred during the first years of transformation restructured the economy in favor of agriculture, trade and services sector. In 1996, GDP growth declined and inflation and budget deficit grew. Later, the decline of pyramid schemes, in 1997, prompted the deterioration of economic performance. Civil War, after the collapse of pyramid schemes in 1997, demonstrated that democracy in Albania was fragile and a big effort towards further reforms was needed. Since 1998, the economy had a long term sustainable growth with stable prices and a relatively low budget deficit. Revenues from outside the country (remittances) constituted a crucial factor on the relatively high economic growth, especially in construction and services sector (Treichel, 2002).

Table 2¹

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP	-7,2	9.6	8.3	13.3	9.1	-7,0	8,0	7,3	7,8	6,5	4,7
Industry	-51,2	-10,0	-2,0	6,0	13,6	-5,6	4,1	6,4	5,0	6,5	2,0
Agriculture	18,5	10,4	8,3	13,2	3,0	1,0	5,0	3,7	4,0	1,4	2,1
Construction	7,0	30,0	15,0	21,2	18,4	-6,3	21,0	15,0	17,0	14,0	9,1
Transport	-15,0	13	18	18,7	-0,9	-20,5	20,0	15,0	14,0	13,0	10,1
Others	9,0	16,0	11	13,5	20,1	-25,0	10,0	12,0	9,0	8,0	5,5

1. Privatization in the first years

After the first wave of privatization of trade and service sectors in 1991-1992, started the process of privatization. The major part of enterprises will be divided into smaller

¹ IWF (2003) 46. Bank of Albania (2003) 87.

"Objects" and will be privatized separately. Privatization numbers should be taken into consideration in the framework of the number of the sales of objects (not of sold enterprises). Table 3 indicates the division of sold objects after the privatization procedure.

Table 3²

Years	Sold in auctions (More than one provider) Number (%)		Sold in auctions (one provider) Number (%)		Direct sell Number (%)		Rent Number (%)		Privatized Objects
	Number	%	Number	%	Number	%	Number	%	
1993	140	4.3	1528	46.8	1556	47.6	44	1.3	3268
1994	192	6.9	1265	45.6	1299	46.8	19	0.7	2775
1995	1330	45.5	411	14.1	1171	40	12	0.4	2924
1996	1354	60.2	188	8.4	701	31.2	5	0.2	2248
1997	364	50.8	23	3.2	330	46	-	0	717
Total	3380	28.3	3415	28.6	5057	42.4	80	0.7	11932

In 1994, objects sold at auctions with more than one provider constituted 6,9 % of all sold objects, meanwhile objects sold at auctions with at least one provider constituted 45,6 % and 46,8 % of whole sold objects. After this period, due to legislative changes, the number of objects sold in auctions with more than one provider increased, consisting of 45 %-60 % of the whole objects sold during 1995-1997. Nevertheless, 42,5 % of objects were sold through direct sale, without auction, meanwhile 28,3 % and 28,6 % were sold in auctions with more than one provider and auctions with a single provider.

Table 4 indicates the classification of sold objects during 1993-1997, according to the types of buyers. In 1993, 46, 5% of objects were sold to the employees. In 1994 this number was significant; meanwhile during 1995-1997 this number decreased, reaching 10% in 1997. Nevertheless, in general, all the employees bought approximately 31, 6 %. Objects sold to former owners had started a slight increase mainly after 1995. Table 4 indicates that participation of foreign investors on privatization of sold objects was completely irrelevant during this period of time.

Table 4³

Years	Albanian citizens						Foreign		Privatized Objects
	Workers Number (%) (%)		Former owners Number (%)		Others Number		Number (%)		
1993	1 520	46.5	364	11.1	1360	41.6	24	0.7	3268
1994	1103	39.7	761	27.4	905	32.6	6	0.2	2775
1995	736	25.2	767	26.2	1420	48.6	1	0.0	2924
1996	335	14.9	701	31.2	1210	53.8	2	0.1	2248
1997	75	10.5	330	46.0	310	43.2	2	0.3	717
Totali	3769	31.6	2923	24.5	5205	43.6	35	0.3	11932

² See GTZ 1998, 67.

³ See GTZ 1998, 39.

2. Mass privatization

Major transactions in 1993-1994 were paid in cash by new owners. Later, besides the money, privatization bonds were used. In the beginning of 1995, the majority of transactions were implemented using privatization bonds (IWF, 1997). They constituted 81 % of all incomes from privatization. After the distribution of privatization bonds in 1995, some of them were used to privatize small and medium enterprises. In 1995, privatization bonds constituted 29 % of the total revenues from privatization. However, in 1998, 469 small and medium enterprises were state-owned. By the end of June 1999, more than 300 of them were sold, liquidated, rented or closed (EBRD, 1999). Privatization of the remaining enterprises continued in the following years. In 2003, 398 objects were sold, mainly in auctions for an amount of 936, 7 million ALL. The state sold its parts to joint stock companies and joint venture companies, through auctions. Only in 2003, all state shares of 6 joint stock companies and of 4 joint venture companies were privatized.⁴

Table 5⁵

	Total in Mio. ALL	Separate		Non separate		Used during privatization		Unused during privatization	
		Mio. ALL	%	Mio. ALL	%	Mio. ALL	%	Mio. ALL	%
Privatization bonds	74977	51229	68.3	23748	31.7	10713 14.3		64.264	85.7
Privatization revenues	17113	17113	100	-	-	4665 27.3		12448	72.7
Total	92090	68342	74.2	23748	31.7	15378 16.7		76712	83.3

Table 5 indicates the numbers of privatized bonds and revenues, which were used during privatization. 68, 3% of privatization bonds were distributed and the remaining part of 31.7 % was not distributed to Albanian citizens. The process of distribution of the privatization bonds was halted due to civil war in 1997. Subsequently only 14, 3% of all privatization bonds, that were distributed to Albanian citizens were used in the mass privatization program.

Privatization bonds had a specific value in ALL and were tradable and transferable.⁶ Market price of these bonds decreased in continuity during 1995-1998. The lack of information on potentially privatized enterprises via mass privatization, the necessary

⁴ Yearly report of the Ministry of Economy (2004), 32.

⁵ GTZ 1998, 41.

⁶ The value of the privatization bonds depended on the age of Albanian citizens who received them. The amount of ALL 20,000 (US \$ 183) was distributed to the Albanian citizens over 55 years, 15,000 (US \$ 155) to Albanian citizens between 36 and 55 years and 10,000 (US \$ 100) to those between 18 to 35 (EIU 1995, 59).

⁷ The demand of Albanian citizens on privatization bonds was very low. According to WB representatives, this demand was caused because the majority of privatization bonds was divided to the elderly, who did not understand their value and had little initiative; EIU 1995, 60.

failure in knowledge of the importance of the privatization bonds by the citizens,⁷ were the main causes of devaluation of privatization bonds.

Table 6⁸

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
1995	-	-	-	-	-	-	-	25	28	25	25	30
1996	25.6	20.2	17.7	15.6	13.9	13.7	13.6	12.2	11.7	11.4	9.6	5.8
1997	5.7	2.9	1.9	1.6	1.5	1.6	2.7	4.0	4.1	2.8	2.7	2.8
1998	3.1	3.2	3.0	3.0	2.8	2.4	1.9	1.5	1.5	1.7	-	-

Table 6 indicates that since August 1996 (when privatization bonds were 25% of their value) their market price decreased, until they reached a depreciation of 1,7% in 1998. The new privatization strategy of 1998, which was applicable even for the last enterprises of strategic sector provided only the tender and auction as procedures of privatization.

Conclusions

This paper showed one thing in full clarity: Albania or the Albanian authorities were totally overwhelmed with the privatization process. This is largely due to the fact that there were no prescribed legal structures and frameworks that were able to ensure a proper procedure. Neither existed sufficient legal criteria or a committed administration. To evaluate the process in organizational terms, the adequate word would be "confusion".

In addition, the so called privatization funds that were active from 1995 with their "dubious" activities" led to the collapse of economy (the so called pyramid schemes) and triggered the Civil War. Only then the privatization process can be described "as a normal process". But not only the variety of competent institutions or their rapid establishment and equally hectic resolution were characteristic for the Albanian privatization. The procedures were confusing, often in disregard of clear legal and administrative requirements. There was a variety of indeterminate legal concepts, which opened the door for corruption, an example of which, was the ability to privatize the state property in favor of "special" persons, by implementing not the procedure prescribed by law (public auction), but through direct sales.

As if the organizational and procedural problems were not enough, another one was added, that included the lack of government financial resources. The Albanian state was nearly bankrupt. In addition the old inherited technology, the lack of investment (savings were in short supply) and especially competition from abroad (imported products) made it hard for privatized and state-owned firms in the industrial sector to survive and grow. Most of them changed their activities or ceased operation altogether. These developments, in the first years of transition, reshaped the structure of the Albanian economy in favor of agriculture, trade and service sectors.

⁸ See GTZ 1998, 49; *Mema/Koci*, Mass Privatisation 29.

All in all: Privatization in Albania can serve as a negative example of how legal and economic transformation processes should not be performed.

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