

PRIVATIZATION IN ALBANIA AND ECONOMIC EFFICIENCY

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History

In the early 1990s, Albania has started implementing a number of reforms in many areas of political and socio-economic life, one of which during the transition period was the privatization of public or state enterprises.

"Privatization is defined as the transfer of three types of rights from the state to the private sector:

- a. the right of ownership,
- b. the right to usage,
- c. the right to develop.

Legal framework

By the law no. 7512, dated 10.08.1991, "On sanctioning and protection of private property, free initiative, independent private activities and privatization" and

DCM no. 307, dated 29.08.1991, the National Privatization Agency (NPA) and the Preparatory Committee for Privatization Preparation (PCPP)

PRIVATIZATION METHODS

The choice of the privatization method affects various factors, including the size of the enterprise to be privatized, as well as the characteristics of potential buyers / investors.

In Albania, the law allows the use of all types of privatization methods.

Privatization methods in Albania can be divided into two groups:

1. Trasfering ownership method
2. "Non-transferring" ownership methods

1. Trasfering ownership method

A) Direct Selling - By this method the state directly sells an enterprise (or part of it) to private buyers. Direct sale can be done in two ways:

- direct sales through the tender
- sale to a predecided buyer.

B) Selling Managers / Employees (MBO, EBO) - In Albania, these schemes are mainly used to privatize sub-units.

C) Public Auction - In fact, this method became the most criticized and did not deliver the expected results.

D) Liquidation - Liquidation is the closure of a company and the sale of its assets, as long as it has ceased its operations, often due to bankruptcy.

E) Massive privatization - This method aims at quick privatization of enterprises by a large number of citizens, holders of vouchers.

F) Strategic Investor - Strategic Investor is often seen as a prerequisite to provide technology and financial resources available to the privatized enterprise.

G) Public offering on sctock exchange - In Albania the sctock exchange was created with the aim of serving as a mediator in the privatization process, but the sctock exchange does not work.

2 "Non-transferring" ownership methods

The state remains the owner and transfers to the private sector only the rights of use and / or development rights, possibly along with a certain financial risk.

A) Transformation- In Albania, transformation is considered as a first step towards privatization, particularly with MPM, with a strategic investor approach, or with a public offering of shares.

B) Restructuring - The creation of the Enterprise Restructuring Agency (ERA), proposed, set up, organized and financially supported by the World Bank. The ERA portfolio consisted of 32 enterprises, but because of the conception, which was basically inadequate, the ERA was unsuccessful and was closed in 1996.

C) Lease - This method in Albania has so far been used only for some small units, and especially for some health services, such as dental services and pharmacies.

D) Joint venture companies

E) Contract - This method in Albania started to be applied late and only for some social services such as public waste collection, repair and cleaning of roads.

F) Concession - By granting a concession, the State transfers the rights to use and / or develop the private sector.

The beginning of the process

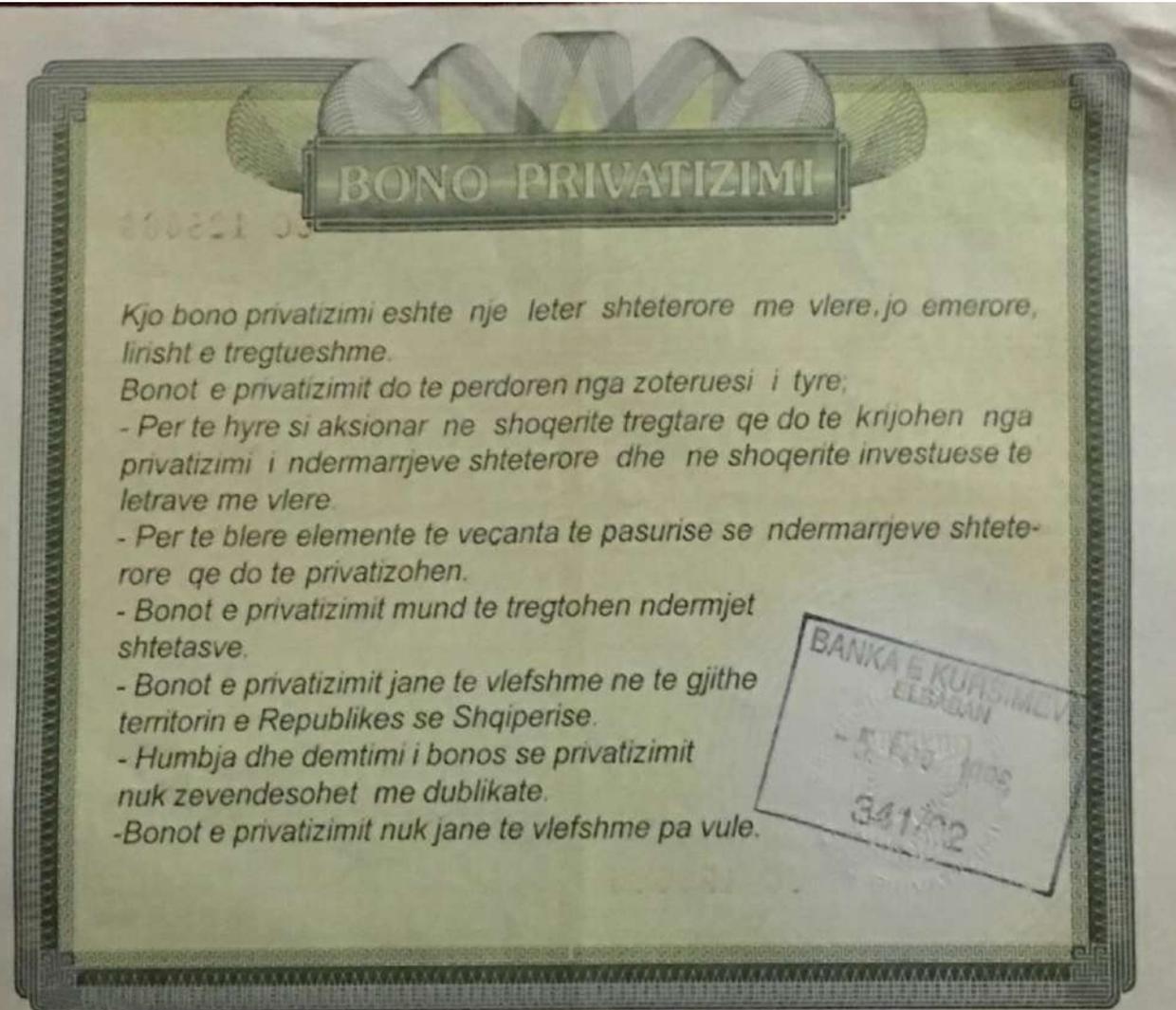
Privatization of housing

Privatization of Shops and Other Service Units 1991

Privatization Leks and Vouchers

Privatization vouchers and Privatization leks have been used in the privatization process both in strategic and non strategic sectors.

Privatization vouchers



Distribution of vouchers

Birth year	Up to1939	1940-1959	1960-1969	Total
No of profitters	102,706	390,988	493,752	1,067,446
The first wave per profiter	20.000 leks	15.000 leks	10.000 leks	20% of the total

Total vouchers forecasted: 72 282 300 000

Privatization Leks 17 113 000 000

Total 89 395 300 000

Vouchers value in free market (%)

Month	I	II	III	IV	V	VI
1996	25.6	20.2	17.7	15.6	13.9	13.7
	VII	VIII	IX	X	XI	XII
	13.6	12.2	11.7	11.4	9.6	5.8
1997	I	II	III	IV	V	VI
	5.7	2.9	1.9	1.6	1.5	

Mass privatization

The mass privatization method (MP) is based on the free distribution of vouchers to the public.

MP was positively considered only by demand (vouchers) and not by supply (companies that could be privatized by MP).

The instrument used to implement this method was the public auction.

The impacts of the MPM are:

1. Creating a large class of new owners to promote "popular capitalism" through a broad distribution of ownership.
2. High speed of transfer of ownership rights
3. Privatization of large enterprises without separating them into smaller parts.
4. Indirectly it had to stimulate the development of capital markets;

From May 1995 until early 1997, MP was applied for the privatization of 97 enterprises. The application of this method in Albania had the following characteristics:

- Privatization vouchers holders could use these vouchers without the need of other financial intermediaries.
- privatization vouchers were tradable on the free market. Since November 1996, the participation of foreign investment in MP was also allowed.
- the auctioning process for the shares of the companies was not based on a pre-determined price of the shares i.e. all buy all the shares.
- Existence and active free market for vouchers practically excluded the direct use of cash for the privatization of enterprises with MP.

The companies belonged to various sectors of the economy, such as the mechanical industry, food processing industry, chemical industry, light industry and textiles.

The selection of these companies was the weakest point in the implementation of MP in Albania; moreover, in the process were included also companies having negative assets value.

The privatization of companies through MPM created companies with a large number of shareholders.

Mass Privatization in milion leks

Year	Nr of Co	Priv. Leks	Priv. Vouchers	Total
1995	50	450.0	1,703.0	2,153.0
1996	47	311.7	2,873.2	3,184.9

Finally, it can be said that the MPM in Albania was implemented on the basis of a political decision without considering the prerequisites for success in the results because, in fact, there were no offers (companies that could be privatized with MP), as well as weak mentality of citizens to be shareholders.

MPM was implemented according to the strong recommendations of the major international institutions, regardless of the specific socio-economic situation of Albania.

Investment funds

- “Anglo Adriatica Investment Fund” collected 11.2% of Privatization Leks and vouchers
- “New Albania Investment Fund” 1996 and no collection of vouchers
- “Nobel Investment Fund” only temporary license

None investment found participate in the fist wave of privatization

Strategic privatization

- The privatization process of the strategic companies (commercial companies operating in sectors of particular importance to the economy) is carried out in accordance with the Privatization Strategy, approved by Law No. 8306, dated 14.03.1998 "On the privatization strategy of the sectors of special importance".

AMC sh.a.

- **AMC sh.a.** was privatized under Law no. 8515, date 21.07.1999 "On the privatization of anonymous company" Albanian Mobile Communication "(AMC)" "and was assisted by the Italian consulting company IMI. A stock package of 85% of AMC's share capital was offered to the Strategic Investor
- Cosmote / Telenor was the winning candidate for its \$ 85.6 milion bid, the contract with which it was signed on 25 July 2000 and in 2009, the rest 12.5792% state-owned package of shares was privatized in this company.

Albtelecom sh.a.

- **Albtelecom sh.a.**, was privatized in accordance with Law No. 0810, dated 17.05.2001 "On the definition of the form and structure of the privatization form of the joint-stock company" Albtelecom ". To Strategic investors was offered a 76% of share capital of Albtelecom sh.a.
- The winning bid company was Calik Enerji Telekomünikasyon, for its bid worth 120m euros. The contract with this company was signed on 19 June 2007

ARMO sh.a.

- **ARMO sh.a.**, was privatized in accordance with Law no. 9117, dated 24.07.2003, "On privatization of the company "Armo ShA, Fier". This process was assisted by international consulting company Patton Boggs. To Strategic Investors was offered 85% of ARMO sh.a.
- Winning bid submitted by the Refinery Associates of Texas, Anica Enterprises & Mercuria Energy Group, worth 128 million Euros. The winning contract was signed on 22 August 2008.

OSHEE sh.a.

- **OSHEE sh.a.**, was privatized in accordance with Law No.9889 dated 20 March 2008 "On the definition of the form and structure of the privatization formula of the joint-stock company" OSHEE was assisted by IFC International Consulting Company.
- CEZ offered a share package of 76% of the share capital of the joint-stock company for its offer of 102 million Euros. The contract with the winning company was signed on 11 March 2009.
- In January 2013, the Board of Commissioners of the Electricity Regulatory Entity, with Decision No. 4, dated 21.01.2013, decided to revoke the license CEZ Distribution AS., for bad performance and failure to meet the conditions of license issued under law no. 9072, dated 22.05.2003 "On the Electricity Sector", as amended. By agreement CEZ received a compensation for 85 million euros.

Albpetrol SH.A.

Privatization of the joint stock company Albpetrol AS, started in the framework of the privatization of strategic sectors, according to Law no. 10 490, dated 15.12.2011 "On determining the form and structure of the privatization formula of the company" Albpetrol", AS. Patos.

Expressed interest for tendering 20 companies and their bids 6 companies presented. The offers of three companies qualify. The winning candidate for the Vetro Energy PTE was announced. Ltd. This consortium failed to negotiate and sign within the terms of the Share Sale Agreement ("SPA") for the privatization of 100% of the shares of Albpetrol sh.a, the Ministry of Economy, Trade and Energy has started the procedures for withdrawing the guarantee of provided by the Consorzio Vetro Energy PTE. Ltd.

HEC Ulëz Shkopet AS & HEC Bistrica 1 and Bistrica 2 AS

The privatization of HEC Ulëz Shkopet AS and HEC Bistrica 1 and Bistrica 2 AS was implemented in compliance with Law no. 10430, dated 09.06.2011 "On the establishment of the companies" HPV Ulëz-Shkopet "SHA," and "HEC Bistrica 1 and Bistrica 2. "The privatization process was assisted by the international consulting company IFC international).

The winner was announced to Kurum International AS, for the purchase of 100% of shares of HEC Bistrica 1 and Bistrica 2 AS, for its bid worth 52 million euros and for the purchase of 100% shares of "HEC Ulëz-Shkopet AS" company, for a bid worth 57.500.000 euro.

The closing of the sales contracts was carried out respectively on 13 May 2013 and on 22 May 2013.

INSIG Sh.a.

INSIG Sh.a. was removed from the strategic sectors, so privatization has become a non-strategic company.

Valuation of shares of "INSIG" sh.a. was calculated by the consulting company "BDO Albania" sh.pk.

Privatization of 100% of shares of "INSIG" sh.a., four bidders were presented.

The highest bid, 16.1m euros, was presented by EUROSIG JSC, which was slightly higher than the INSIG stock rating, made by consultant BDO Albania LTD.

The contract for the sale of shares of the joint stock company INSIG SH.A., was signed on, 01.06.2016.

At the end...

Privatization

YES

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Efficiency

Hard to say

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Positive Results

Only when existed and expanded the market of products and services

THANK YOU!

FALEMINDERIT!